

## CHAPTER 3

### The History of Opium Politics in Shan State

This chapter investigates historical development of opium cultivation and the factors contributing to the transformation of highland Shan State since independence in 1948. This chapter begins with a brief overview of colonial times regarding the leading role of the British in the development of the opium trade in Burma and neighboring countries. The next section provides comprehensive discussion on the driving forces in the rapid increase of opium production following the British rule. It identifies how and why various actors including the military government, ethnic rebel groups, Chinese force and the druglords transformed rural uplands into opium industry. The final section offers a short analysis on external factors that contributed to opium production in Shan State.

#### 3.1 The Colonial Legacy 1824 - 1948

British administration in Burma lasted from 1824 through the Anglo-Burmese Wars to independence in 1948; nation building was not their priority and Burma was treated as a province of British India. The British annexation of Burma was piecemeal and always peripheral to the main British concern but rather the twin motives were of security and profit (Smith, 1999). However, the British policy toward Burma from colonial times has strongly influenced the people's lives and narcotics trends in present Myanmar.

Following their victory in the First Anglo-Burmese War of 1824-1826, various parts of Burmese territories, including Arakan and Tenasserim were annexed by the British. They were able to exercise an opium monopoly for more than a century. Opium use in these regions was soon introduced by various means by the British military and members of the East India Company for commercial exploitation (Renard, 1996). Large numbers of young people were persuaded to experiment with opium as the sale of opium was allowed.

Organized efforts were made by Bengal agents to introduce the use of the drug and to create a taste for it amongst the rising generation. The general plan was to open a shop with a few cakes of opium and to invite the young men in and distribute it gratuitously to them. (United Nations Survey Team, 1992, cited in Renard, 1996)

The British gained more territory in lower Burma in 1852 from the Second Anglo-Burmese War. Soon after their arrival in Lower Burma, the British had begun importing large quantities of opium from India and marketing it through a government-controlled opium monopoly (MacCoy, 1972). In 1886, Upper Burma, including Kachin and Shan States where British exerted indirect rule, were annexed. The British control was minimal and indirect rule was conducted by the Shan chieftains or *sawbwa* (Chouvy, 2009). At the same time Burmese King, Thibaw was dethroned following the Third Anglo-Burmese War. Prior to this, the royal prohibition on opium was replaced by the British Indian Opium Act of 1878 and British India gained some of the world's richest opium fields (Renard, 1996).

To those who had not learnt to eat opium, they supplied betel leaves dipped in condensed opium. Burmans were addicted to chewing betel and they found it less abhorrent to chew opium-coated betel leaves. Youngsters between the ages of twelve and fourteen were, thus, introduced to opium. (Aung Moe, 1985, cited in Renard, 1996:24)

The trade in excise opium between Burma proper and British India continued and excise opium was legally available through government-regulated opium dens (Renard, 1996). Apparently, the suddenly unrestricted availability of opium resulted in a rise of robberies by would-be users. The act of the British undermined the traditional values in Burma where intoxicants are not morally allowed in Buddhist belief. Renard (1996) stated that the 1878 opium act recognized that opium had become a problem in the Burman population since the coming of the British.

Opium cultivation and use in Myanmar can be dated back centuries for mainly medical purposes and it had not been used as a recreational drug. However, after the British

gained control over Burma, the number of opium smokers rapidly grew after they introduced the use of opium where most of the population did not use it and increased opium trade with the supply from India in the nineteenth century. The sale and consumption of opium were encouraged and opium poppy cultivation was promoted with prizes offered to farmers obtaining the highest yields (Feingold, 1981, cited in Renard, 1996).

With the exported opium from India, British expanded the opium market in China to maximize the profit in order to overcome financial challenges in maintaining colonial power. The British opium trade with China then grew dramatically until it peaked in 1880 when the amount of opium sold to China by British traders totaled 1,145 metric tons (Feingold, 1981, cited in Renard, 1996). This lucrative income helped underwrite the British government, making colonial officials resistant to pressure to halt exporting opium from India (Renard, 1996). It is worth noting that Britain was not the only actor that made opium trade work but also the Spanish, Americans and Portuguese and others including the Chinese themselves were guilty of involvement in the opium trade.

Since British opium trade developed speedily, the large profit of opium also encouraged farmers to grow opium especially in Yunnan province and then soon spread to Kokang and Wa regions in Northern Shan State. They found that the opium poppy grew well in the region and could be marketed through the existing network (Renard, 1996). Kokang appears to have figured into this condition as a prominent opium trade center and opium had become almost the standard medium of exchange in trade in southern Yunnan and upper Burma (Renard, 1996).

By 1900, opium was the dominant crop in Kokang and the Wa region and started to expand to the south where cultivators included the Chinese, Shan, Kachin, Palaung and Lahu (Renard, 1996). Although the British Opium Act was extended to Upper Burma, it did not apply to the great majority of opium-cultivating areas in the northern regions of Burma which supplied to China and the lower part of Burma.

In areas of Lower Burma where opium consumption grew rapidly following the British takeover and the drug's promotion by the East India Company (Aung Moe, 1985, cited in Renard, 1996), a large population including Burmese and Mon resisted the increase

of opium use. As a result, British introduced various narcotics laws to Lower and Upper Burma or Burma Proper by prohibiting the sale of opium and implementing a registration system. However, the success of opium suppression was hindered by the British opium policy in frontier areas such as Shan, Kachin and Chin States where the ban did not apply and opium smuggling to Burma proper continued.

After the 1912 revolution in China that overthrew the emperor, China prohibited opium. Efforts by Chinese officials to suppress opium cultivation in Yunnan caused many growers to move to Kachin and Shan State. With British Burma refusing to alter its policy on opium cultivation in the Shan States, increasing amounts of opium were exported to Yunnan (Renard, 1996). The reason behind British reluctance to restrain opium trade in Shan State was the lucrativeness of opium revenue.

However, British officials maintained that because the Trans-Salween States such as Kokang were inaccessible and inhabited by wild and independent tribes that lay outside the government control, expensive armed intervention would be required to suppress opium (Renard, 1996). In 1937, John S. Calue, a former Federated Shan States commissioner, described that

to suppress opium in Kokang and the Wa States without replacing it by a crop relatively valuable to its bulk, so that it would pay for transport, would be to reduce the people to the level of mere subsistence on what they could produce for food and wear themselves or to force them to migrate. (Maule, 1992:36)

Despite British attempts to promote alternatives to opium cultivation which were uninspired, opium production in the Trans-Salween States remained unhindered (Renard, 1996). Opium smuggling continued and opium revenues persisted to enrich the British colony as well as the coffers of the feudal *sawbwas*, in Burmese, or *Saopha*, a Shan term which refers to King or Kingdom (Maule, 1992). The *sawbwas* received a considerable portion of the tribal opium harvest as tribute, and opium exports to Thailand and Lower Burma represented an important part of their personal income (MacCoy, 1972).

Although the British made a number of efforts at abolishing opium cultivation in the Shan States, geography, ethnography, and politics ultimately defeated them (McCoy, 1992). As the British were not willing to spend a large amount of money for the administration in enormous territories of Shan State, they granted *sawbwas* control and acted merely as advisers. When *sawbwars* agreed to control opium in cooperation with the British, the total harvest was gradually reduced from thirty-seven tons in 1926 to eight tons in 1936 (McCoy, 1972). Nevertheless, opium was never fully eradicated, and the British soon abandoned their unpopular campaign (MacCoy, 1972).

During World War II, the empire of Japan invaded almost the entirety of Burma from 1942 to 1945. It is claimed that the Japanese strongly opposed the use of opium, and in some areas they took extreme measures, such as raiding opium shops in Monywa where they tied users to posts and left them exposed to the sun (Renard, 1996). However, the Japanese were not in a position to restrain opium in Shan State particularly Kokang and Wa region as it was not the main purpose of the Japanese invasion. During the Japanese invasion, Kengtung was given to Thailand and it was controlled by Thai army. This was when big deals were made to sell Shan, Kakang and Wa opium to Thailand which continued long after WW II.

The British was able to restore their control after WW II; however, they were unable to halt the opium production in Shan State. Despite international pressure, the British never took decisive steps to eliminate opium in Burma following their return after the war (Renard, 1996). Having popularized opium and allowed its cultivation and use throughout colonial period, a troublesome legacy left by the British continues to have greater effect on the present Burma opium politics. No solution to the problem of opium cultivation in Shan State has been found yet.

### **3.2 The Armed Conflict and Opium Boom in Independent Burma**

Examining economic conditions and political conflict of independent Burma reveals the origin of the surge of opium production since 1948. The opium cultivation and drug trade have served important economic functions in Burma's conflict. To understand the transformation of upland Shan State into an opium producing region, it is necessary to

identify various factors of political circumstance and major actors, including the state, the insurgent armies and the warlords who are the main contributors of the conflict. Brown (1999) stated that various actors in Shan State justify their actions on the grounds of nationalism, ethnic identity and security.

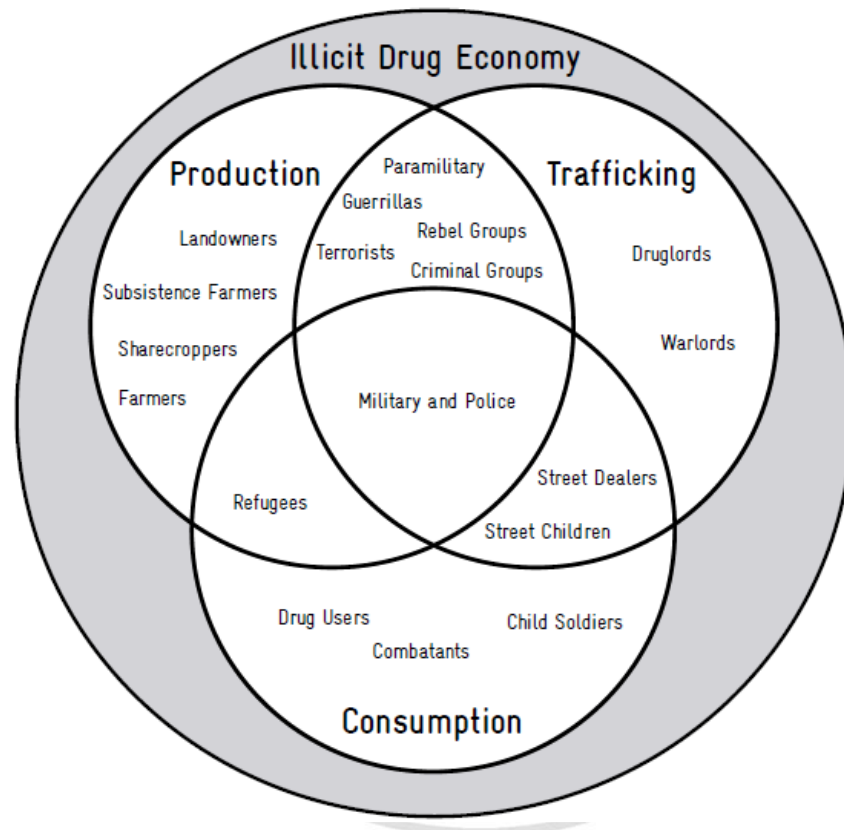
Following the invasion by Kuomintang (KMT) in Shan State in the 1950s, this prominent armed group had already initiated opium trade network along Burma-China and Burma-Thailand borders in order to generate income to support military operation. The situation of Shan State got even worse after the disastrous economic policies of Ne Win and his "Burmese Way to Socialism" that were introduced in 1962. It was followed by multi-ethnic insurgent movements and at the same time the Communist Party of Burma (CPB) retreated from central Burma and based their strongholds in the border areas which made the conflict and opium politics complicated in Shan State.

Most ethnic groups had their own armies and liberated zones and with CPB presence they split further into pro- and anti-Communist factions that exacerbated differences and conflict between the various armed groups (Brown, 1999). Jelsma et al. (2005) demonstrates that the major armed groups in Shan State relied on income from the opium trade, either by taxing farmers (mostly in kind), providing armed escorts for opium caravans, providing sanctuary to heroin laboratories, or by setting up tollgates at important trade routes to Thailand. Jelsma et al. (2005:41) also continues to explain the condition of armed groups as follows:

Over the years, some of the armed groups became more committed to the opium trade than their original political objectives. For armed groups with a strong political agenda, the situation in Shan State was thus always more complicated, as the narcotics trade increasingly became intertwined with insurgency politics. It remains difficult for any armed group based in Shan State to survive without some kind of involvement in the drug trade.

Given the shifting and highly personal relationships that have characterized this area for centuries, the dynamics of opium politics in Upper Burma became even more complex and fluid, with no one group exerting authority over the entire area, according to Renard's (1996) account.

In addition to internal factors, the policies of the United States, Taiwan and Thailand also played a major role in transforming the landscape of upland Shan State and contributing to the rise of opium production during the cold war. The figure below by Graubner (2007) reflects the multi-actors involved in the opium production in Shan State.



Source: Graubner (2007)

Figure 3.1 Actors in the illicit drug economy

### 3.2.1 The Invasion of Kuomintang (KMT) 1949 - 1961

Following the victory of Mao Zedong's Communists, and the proclamation of their People's Republic of China in Beijing on 1 October, 1949, Chiang Kai-shek's main Kuomintang force, or the Nationalist Chinese, retreated to Taiwan, where his "Republic of China" lived on after the loss of the mainland (Lintner, 1994). Soon, many of KMT soldiers with mules carrying

their weapons and equipment marched into the hills of eastern Shan State and Indochina. Those soldiers who crossed into Indochina were disarmed by the French until they were sent to Taiwan.

By March 1950, some fifteen hundred troops had crossed the border and were occupying territory between Kengtung City and Tachilek (McCoy, 1972) as the Burmese army was not successful in dealing with defeated nationalist Chinese. The KMT's invasion had transformed Shan State from a relatively minor opium poppy cultivating area to one of the major opium producing regions in the world. Although the KMT army failed in its military operations, it succeeded in monopolizing and expanding the Shan States' opium trade (McCoy, 1972).

The KMT's troops in the Shan hills were assisted by the American CIA in line with the Truman administration's policy in Asia that it had to stem the southward flow of communism in Southeast Asia (McCoy, 1972). It appears that the Truman administration worried about the communist conquest over the region. The apparent solution was to arm the KMT remnants in Burma and use them to make the Burma-China borderlands - from Tibet to Thailand - an impenetrable barrier (McCoy, 1972). This act was one of the most profoundly confidential operations undertaken by the CIA.

Soon after the arrival of KMT, local villagers such as Lahus, Shans, Was, Palaungs and Sino-Shans in the border areas had been recruited to become KMT soldiers by their generals. These fresh recruits were trained at the KMT's new base at Mong Hsat and armed with weapons that arrived on nightly flights from Taiwan (Lintner, 1994). The KMT's force in the area had rapidly increased from 4,000 men by the mid 1951 (Lintner, 1994) to 12,000 soldiers by the end of 1953 (Lintner and Black, 2009). With the military assistance from Taiwan and CIA, it began to launch its military operations against Mao's communist government, but without any success.

Duan Xiwen, one of the KMT's most famous generals stated:



Necessity knows no law. That is why we deal with opium. We have to continue to fight the evil of communism and to fight you must have an army, and an army must have guns, and to buy guns you must have money. In these mountains the only money is opium. (Jelsma et al., 2005:40)

This statement clearly described the Kuomintang involvement in the opium business in the Golden Triangle. The KMT enlisted the support of Olive Yang, younger sister of the Kokang *sawbwa* who had her own army of nearly one thousand men in her early twenties (Lintner and Black, 2009). Backed by the KMT, she became the first warlord (Lintner, 2000) as Olive dominated opium production from the end of WWII until the early 1960s (Renard, 1996). She, on the other hand, had been permitted by the Burmese government to engage in opium trade in exchange for keeping out the KMT (Yawnghwe, 1987).

As KMT General Li Mi was able to recruit more troops from Kokang region under the command of Olive, more arms from CIA were again dropped to the KMT camp (McCoy, 1972). At the same time, Gen. Li Mi persuaded the farmers to grow more opium and introduced a hefty opium tax, which forced the farmers to grow even more in order to make ends meet (Lintner, 1994) since the territories where they took over particularly in Kokang and Wa hills were the best place for opium cultivation. Thus, the indigenous population of Shan State was left open to the exploitation of those who controlled the opium trade: they were the only effective administration in the region (Brown, 1999). Elaine T. Lewis, an American missionary explained the situation under KMT's control he found in the 1950s:

For many years there have been large numbers of Chinese Nationalist troops in the area demanding food and money from the people. The areas in which these troops operate are getting poorer and some villages are finding it necessary to flee (McCoy, 1972:134).

When Yunnan's illicit production began to disappear in the early 1950s, the KMT were in an ideal position to force an expansion of the Shan States' opium production (McCoy, 1972). Consequently, the KMT troops also attempted to expand into as much territory as possible to increase their control over opium trade in Northern and Eastern Shan State where many parts were preoccupied by some ethnic armed groups. The Burmese government reported:

The KMTs took over the control and administration of circles (districts) and village tracts. They started opening up revenue collection centers, and local people were being subjected to pay gate-fees and ferry fees, in entering their occupied area. Customs duties were also levied on all commodities brought into their territories for trade. The taxes were collected in kind as well as money. . . . By means of threat and coercion, these KMT aggressors forced the local inhabitants to comply with their demands (McCoy, 1972:131).

The KMT did not only persist in asking opium and taxes from the local people, they also upgraded their role in the drug trade by marketing opium outside of Burma with the help from CIA. McCoy (1972) noted that almost all the KMT opium was sent south to Thailand either by mule train or aircraft for both local consumption and international trade. The opium trade had become especially important since traditional sources in other parts of the world had dried up (Lintner, 1994). Apart from seeing the KMT as a useful buffer in the border, corrupted Thai police force derived large profits from opium trade along the KMT operation. According to Surachart Bamrungsuk:

While the Iranian and Chinese opium supplies were gradually disappearing in the early 1950s, the Kuomintang began to fill the void by expanding opium production in the areas they occupied in the Shan States...Bangkok has become a major center for

international opium trafficking in Southeast Asia...By 1955 the Thai police under General Pao Sriyanonda had become the largest opium-trafficking syndicate in Thailand, and were involved in every phase of the narcotics traffic (Lintner, 1994: 156).

For United States and Thailand, however, halting communist expansion remained the priority and ensured that the growing drugs trade was not challenged (Meehan, 2011). The Thai state no doubt perceived the KMT and few ethnic armed groups in the border as a useful buffer to prevent the communist flowing to Thailand. Apart from ideological concern, the KMT operation in Burma had benefited to corrupt Thai officials. Taiwan, in the same way, has no strategic interest in the political affair of Burma.

Bertil Lintner (1994) articulated: "the opium trade was gradually generating money for virtually everyone in the area, albeit in vastly disparate proportions: the farmers who grew the poppies and earned a pittance from months of laborious work in the fields; the merchants who bought opium from the farmers and carried it to the markets, earning enough to buy houses and open shops in Burmese towns all over the north; the Shan rebels who taxed the growers and the caravans to raise money for arms and ammunition; the KMT warlords who reaped fortunes off the trade and invested it in legitimate businesses in Thailand; and corrupt government officials, who, for a fee, were prepared even to hire out state-owned aircraft to assist the traders."

The Kuomintang troops engaged in large-scale smuggling of opium, and in organized gambling, the profits of which have gone into their pockets (Lintner, 1994). By the mid 1950s, Burma's modest opium production had risen ten to twentyfold, providing an annual yield in the range of 300-600 tons (Lintner, 2000). However, not many paid any attention to the KMT's drug business as opium was not considered as an international problem at this time. The KMT finally abandoned the secret war against China and

concentrated on drug business in the Golden Triangle. According to Bertil Lintner (2000:8):

The secret war in the Golden Triangle was also a failure. The KMT's forces and special agents could not ignite any rebellion in Yunnan, and, frustrated, they increasingly turned their attention to the more lucrative opium trade. The secret war may have had little influence on China, but the KMT's and the CIA's covert operations in the Golden Triangle had resulted in large-scale poppy cultivation all over Burma's northern mountains.

As several attempts to invade Yunnan were unsuccessful, the KMT began a full-scale invasion of eastern Burma with what appeared to be CIA support (McCoy, 1972). Fearful that the presence of their unwanted KMT guests would incite Chinese aggression, the Burmese government launched an extensive military campaign against the KMT during the mid 1950s (Meehan, 2011). The Burmese also took the issue to United Nations and the KMT agreed to withdraw some of its troop to Taiwan through Thailand.

However, large numbers of ethnic Lahus and Shans were sent in place of the KMT troops. Eventually, the Burmese and Chinese government launched its largest military operation against the KMT and the crack KMT units retreated to northwestern Lao and northern Thailand (McCoy, 1972). The growth of the informal economy after the military coup of Ne Win in 1962 left the KMT remnants who controlled the opium trade in an ideal position to expand the trade as warloads and ethnic armies became involved, attracted both by the large sums of money involved and being able to use the income to fight against Ne Win (Brown, 1999).

### **3.2.2 The Communist Party of Burma (1948 - 1989)**

The Communist Party of Burma (CPB) was originally founded in Yangon prior to independence in 1948. The CPB took part in fighting for independence from Britain and against Japanese occupation. Soon after

independence, however, the CPB started insurrection against the government when U Nu gave the order to arrest the communist leaders. Since U Nu's government launched offensive operations against the communist movement, the CPB forces retreated to the central plains of Burma where some of them surrendered to the government and then to northern Burma. They were finally outlawed in 1953.

One year after its insurrection, the CPB forces were reorganized along Maoist lines into a main force, mobile guerilla forces and local people's militia. Within a few years, China decided to lend open financial and military support to its Burmese sister party, CPB. With the support from China, the CPB managed to establish a base area along the Yunnan frontier which measured more than 20,000 sq. km. and stretched from Mōng Ko and Kokang in the north, across the Wa hills and Kengtung all the way to the banks of the Mekong river (Lintner, 2000). Local hill tribes soon were recruited to Burmese communist forces.

The interest of China's support was not only to spread revolutionary ideology to Burma, there was also another reason why China had decided to support the CPB: the revitalised "People's Army of Burma" smashed all the KMT's old bases in northeastern Shan State, from where they had been able to conduct cross border raids and intelligence gathering forays into Yunnan (Lintner, 2000). In addition, CPB implemented an opium substitution program with funds from China due to ideological opposition to opium cultivation shared by their Chinese patrons.

The CPB made a several attempts to curb opium production by replacing it with other cash crops in their controlled areas particularly in Wa and Kokang regions covering about 80 percent of all poppy fields in Burma (Lintner, 1994). New varieties of crops had been introduced among the hill-tribe population; however, local unfamiliarity and unfavorable weather conditions hindered the CPB's alternatives. In 1976, the CPB ended its efforts of crop substitution after an invasion of rats in the southern Wa hills

which wiped out much of the area's crops and they assisted the famine victims by distributing 60,000 Indian silver rupees and 1,600 kilograms of opium (Lintner, 1994). Most communities then reverted to opium production (Brown, 1999).

In the late 1970s, the CPB was facing financial problems as the Chinese decided to drastically reduce the aid which had a devastating effect on the party's activities (Lintner, 1994). Eventually, the CPB's patrons in Beijing pursued a policy of self-reliance for the CPB (Brown, 1999). The communists found it increasingly difficult to practice this new policy of self-reliance and with the reduction of revenue on the cross-border trade, they turned their attention to the few resources available to them in the northeastern base area (Lintner, 1994). The CPB income was further cut when China introduced a new open-door trade policy which allowed unofficially approved gates along the border in 1980.

With the lack of funds, the communist institutions such as schools, clinics and other civil administration started to collapse. The main preoccupation of the civil administrators out in the districts became tax collection for the party; they also engaged in trade in order to support themselves and their families (Lintner, 1994). The end of financial support from China resulted in loss of morale combined to impose tax collection both for the party and the pockets of the cadre the priority (Brown, 1999). Lintner (1994:294) described that:

Ironically, the area controlled by the orthodox Marxist-Leninists of the CPB became a haven for free trade in then-socialist Burma. The economy remained thoroughly capitalist and the CPB never even tried to implement land reform in the Northeast - in sharp contrast to the dramatic land-distribution schemes which the Party had carried out in the early 1950s. Communist ideology became a hollow concept without any real meaning to those people in the northeastern base areas.

The CPB then switched its attention to the lucrative drug business which was an apparent reversal of their previous ideological stance. The CPB's official policy was confined to collecting 20% of the opium harvested in its base area, 10% trade tax on opium that was sold in the local markets and 5% tax on any quantity leaving the CPB's area for other destinations (Lintner, 1994). Ideology abandoned, the logic of war and the potential profits to be gained meant that, unsurprisingly, the funds derived from these sources were viewed as legitimate - but several local commanders became increasingly involved in other private trading activities as well as the production of heroin (Brown, 1999).

The CPB leadership was determined to expand the CPB's influence on opium trade in the Golden Triangle opium. The opium was stockpiled at local district offices where the CPB's trade and commerce departments sold it to traders from their controlled area east of the Salween and other opium-trading centers in the government-controlled area west of the Salween (Lintner, 1994). By the 1980s, it is estimated that between 50 and 80 percent of opium production was controlled by the CPB (Brown, 1999). The CPB also allowed increasing numbers of heroin refineries to operate within its own base area running by the same syndicates as the ones along the Thai border and they had to pay protection fees and other tax to CPB (Lintner, 1994).

A rectification campaign in 1985 to rid the party of its connection with opium trading exacerbated friction between the Maoist leadership and the local commanders who benefited from the drug trade (Brown, 1999). According to CPB's statement, any party member found to be involved in private opium trading would face severe punishment and anyone caught with more than two kilograms or more of heroin would face execution (Lintner, 1994). The CPB believed that its involvement in the narcotic business could disgrace the party image and ideological leadership.

However, it is assumed that the campaign had been launched under Chinese pressure as the spillover of drugs from the CPB's area into China was becoming a problem, and increasing amounts were also being smuggled via Kunming to Hong Kong (Lintner, 1994). Local high-ranking party members were investigated for illegal behavior in drug business which led to conflict between party leadership and local commanders who acted as warlords in their respective areas.

In 1989, the BCP finally split into four different groups: United Wa State Army (UWSA), Myanmar National Democratic Alliance Army (MNDAA), New Democratic Army (NDA), and National Democratic Alliance Army Military and Local Administration Committee (Lintner, 1994). The split of BCP took place soon after Lo Hsing-han, the warlord, was asked by SLORC to act as an intermediary in negotiating with the mutineers. The former CPB controlled areas were turned into the most heavily armed drug trafficking organization in Southeast Asia (Lintner, 1994).

### **3.2.3 Ethnic Rebels: the struggle to self-determination**

Soon after independence, many ethnic groups launched armed struggles against the central government. Although the Panglong agreement in 1947 signed by Aung San and ethnic leaders, guaranteed equal rights for ethnic groups, autonomy, non-interference within a federal state and the right to secession, the power was centered on Yangon government. The Karens, Mons and Pa-Oh nationalists were the first to take up armed resistance to the Burmese government in 1949 followed by most other minorities from 1959 onwards, exacerbated by military takeover in 1962 (Brown, 1999).

The rebellion in Shan State was intensified when the Burmese government abolished the last of the *sawbwas'* prerogatives in 1959 (McCoy, 1972). Prior to this movement, Shan students from Yangon and Mandalay University became increasingly antagonistic toward the government's army as the constitutional right to secede from the Union would come into effect in 1958 (Lintner, 2000). Because of the Burmese government's



unwillingness to deal with this situation, groups of young Shan moved into the jungle and began rebellious operations in the mountains of northern Shan State.

In 1962, General Ne Win, the chief of the army, seized power from U Nu government and arrested all opposition. He also abolished the 1947 constitution and introduced military rule led by Revolutionary Council with himself as its chairman. The army claimed that it had to intervene to save the Union from disintegration but rebellions flared anew in Shan State- and new rebel armies emerged in Kachin state and many parts of the country instead (Lintner and Black, 2009). There were only three or four rebel groups active before 1958 in the entire Shan State and it was estimated that there were more than a hundred different armed bands prowling the highlands in mid 1971 (McCoy, 1972). Burma frontier areas were plunged into chaos - and, as a result, opium production began to increase even more dramatically (Lintner, 2000).

With the lack of financial support, all the armed groups in northern Burma had to raise the funds from the resources in their own respective areas in order to fight against the military government. While Kachin rebels quickly gained control over the jade mining district around Hpakan in western Kachin State, Shan State had no similar source but only opium was the cash crop that could generate income (Lintner, 2000). With the pressing need for revenue to finance their activities, many insurgent groups quickly embraced the opium trade (Meehan, 2011).

Many farmers left their paddy fields and moved to the hills where the opium poppy was the only viable crop they could grow as they had to avoid devastated war between the government army and ethnic armed groups. Although most Shan rebel leaders speak loftily about millions of oppressed peasants flocking to their side, a few of the franker ones admit that people have become progressively alienated from the independence movement (McCoy, 1972). Repeated taxation at gunpoint by roving Shan warlords has

discouraged most forms of legitimate economic activity and reduced the peasants to a state of poverty (McCoy, 1972).

The economic policies of Ne Win also contributed to the rise in drug production that occurred in the mid- and late-1960s since his "Revolutionary Council" announced that the country now had to follow a new ideology called the "Burmese Way to Socialism" (Lintner and Black, 2009). Farmers were forced into portering for the government forces fighting the insurgents and many fled to the upland areas where opium was the only viable crop and demand was increasing (Brown, 1999).

The fast rolling opium bandwagon was further oiled by the introduction of the Burmese Way to Socialism following Gen. Ne Win's coup of 1962. All businesses and banks (foreign and otherwise), shops, industries, factories, etc., were nationalised, and business and trade by individuals and private concerns came to a dead stop. Naturally, in such an economic vacuum there arose a black market economy, which for the opium traffickers was a boon as they, and only they, were equipped to exploit this sad situation. Opium was bought by them at very low price from ragged cultivators, transported in armed caravans to the [Thai] border and refined into heroin. And on the return trip to get more opium, Thai goods and commodities were taken up and sold in Shan State at very high prices - thus a killing was made both ways, at least thrice yearly. Rather than creating socialism, the Burmese Way to Socialism in effect delivered the economy into the hands of the opium traffickers. As such, opium became the only viable crop and medium of exchange. Thus, cultivation of opium, limited to east of the Salween River prior to 1963, not only spread all over Shan State, but to Kachin, Karenni and Chin states as well (Political Science Review, 1982, cited in Brown, 1999:241).

Ironically, the political chaos, which had damaged most other forms of agriculture and commerce, has promoted a steady expansion of opium production in Shan State (McCoy, 1972). Within a few years of this disastrous experiment with socialism, more than 80 percent of all consumer goods available in Burma were smuggled in from neighboring countries, primarily Thailand (Lintner, 2000). The opium smugglers transport opium on the way down to Thailand and they bring U.S weapons and consumer goods. Thus, opium became one of the nation's most valuable export commodities, and without it the consumer economy would grind to a complete halt (McCoy, 1972).

As the number of ethnic armed groups was growing rapidly in Shan State, the Burmese government adopted a counterinsurgency program by organizing local militia forces (KKY) which legitimized some aspects of the opium trade and added to the general political instability (McCoy, 1972). The logic behind this policy was rather simple; if the local militia units controlled most of the opium harvest, then the rebels would not have any money to buy arms in Thailand and would have to give up their struggle (McCoy, 1972). However, this program could not stop insurgent movements and even the escalation of warfare threw Shan State into anarchy (Lintner, 2000). Some of militia leaders such as Khun Sa and Lo Hsing Han became druglords and soon the situation in Shan State became impossible to say where drug-running ended, and insurgency, counterinsurgency and espionage began (Lintner, 2000).

Lintner (2000) described the circumstance of the opium trade in the Golden Triangle in the late 1960s can be summarized as follow:

*The farmers* who were mostly hill-tribes, such as Kachin, Lahu, Wa, Lisu, Palaung, Akha and ethnic Chinese grew the poppies earned a pittance for months of laborious work. *The rebels* who operated in the poppy growing areas collected tax from the farmers to buy arms and support their activity. *The merchants* who bought the opium

from the farmers and paid tax to the rebels were respectable, local businessmen who live quite openly in government-controlled market towns. *The KKY* units were often hired by the merchants to convey the drugs and many KKY commanders were also merchants themselves such as Lo Hsing-han and Khun Sa.

*The Burmese government troops* received "tea money" from private merchants and various KKY commanders for providing security of opium convoys. *The KMT* acted as a buffer and unofficial "border police force" for Thailand, and it collected intelligence for Taiwan, the US and Thailand-in that order. In return, the Thai authorities turned a blind eye to the KMT's smuggling activities along the border. *Intelligence agencies* from various countries maintained liaison with the KKY, the KMT and some of the Shan rebel groups, either as pure money-making operations, or because many of the drug traders proved to be valuable intelligence assets.

*International narcotics syndicates* inevitably became involved by supplying chemists to the heroin refineries along the Thai-Burmese border, and by taking care of regional and international distribution of the drugs. *The couriers* could be anyone who was hired by the syndicates to carry drugs from one place to another and who were often conveniently - but incorrectly - referred to by the media as well as law enforcement agencies as "drug traffickers". *The addicts*, the consumers of the drugs, and their families were without doubt the most pitiful victims of the opium business next to the impoverished farmers who grew the poppies (Lintner, 2000:10).

In the mid 1970s, the military-socialist regime also used *hpyat lay hpyat* or "four cuts" strategy to push the ethnic armed opposition groups out of the plains into the hills and mountains of the border areas (Jelsma et al., 2005). This policy sought to cut the links of food, fund, information and recruits between the insurgents and the local populace. These military campaigns

drove the local farmers off their traditional farms and forced them into opium cultivation.

Since the ethnic resistance groups more or less controlled the rural areas, they obtained the resources needed from levying various taxes, namely, a tax on rice mill, sawmills, meat and liquor concession-holders, trucks and transport companies plying the roads in their territory, rice fields, orchards, contraband and drug caravans that passed through their territory, and tax on opium or poppy fields (Jelsma et al., 2005). McCoy (1972) argued that rather than producing an independent, unified Shan land, the Shan rebellion seems to have opened a Pandora's box of chaos that has populated the countryside with petty warlords and impoverished the people.

Most of the ethnic armed groups retreated to the border areas as the Burmese government launched counterinsurgency programs. Until the 1980s almost the entire Thai-Burma border area was under control of a wide range of insurgent armies, including Mon, Karen, Karenni and Shan forces and also Khun Sa's SUA and the KMT (Jelsma et al., 2005). Similarly, the Communist party of Burma and Kachin forces took control of vast areas along the China border. The support for insurgent groups decreased when China and Thailand changed economic policy toward Burma.

#### **3.2.4 Cease-Fire Agreement: License to Opium Trade**

In August, 1988 known as 8888, a mass demonstration broke out in every major city, town and village throughout the country after the socialist government demonetized the 25, 35, and 75 kyat currency notes without giving any reason. Suddenly, about 60 to 80 percent of all money circulation in Burma had become worthless (Lintner, 1999) which considerably increased poverty of both urban and rural residents all over the country. Thousands of protestors were demanding democracy following the socialist military coup; however, they were brutally cracked down on by the military. Consequently, more than 8000 pro-democracy activists fled the urban

centers to the border areas near Thailand where a multitude of ethnic insurgencies were active (Lintner, 1999).

The new military regime, State Law and Order Restoration Council (SLORC) that just seized the power soon after the 8888 uprising was worried about an alliance between ethnic insurgent groups and pro-democracy protestors who had fled to the borderlands. The military government started to initiate cease-fire agreements with Wa and Kokang groups which split from CPB, mediated by Lo Hsing-han, a druglord. Then, it was followed by other ethnic armed groups such Shan, Pa-Oh, Palaung and Kachin. The Burmese military offered the armed groups the opportunity to pursue whatever business ventures they wished and the promise of border development programs in return for a cessation of hostilities against the government (Meehan, 2011).

Although the ceasefires brought an end of the fighting, curtailed the most serious human rights violations and created a more favorable environment for community, it was the lack of an inclusive peace process and subsequent political dialogue to build national peace and reconciliation that can end prolonged conflict (TNI, 2014). The Burmese government has attempted to extend its political and economic control over the border areas by manipulating drug economy in order to create a system of rents, providing the foundations for establishing a limited access order (Meehan, 2011). In 1989, several ethnic armed groups signed ceasefire agreements and were followed by various armed groups (see table 3.1) in the following years. The ceasefires themselves have provided former insurgent groups with varying degrees of local autonomy (Meehan, 2011).

Table 3.1 Main ceasefire agreements in late 1980s and in the 1990s

No.	Organization	Date	Region
1	Myanmar National Democracy Alliance Army (MNDAA) (Kokang)	March 1989	Special Region 1, Northern Shan State
2	United Wa State Army (UWSA)	May 1989	Special Region 2, Northern Shan State
3	National Democratic Alliance Army (NDAA)	June 1989	Special Region 4, Eastern Shan State
4	Shan State Army (SSA)	September 1989	Special Region 3, Northern Shan State
5	New Democratic Army (Kachin) (NDA-K)	December 1989	Special Region 1, Kachin State
6	Kachin Defence Army (KDA)	January 1991	Special Region 5, Northern Shan State
7	Pa-Oh National Organization (PNO)	April 1991	Special Region 6, Southern Shan State
8	Palaung State Liberation Army (PSLA)	April 1991	Special Region 7, Northern Shan State
9	Kayan National Guard (KNG)	February 1992	Special Region 1, Kayah State
10	Kachin Independence Organization (KIO)	October 1993	Special Region 2, Kachin State
11	Karenni State Nationalities Peoples' Liberation Front (KNPLF)	May 1994	Special Region 2, Kayah State
12	Kayan New Land Party (KNLP)	July 1994	Special Region 3, Kayah State
13	Shan State Nationalities Peoples' Liberation Organization (SSNPLO)	October 1994	Southern Shan State
14	New Mon State Party (NMSP)	June 1995	Mon State

Source: The Irrawaddy (2004)

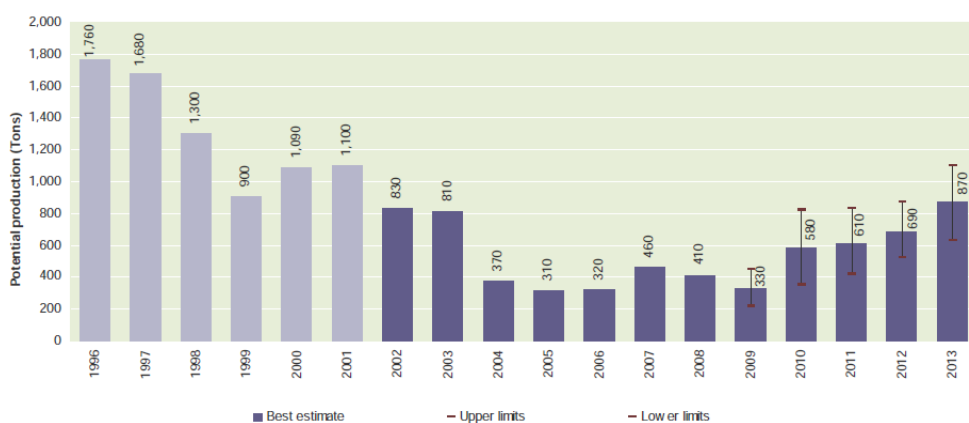
[http://www2.irrawaddy.org/research\\_show.php?art\\_id=444](http://www2.irrawaddy.org/research_show.php?art_id=444) (Accessed, 6/10/14)

The cease-fires had consequences on the informal economy of opium trade because the fighting stopped, there was peace and it was safer to grow more poppy. As a result, opium production in Shan State suddenly skyrocketed in the late 1980s and in the 1990s. The annual yield of opium harvest was less than 400 tons before 1976 (McCoy, 1972) and it was increased to 836 tons in 1987 and 2,340 in 1995 (Lintner, 2000). At the same time, more than twenty new heroin refineries were set up in Kokang area and the Wa hills with the chemical precursors from India and the potential heroin output soared from 54 tons in 1987 to 166 tons in 1995 (Lintner and Black, 2009). Enormous quantities of heroin and soon also methamphetamines began to pour out of Burma in all directions, providing incomes for criminals far beyond the country's own borders (Lintner and Black, 2009).

Among the ceasefire groups, the most accused of involvement in the production of and trade in drugs are the United Wa State Army (UWSA), Myanmar National Democracy Alliance Army (MNDAA) and National Democratic Alliance Army (NDAA) which are all located along the border with China in Shan State (TNI, 2014). According to one Wa official, "we do admit that up to 1998 we had some heroin refinery and amphetamine factory in our Wa region and our Wa central authority got some tax from those businesses involved in that" (Jelsma et al., 2005).

At the turn of twenty first century, the Wa (2005) and Kokang (2002) authorities declared "opium free region" in their respective controlled area. After decades of war and isolation, they hoped to gain international recognition and support to develop their impoverished regions (TNI, 2014). However, it is believed that they switched from heroin production to large-scale methamphetamine production (TNI, 2014). Indeed, as shown in the figure 3.1, the opium cultivation in Shan State steadily declined from 1760 tons in 1996 to 310 tons in 2005 after these groups imposed a strict ban on opium cultivation in their areas of northern Shan State (UNODC, 2013).





Source: UNODC, 2013

Figure 3.2: Potential Opium Production, Myanmar, 1996 - 2013 (Tons)

However, the opium decline in the region was short-lived since opium cultivation has increased significantly since 2006. The main cultivation area has shifted from Wa and Kokang regions to southern Shan State (TNI, 2012). According to UNODC 2008 to 2013 report, Shan State has been accounting for 90 percent of Myanmar opium cultivation. Of the 90 percent, about 50 percent has been produced in southern Shan State. The cultivation in the south increased from 16,500 hectares (171 tons) in 2009 to 26,600 hectares (356 tons) in 2013 (UNODC, 2013).

The re-emergence of opium cultivation in Shan State is related to the unstable political situation and local socio-economic condition as successive military governments pursued a policy of the political exclusion of ethnic nationalities and militarization of ethnic areas, exacerbating conflict (TNI, 2014). Following the new quasi-civilian government headed by former military regime which came to office in 2011, peace talks reopened and initial agreements have been reached with major ethnic armed groups. However, it seems that the ceasefire agreements have not been able to end the conflict as the fight continues in Shan State and Kachin State.

United Nationalities Federal Council (UNFC), a coalition of major ethnic armed groups, currently is engaged in peace talks with the government and

demand ethnic rights and a federal union in Myanmar. Although the government is enthusiastic to have all the groups sign the "nationwide agreement", it doesn't show any political will to initiate political dialogue in order to address ethnic grievances and aspirations. As long as conflict, poverty and underdevelopment continue unabated in ethnic upland areas, it is unlikely that opium cultivation and the production of heroin and ATS will end (TNI, 2014).

### **3.3 External Forces**

Indeed, there were many other important reasons in supporting the opium boom and political chaos apart from internal factors of Shan State during the cold war. The Shan rebellion and opium trade could not have survived without the intervention of the United States, Taiwan and Thai governments who had no interest in establishment of an independent Shan State. By the late 1950s opium production in Shan State had shot up 10 to 20 times (Lintner, 2000). However, the intention of the United States and Thailand was to stop communist expansion; to halt the growing drugs trade was not their priority. Each of them only had certain limited political or military interest that had been served by providing the ethnic armed groups with a limited amount of support and keeping the caldron bubbling (McCoy, 1972).

The CIA played an equally cynical role without interest in the cause of Shan State by giving support to individual rebel armies, particularly the KMT, in order to accomplish its intelligence gathering missions inside China (McCoy, 1972). The CIA assisted KMT for a projected invasion of southern China in line with Truman policy to control the growing communist influence in Southeast Asia. The CIA also promoted the Thai police-KMT partnership in order to provide a secure rear area for the KMT, but the alliance soon became a critical factor in the growth of Southeast Asia's narcotics traffic (McCoy, 1972).

With the military support from CIA, the KMT troops grew rapidly as some were flown from Taiwan and were able to control most of the opium supply in the Golden Triangle in the 1950s. Occasionally, there were clashes between local rebel groups and the KMT over the opium economy and territory dispute. Although the Burmese troops eventually

defeated the KMT in 1961, the CIA continued to operate its secret war with the KMT remnants. The CIA fostered the growth of the Yunnan Province Anti-Communist National Salvation Army in the borderlands of northern Burma - a potentially rich opium-growing region (McCoy, 1972).

The policy of the Thai government from 1950s to 1980s probably bore the major responsibility for the increase of opium production in Shan State. Thailand's willingness to tolerate the drugs trade on its northern border; viewing insurgency groups as a useful buffer against the possible encroachment of both the Communist Party of Burma (CPB) and the Burmese Army, was also instrumental (Meehan, 2011). Convinced that they would pose a potential threat to its security, the Thai government granted asylum to all the insurgents operating along the Burma-Thai border and supplied some of the groups with enough arms and equipment to keep operating (McCoy, 1972).

During 1950s, the Thai police under General Pao Sriyanonda had become the largest opium-trafficking syndicate in Thailand, and were involved in every phase of the narcotics traffic. With CIA support, Pao's police force grew steadily as he had accumulated not only political power through his powerful police force but also economic influence through banking and corporate ownership deriving from the opium trade with the KMT (Linter, 1994).

In the late 1980s, the Thai government no longer perceived insurgent groups as a buffer zone along the border in the north after the collapse of the CPB. Meehan (2011) states that the emergence of a powerful business class changed domestic power relations and forced the military leadership to acquiesce to the demands of political leaders determined to improve economic relations with Burma. According to Ronald Renard (1996:108) account:

Thailand reassessed its policies in 1988 when the Prime Minister Gen. Chatichai Choonhavan declared his aim to change the area from *sanam rop* (battlefields) to *sanam kankha* (marketplaces). The Thai saw that, rather than profiting from the troubles of others as it had during the Vietnam War and insurgency in Burma, it might well become mainland Southeast Asia's leading merchant state. The Thai official then played a decisive role in arranging

timber and fishery deals with Burma that gave Thailand a major interest in the exploitation of the Burma-Thai border region.

Although the Royal Thai Opium Monopoly was abolished in 1959, narcotics-related corruption, and private business activities were already rampant in Thailand; no serious attempts were made to stop the enormous traffic from the poppy fields of Burma and northern Thailand down to the sea lanes (Lintner, 1994). Thus, Thailand remained an important transit country for Burmese opium and heroin for decades. The rapid spread of drug abuse finally changed Thailand's tolerance to the massive drug trade in the border.

### **3.4 Summary**

The British presence in Burma from the nineteenth century to the mid 20<sup>th</sup> century resulted in the growth of opium cultivation, consumption and opium trade. Having popularized opium and allowed its cultivation and use throughout colonial period to maximize profit for their operation, a troublesome legacy left by the British continues to have greater effect on the present Burma opium politics. After the colonial period, the opium trade was further developed following the invasion of the KMT in Shan State as the armed force generated income from opium in order to support the fight against the communist back home in China. However, their anti-communist movement was a failure and many of the KMT leaders turned themselves into druglords.

The introduction of the Burma Way to Socialism after the Ne Win coup in 1962 added fuel to the fire and the country was plunged into civil war. Ethnic rights granted by the 1947 constitution were also abolished and insurgent movements rose up. The consequence of the conflict led the country to become one of the major opium producing countries in the world. The situation in Shan State became complex since there were many kinds of armed groups with different interests who relied for their revenue on opium trade. Moreover, the policies of the United States, China, Taiwan and Thailand also played a major role in transforming the landscape of upland Shan State and contributing to the rise of opium production during the cold war.