

Drugs, insurgency and state-building in Burma: Why the drugs trade is central to Burma's changing political order

Patrick Meehan

The mainstream discourse on the political economy of drugs has emphasised the negative correlation between drug production and state capacity, with the presence of a thriving drugs trade seen as both a sign and a cause of weak states. Through an analysis of the drugs trade in Burma this study argues that such an approach is deeply flawed. Focusing on the period since the 1988 protests it argues that the illicit nature of the drugs trade has provided the state with an array of incentives (legal impunity, protection, money laundering) and threats (of prosecution) with which to co-opt and coerce insurgent groups over which it has otherwise commanded little authority. Although the state's involvement in the drugs trade was initially driven by an expedient desire to co-opt insurgent groups following the 1988 protests, this study also argues that over time it has provided an arena in which more immanent and largely unanticipated processes of state formation, namely the centralisation of the means of violence and extraction, have gradually been built. Rather than being a sign of corruption-induced state incapacity, the state's involvement in the drugs trade has thus become a central arena through which state power has been constructed and reproduced.

Introduction

For the past 40 years the West's response to the production and trafficking of illegal narcotics has been dominated by strict law enforcement and prohibition that has prioritised crop eradication in source countries above all else. In recent years, however, the failure of these policies has become harder to ignore. The global drugs trade continues to flourish and counter-narcotics strategies have caused substantial perverse results.¹ Despite this, western counter-narcotics agencies have proved

Patrick Meehan is a Researcher at the School of Oriental and African Studies, University of London. Correspondence in connection with this paper should be addressed to: 235325@soas.ac.uk. The author would like to thank Dr Jonathan Goodhand (Reader in Conflict and Development Studies, School of Oriental and African Studies).

¹ For an analysis of the unintended negative consequences of counter-narcotics strategies, see Martin Jelsma and Tom Kramer, 'Downward spiral: Banning opium in Afghanistan and Burma', in *Drugs and conflict, debate papers*, no. 12, ed. David Aronson and Fiona Dove (Amsterdam: Transnational Institute, 2005), pp. 3–23; Alfred McCoy, 'The stimulus of prohibition: A critical history of the global narcotics trade', in *Dangerous harvest: Drug plants and the transformation of indigenous landscapes*, ed. Michael Steinberg, Joseph Hobbs and Kent Mathewson (Oxford: Oxford University Press, 2004);

reluctant to reconsider their approach, preferring instead to provide ever-greater power and resources to law enforcement agencies. The dogmatic perpetuation of failed policies appears to be derived from misconceptions in mainstream academic thought surrounding the political economy of the drugs trade and suggests the need for a profoundly new approach. Through an analysis of the drugs trade in Burma this study will argue that such an approach must move beyond a characterisation of illicit drug economies as merely part of the subversive underworld undermining state capacity, fuelling conflict and funding terrorism, and instead understand the ways in which they also provide an important arena in which state authority may be constructed and consolidated.

Over the past 20 years Burma's drugs trade has grown rapidly. Although dwarfed by Afghanistan, Burma remains the world's second largest producer of illicit opium with over 90 per cent of Southeast Asia's opium grown in Shan State, and is also home to a vastly expanding production of amphetamine-type stimulants (ATS). This has coincided with a prolonged period of state rebuilding following the pro-democracy protests of 1988 and a significant decline in the intensity of the country's long-running civil war throughout much of the country. This study explores the correlation between the proliferation of the drugs trade and the growing strength of the state since 1988. It seeks to examine how and why the state is involved in the drugs trade with a view to developing a greater understanding of the political importance of drugs to state-building processes, to the interaction between the state and opposition groups, and the role this interaction has played in fashioning the new political complexes that have emerged throughout Burma over the past 20 years.

This study begins with an analysis of the current mainstream debate regarding the relationship between drugs, conflict and state capacity, emphasising its limitations and making the case for a new approach. This is followed by a brief overview of the history of the drugs trade in Burma since independence. The next section provides a comprehensive conceptualisation of the state in Burma since it is argued that the rationale behind the state's involvement in the drugs trade is only explicable through a prior understanding of the political dynamics underpinning state-building processes. This leads into a detailed investigation of how and why the state is involved in the drugs trade. The final section offers a reconsideration of mainstream counter-narcotics policies and provides a tentative explanation of how the political economy of the drugs trade in Burma strongly suggests the need for a different approach to the world drugs problem.

Drugs, conflict and state-building: A review of the literature

The mainstream discourse on the political economy of illicit drugs has been dominated by two central contentions: the perceived positive correlation between drugs and conflict, and the assumption that the pervasiveness of illicit economies is a good 'index of state power', with thriving drugs trades being seen as both a sign and a cause of weak state capacity.²

and LaMond Tullis, *Unintended consequences: Illegal drugs and drug policies in nine countries* (London: Lynne Rienner Publishers, 1995).

2 Jonathan Goodhand, 'Corrupting or consolidating the peace? The drugs economy and post-conflict peacebuilding in Afghanistan', *International Peacekeeping*, 15, 3 (2008): 405–23, here 413.

The presumed linear relationship between drugs and conflict emerged out of a wider body of analysis in the 1990s that concentrated upon the economic dimensions of civil war, especially their 'self-financing nature'.³ This literature argues that an abundance of lootable primary resources increases the incidence of conflict in weak states and has encouraged renewed emphasis upon the so-called 'resource curse'. The linkages between lootable resources and conflict are seen to be threefold. Based on the multi-country econometric model created by Paul Collier *et al.*, 'greed' rather than 'grievance' has been perceived as a principal motivation for war.⁴ In the cost-benefit analyses conducted by conflict actors, modelled as rational utility maximisers, the income generated from lootable resources is considered to outweigh the opportunity costs of war. Once war commences, income generated from these resources serves not only as an end goal but also as a means by which to procure arms in order to continue fighting.⁵ Finally, civil war becomes a rational choice for combatants, as in some cases it provides a more profitable environment than peace.

By their very nature drugs have been considered an especially conflict-prone resource.⁶ Their high value and low economic barriers to entry allow combatants easy access, denying the state the opportunity to either monopolise production or prevent extraction. Drug economies are presumed to thrive in states of lawlessness, since greater state control would probably entail a clamp down on illegal activities and make cross-border access to lucrative foreign markets more difficult.

The second important presumption of the mainstream discourse has been that the pervasiveness of illicit economies is a good indicator of state capacity. This interpretation is founded upon a number of implicit binary distinctions, notably between state and non-state actors and licit and illicit activities, which equate the state with law and order and relegate illicit activities to the status of a 'deviant subculture'.⁷ Consequently, criminal networks are perceived to mark the frontier of state authority, managed by non-state actors in arenas beyond state control.

Together these two suppositions have created the dominant perception that illicit lootable resources have contributed to a vicious cycle of conflict and ever-weakening state capacity. A powerful symbiotic relationship is thus perceived to exist between counter-narcotics strategies, peace-building and state-building, with strict law enforcement and drug eradication portrayed as a means by which to target the revenue of

3 Karen Ballentine and Jake Sherman, 'Introduction', in *The political economy of armed conflict: Beyond greed and grievance*, ed. Karen Ballentine and Jake Sherman (London: Lynne Rienner Publishers, 2003), p. 1; see also, Paul Collier, 'Doing well out of war: An economic perspective', in *Greed and grievance: Economic agendas in civil wars*, ed. Mats Berdal and David Malone (London: Lynne Rienner Publishers, 2000), pp. 91-112; and David Keen, 'The economic functions of violence in civil wars', *Adelphi Paper*, 320 (Oxford: IISS/Oxford University Press, 1998).

4 Paul Collier and Anke Hoeffler, 'On the economic causes of war', *Oxford Economic Papers*, 50, 4 (1998): 563-73.

5 Karen Ballentine and Heiko Nitzschke, 'Introduction', in *Profiting from peace: Managing the resource dimensions of civil war*, ed. Karen Ballentine and Heiko Nitzschke (London: Lynne Rienner Publishers, 2005), p. 1.

6 See, for example, David Keen, *Complex emergencies* (Cambridge: Polity Press, 2007), pp. 26-7; and Svante Cornell, 'The interaction of narcotics and conflict', *Journal of Peace Research*, 42, 6 (2005): 751-60.

7 Josiah Heyman and Alan Smart, 'States and illegal practices: An overview', in *States and illegal practices*, ed. Josiah Heyman (Oxford: Berg, 1999), p. 19.

'greedy' rebels and in doing so strengthen government institutions in fragile states and entrench war to peace transitions. Such analysis may be accurate in certain contexts across the world; the problem, however, lies in the fact that the perceived linkages between drugs, conflict and state capacity are reified to such an extent that context-specific analysis of the politics of drugs in individual countries is overlooked.

The recent histories of Afghanistan and Burma, the world's two leading sources of opium, strongly indicate that the assumptions upon which the mainstream discourse and policy are founded are empirically weak and that the interrelationship between drugs, conflict and state-building is far more complex than the confines of the current debate. In Afghanistan the most extensive proliferation of opium cultivation in recent years occurred during two periods of sustained state-building, the first under the Taliban and the second during the incumbent Hamid Karzai administration.⁸ In Burma the rapid escalation of drug production during the 1990s coincided with the cessation of hostilities throughout much of the country after 30 years of incessant civil war.

To derive a more accurate analysis of the relationship between drugs and state-building it is imperative to engage with how states actually function, rather than how they ought to. Throughout much of the developing world processes of state formation remain incomplete, with states lacking a centralised monopoly of violence, facing contending centres of public authority, and unable to wield anything close to a hegemonic claim of legitimacy. As Alex De Waal rightly argues, in such environments peace-building and state-building efforts are invariably founded upon patrimonial politics rather than institutionalised bargaining processes. For a state to maintain stability and extend control it must resort to buying loyalty (with money, economic opportunities or political concessions), with the most durable basis for stability being a complete 'buy-in' of potential opposition.⁹ One of the most effective ways for states to buy loyalty in this 'political marketplace', especially if their funds are limited, may be to create what Douglass North *et al.* have best described as a 'limited access order'.¹⁰ In order to find a solution to the perpetual threat of violence, limited access orders manipulate the economy in order to create a system of rents. By providing preferential access to valuable political and economic resources to powerful non-state actors the state aims to buy their loyalty. Rent creation thus 'provides the glue that holds the coalition together, enabling elite groups to make credible commitments to one another to support the regime and perform their functions'.¹¹

The very nature of the drugs trade makes it highly predisposed to the creation of limited access orders, since the state's ability to create rents through the provision of legal impunity, money laundering and protection, whilst at the same time wielding the threat of prosecution, provides it with an opportunity to co-opt and coerce groups over which it might otherwise command little authority. Indeed, Richard Snyder

8 Goodhand, 'Corrupting or consolidating the peace?', p. 413.

9 Alex De Waal, 'Mission without end? Peacekeeping in the African political marketplace', *International Affairs*, 85, 1 (2009): 99–113.

10 Douglass C. North, John J. Wallis, Steven B. Webb and Barry R. Weingast, 'Limited access orders in the developing world: A new approach to the problems of development', *World Bank Policy Research Working Paper*, 4359 (2007). Refer to <http://ssrn.com/abstract=1015978> (last accessed on 29 June 2011).

11 *Ibid.*, p. 8.

argues that where states are able to build institutions of joint extraction with non-state groups based on the utilisation of such incentives and threats, lootable resources may actually become a means through which to construct peace and stability.¹²

Over time the state's involvement in the drugs trade may also underpin more immanent processes of state formation. In this analysis state-building is defined as conscious, proactive efforts by the state to 'establish an apparatus of control'.¹³ State formation, on the other hand, reflects a more immanent and largely unanticipated extension of state power, the complex and non-linear result of conflict, trade-offs and mediation between the state and non-state actors. In his studies of European state formation, Charles Tilly has convincingly argued that it was through struggle and conflict with external and internal opposition that the state gradually found itself monopolising its control over both the means of violence, through disarming its opponents, and the methods of extraction through the extension of its territorial control.¹⁴ These Tillyian processes took place over many centuries and their applicability to the developing world is still being debated. His work does, however, provide an insight into how the mechanisms of co-optation and coercion surrounding the drugs trade and the struggle for survival between the state and opposition groups need not only be seen as a cause of state collapse but may be embroiled within wider processes of state formation.

Although overlooked to a certain extent by Tilly, analysis of the spatial dimensions of the construction of state power is also imperative to developing a more comprehensive understanding of the role of drugs in state-building and state-formation processes. These processes are often mistakenly characterised as the diffusion of power from the centre to the periphery, when in reality control of the borderlands (where the drugs trade in Burma is located) is often constitutive of power at the centre. Thomas Gallant has developed these ideas further, arguing that throughout history the activities of 'bandits' need not be seen as necessarily antithetical to state formation and at times have played a pivotal role in the emergence of the modern state.¹⁵ Through their illegal activities bandits played a fundamental role in the global spread of capitalism through the monetisation and marketisation of rural economies. In turn, this made peripheral areas more lucrative and attractive to the central state, facilitating a 'border effect' in which the state sought to penetrate these areas through a process of co-optation and coercion in which bandits often played the role of brokers. As Gallant's study powerfully reveals, there were few rigid distinctions between what constituted as legal and illegal activities and who could be defined as state actors and non-state actors. State formation was often built upon complex, dynamic and volatile relationships between the central state and peripheral non-state actors and

12 Richard Snyder, 'Does lootable wealth breed disorder?: A political economy of extraction framework', *Comparative Political Studies*, 39, 8 (2006): 943–68.

13 Jonathan Goodhand, 'Bandits, borderlands and opium wars: Afghan statebuilding viewed from the margins', *DIIS Working Paper*, 26 (Copenhagen; Danish Institute for International Studies, 2009), p. 7.

14 Charles Tilly, *Coercion, capital, and European states, AD 990–1992* (Oxford: Blackwell Publishers, 1990). It should be noted that Tilly's work was confined to European state formation and the author himself has questioned the wider applicability of his conclusions.

15 Thomas Gallant, 'Brigandage, piracy, capitalism, and state-formation: Transnational crime from a historical world-systems perspective', in *States and illegal practices*, ed. Josiah Heyman (Oxford: Berg, 1999).

between the licit and illicit economies, with bandits regularly straddling these supposed binaries.

The drugs trade in Burma: A historical overview

Before independence opium cultivation in Burma was confined to a few areas of the Shan Hills where it provided income for a number of the Shan princedoms. Following the Chinese civil war, however, this situation quickly changed. Although the majority of Chiang Kai-shek's Kuomintang (KMT) troops reached Taiwan a few hundred were left stranded in Yunnan province and, in the face of further communist advances, fled across the border into Shan State in January 1950. With extensive US and Thai support they were quickly reorganised and strengthened in the hope that they could be transformed into a force capable of invading China 'through the back door' and conquering Mao's communist forces. The KMT's army swelled to over 6,000, as soldiers were drafted from the border areas, and by late 1951 the US Central Intelligence Agency (CIA) was covertly orchestrating regular flights between Taipei and the KMT-controlled Mong Hsat airstrip carrying US arms and ammunition.¹⁶ In order to finance their burgeoning military venture the KMT turned to opium cultivation, for which Shan State provided ideal growing conditions. The situation was summed up prophetically by one of the KMT's most famous generals, Tuan Shi-wen (Duan Xiwen) when he stated: '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.'¹⁷

In many ways the KMT's actions set the precedent for armed groups throughout Shan State ever since. By the late 1950s opium production had risen between ten and twentyfold, providing an annual yield in the range of 300–600 tons.¹⁸ For the United States and Thailand, however, halting communist expansion remained the priority and ensured that the growing drugs trade was not challenged.

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. For many ethnic groups in Shan State, already apprehensive about becoming part of the independent Union of Burma, the brutal and exploitative conduct of the advancing Burmese Army (the Tatmadaw) reignited their desire for greater autonomy. Following General Ne Win's 1962 military coup and his brutal attempts to forge a unitary state, many of Burma's ethnic groups (who total over one-third of the population) took up arms against the government. With their rice crops destroyed, their retreat higher into the hills and the pressing need for revenue to finance their activities, many insurgency groups quickly embraced the opium trade.

16 Bertil Lintner, *Burma in revolt: Opium and insurgency since 1948* (Thailand: Silkworm Books, 1999), pp. 128–62; Alfred McCoy, *The politics of heroin: CIA complicity in the global drug trade* (Chicago: Lawrence Hill & Co., 1991), p. 173. McCoy provides a magisterial account of the CIA's clandestine involvement with the drugs trade throughout the Golden Triangle and beyond.

17 Cited in Bertil Lintner, 'The Golden Triangle opium trade: An overview', *Asia Pacific Media Services* (Mar. 2000): 7–8, http://www.asiapacificms.com/papers/pdf/gt_opium_trade.pdf (last accessed on 11 Aug. 2011).

18 *Ibid.*, p. 8.

Over the next 25 years three further factors encouraged the rapid proliferation of opium cultivation. The gross mismanagement of the centrally planned economy created a thriving black market economy in which opium, smuggled across Burma's borders, became the only valuable means of exchange for goods needed to fill the vacuum created by the national economy. 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. Finally, Ne Win's attempts to establish self-financing counter-insurgency militias in the border regions in the mid-1960s further strengthened the drugs trade. Ne Win granted these Ka Kwe Ye (KKY) units access to all government-controlled roads and legal impunity to engage in the drugs trade in return for their promise to fight against the state's enemies. The initiative proved to be an abject failure, as the KKY units maintained cordial relations with the insurgent groups whose territory their drug convoys had to pass through. By the time the KKY units were disbanded in 1973 the programme had allowed some of Burma's most notorious drug lords, among them Khun Sa and Lo Hsing Han (both of whom had led KKY units), to greatly increase their illicit trading networks.¹⁹

In 1988, following years of economic mismanagement and oppressive military rule, widespread pro-democracy protests broke out across central Burma. Within months of the state's brutal repression of these demonstrations, the CPB, Burma's largest insurgency group, collapsed and divided into four separate armies along ethnic lines. These were: The United Wa State Army (UWSA) located in the Wa Hills, the Myanmar National Democratic Alliance Army (MNDAA) which controlled the Kokang area of Shan State, the Shan State Army-East (SSA-E) and the New Democratic Army-Kachin (NDA-K) in Kachin State close to the Chinese border.²⁰ Fearful of an alliance between these armies and the pro-democracy protestors who had fled to the borderlands, the state responded by adopting a similar rationale to the earlier KKY initiative. It offered the armed groups the opportunity to pursue whatever business ventures they wished and the promise of border development programmes in return for a cessation of hostilities against the government and a promise to sever all ties with other opposition groups. All four war-weary groups signed these 'alliances of convenience', creating a model that would be replicated throughout the 1990s as more insurgent groups 'returned to the legal fold'.²¹ Meanwhile, Burma's drug production, with its epicentre in the borderland regions controlled by the UWSA and MNDAA, took off on an unprecedented scale. According to US government figures, opium levels rose from 836 to 2,340 tons (from 849 to 2,377 tonnes) between 1987 and 1995, with the area under cultivation expanding from 92,300 hectares in 1987 to 154,000 hectares in 1995.²² The number of heroin refineries within

19 Alfred McCoy, 'Requiem for a drug lord: State and commodity in the career of Khun Sa', in *States and illegal practices*, ed. Josiah Heyman (Oxford: Berg, 1999), pp. 136–8.

20 The CPB, founded in 1939, was one of the first political parties to go underground (in 1948) in opposition to the Burmese government. Throughout its history it remained deeply committed to Maoist principles and the party received financial and military support from China during from the mid-1960s until Mao's death. Following Mao's death China's patronage dwindled. See Bertil Lintner, *The rise and fall of the Communist Party of Burma* (London: Cornell University Press, 1990).

21 Lintner, 'The Golden Triangle opium trade', p. 17.

22 *Ibid.*, p. 15.

Burma rapidly multiplied and a new network of drug-trading routes into China and India emerged.²³

Although opium cultivation declined markedly in the late 1990s, the success of eradication efforts has been short-lived. Initial reduction was offset by a rapid rise in ATS production, which is more footloose, less weather dependent and has an expanding market within Southeast Asia. Burma has rapidly become one of the world's leading producers of ATS and a major supplier to the growing market in China and Thailand.²⁴ In 2009 alone, 93 million ATS pills were seized across China, Thailand and Burma.²⁵ Furthermore, the opium bans launched by the MNDAA in 2002 and the UWSA in 2005 appear to have become unsustainable in light of the region's extreme poverty, households' heavy reliance on the revenue derived from opium cultivation and the inadequacy of alternative development programmes, especially in light of falling prices for other export goods such as rubber and teak.²⁶ The 2010 Southeast Asian Opium Survey recorded that opium cultivation in Burma had risen for the fourth year in a row and had grown by a staggering 76 per cent since 2009, causing Burma's share of world opium production to jump from 5 per cent in 2009 to 16 per cent in 2010.²⁷ As Bertil Lintner argues, although production levels remain significantly below the peak years of the early 1990s, if a longer-term perspective is taken, levels of production over the past five years remain similar to those recorded throughout the 1970s and 1980s.²⁸

Over the past 60 years drugs and politics have been inextricably linked with involvement in the drugs trade, underpinning attempts both to strengthen and subvert the state. In order to derive a more comprehensive understanding of why the drugs trade has continued to expand over the past 20 years it is therefore imperative to consider the role that it has played in processes of state-building, especially attempts to increase state capacity in borderland areas. Such an approach must begin with an analysis of the state in Burma and the ways in which state power has been challenged, constructed and consolidated.

Conceptualising the state in Burma

Throughout its history Burma has remained locked in what may best be described as 'the brutal politics of sovereignty', especially throughout its borderland regions.²⁹ As a

23 Ko-lin Chin, *The Golden Triangle: Inside Southeast Asia's drug trade* (Ithaca and London: Cornell University Press, 2009), pp. 88–9.

24 ALTSEAN-Burma, *ATS: A need for speed* (Bangkok: ALTSEAN-Burma, 2006); Tom Kramer, Martin Jelsma and Tom Blickman, *Withdrawal symptoms in the Golden Triangle: A drugs market in disarray* (Amsterdam: Transnational Institute, 2009), pp. 52–66; Chin, *The Golden Triangle*, pp. 129–31.

25 United Nations Office on Drugs and Crime (UNODC), *Myanmar: Situation assessment on amphetamine-type stimulants* (UNODC, Dec. 2010), p. 2.

26 Chin, *The Golden Triangle*, p. 242. In many hill areas rice harvests provide food for only 4–8 months of the year and opium is grown as a cash crop allowing families to buy imported Thai or Chinese rice for the rest of the year. The fact that alternative development strategies followed rather than pre-empted the opium bans greatly increased food insecurity.

27 UNODC, *Opium poppy cultivation in South-East Asia – Lao PDR, Myanmar* (UNODC, Dec. 2010), p. 11.

28 Bertil Lintner and Michael Black, *Merchants of madness: The methamphetamine explosion in the Golden Triangle* (Chiang Mai: Silkworm Books, 2009), p. 93.

29 Goodhand, 'Bandits, borderlands and opium wars', p. 9.

consequence, Burma does not fit easily into western models of statehood that conceptualise states as single actors working within clearly defined territories and wielding a monopoly of violence and legitimacy. Pre-colonial central state authority in the borderlands was minimal, maintained through 'feudatory relations' whereby traditional leaders paid an annual tribute in exchange for autonomy.³⁰ Colonial rule did nothing to reverse centre-periphery relations. The limited ambitions of British rule were concentrated upon Ministerial Burma on the largely Burman-dominated plains, which it differentiated from the Frontier Areas where it sought to maintain its authority through indirect rule, offering a degree of autonomy in return for acquiescence. On the eve of the Second World War the Burma Frontier Service, responsible for administering the entire Frontier Areas, numbered a paltry forty members.³¹

Despite initial claims by the British government that the Frontier Areas would remain under their direct control and would not be forced to become part of an independent Burma until the multitude of ethnic groups living in these regions voiced a desire to do so, increasing antagonism towards colonial rule throughout central Burma and the desire to avoid a costly colonial conflict ensured a rapid volte face in British policy. Acquiescing to the demands of the increasingly powerful independence movement led by Aung San, the new Union of Burma incorporated the Frontier Areas, which amounted to 40 per cent of the Union's total land area. Following Aung San's assassination in 1947 the 'unity in diversity' politics that he had endorsed in an attempt to alleviate the concerns of Burma's ethnic groups were soon replaced in Rangoon by a powerful desire to create a single national unity.³²

The 1962 army coup was driven by a determination to create a united Burma, seen by Ne Win as best achieved through the denial of political rights to ethnic groups, brutal counterinsurgency and a policy of self-isolation and economic autarky, all of which served only to incite further rebellion. Consequently, Burma's post-colonial state-building efforts became underpinned by what James C. Scott aptly describes as two 'antagonistic but connected' processes;³³ the first being the state's attempts to consolidate its control, which in turn was challenged by an equally strong 'countervailing power' determined to repel the centrifugal forces of the state.³⁴ State-building was further undermined by the pervasive mismanagement of Ne Win's economic policy. In one of the great ironies of Burma's recent history, whilst counterinsurgency defence policy sapped 40 per cent of government spending, the extreme inefficiency of the Burmese Way to Socialism created a thriving cross-border black market which provided the financial backbone to anti-state groups.

30 Martin Smith, *Burma: Insurgency and the politics of ethnicity* (London: Zed Books, 1991), p. 39.

31 *Ibid.*, p. 42.

32 However, it must be noted that even before Aung San's death there were clear signs that relations between Rangoon and the ethnic minority regions were already strained and the Panglong Conference, designed to allay the fears of ethnic minority groups, contained no Karen, Karenni, Arakanese or Mon delegates.

33 James C. Scott, 'Stilled to silence at 500 metres: Making sense of historical change in Southeast Asia', *IIAS Newsletter*, 49 (2008): 12.

34 James C. Scott, 'Hill and valley in Southeast Asia ... or why the state is the enemy of people who move around ... or ... why civilizations can't climb hills', paper presented at Symposium on Development and the Nation State (Washington University, St Louis, 2000), p. 19.

After decades of financial mismanagement and repressive military rule, Ne Win's attempts to bankrupt the country's black marketers by demonetising the higher-value 25, 35 and 75 kyat currency notes proved the final straw. This move incited widespread protests from a population who saw their life savings wiped out without any hope of compensation and for whom the black market had become an important lifeline. In many ways the 1988 pro-democracy protests marked the nadir of state authority. Insurgency remained rife throughout the borderlands, the country was close to bankruptcy and the state was now confronted with protests of an unprecedented scale throughout central Burma. In the face of the growing turmoil the military intervened once again. Led by General Saw Maung, the State Law and Order Restoration Council (SLORC), renamed the State Peace and Development Council (SPDC) in 1997, replaced Ne Win's ailing Burma Socialist Programme Party (BSPP). Following its refusal to honour the 1990 election results, in which Aung San Su Kyi's National League for Democracy (NLD) Party had gained a landslide victory, the SLORC embarked upon a proactive programme of state rebuilding.

As Mary Callahan rightly emphasises, 'this state rebuilding process brought with it a new geography' in which for both political and economic reasons control over the borderland areas became central to the state's survival.³⁵ Fears of an alliance between the pro-democracy protestors fleeing central Burma and the well-armed insurgent groups gave renewed urgency to the state's efforts to assert more direct control over the country's borderlands. Furthermore, in the context of the state's near bankruptcy in 1988 and the SLORC's readiness to abandon Ne Win's isolationist policies, the thriving cross-border black market was quickly recognised as a potentially lucrative source of revenue. Epitomising Gallant's theorisation, insurgent groups had indeed greatly facilitated capitalist penetration of the hill areas through their control of cross-border trade and their establishment of extensive trade routes across much of Southeast Asia, which in turn increased the state's determination to extend its control over these areas. This pull became even stronger following western sanctions and the state's reduced access to development aid and foreign direct investment.

The SLORC's attempts to strengthen control over the country's borderlands were aided by the changing attitudes of international actors. Throughout the first 40 years of independence the interventions of foreign powers were driven solely by Cold War politics and in a way that served to strengthen the anti-state processes already powerful within Burma. The CIA's clandestine support for KMT forces in Shan State during the 1950s saw the first international flow of weapons into Burma's borderlands. From the mid-1960s until Mao's death, China's extensive support for the CPB heralded a more extensive militarisation of the state's opponents. Further south, Thailand's desire to avoid close ties from forming between the CPB and the Thai Communist Party and its distrust of Ne Win's socialist military rule ensured that insurgent groups in Shan and Karen states were able to forge close bonds with the Thai military.

However, by the late 1980s the attitudes of Burma's neighbours had changed significantly, with both Beijing and Bangkok wanting to improve economic and

35 Mary Callahan, 'Political authority in Burma's ethnic minority states: Devolution, occupation, and coexistence', in *Policy Studies 31 (Southeast Asia)* (Washington, DC: East-West Center; Singapore: ISEAS, 2007), p. 17.

diplomatic relations with Rangoon.³⁶ Under Deng Xiaoping, patronage of the CPB was terminated as China sought to gain greater access to Burma's vast natural resources and looked to utilise increased cross-border trade as a means by which to stimulate economic development in land-locked Yunnan Province. That Burma's international isolation during the 1990s coincided with the West's outrage following the Tiananmen Square protests further strengthened ties between the two governments.

The end of the Cold War and collapse of the CPB also ensured that the Thai government no longer viewed a militarised buffer zone along its northern and western frontiers as a priority. The emergence of a powerful business class altered domestic power relations and forced the military leadership to acquiesce to the demands of political leaders determined to improve economic relations with Burma. As Ronald Renard explains:

Thailand reassessed its policies in 1988 when then Prime Minister General Chatchai Choonhaven declared his aim to change the area from *sanam rop* (battlefields) to *sanam kakra* (marketplaces). The Thai saw that, rather than profiting from the troubles of others as it had done during the Vietnam War and insurgency in Burma, it might well become mainland Southeast Asia's leading merchant state.³⁷

The growing market in Thailand for Burma-produced ATS pills further eroded Thai support for insurgent groups. Thailand had largely been a transit country for Burmese opium and with heroin addiction not a major social problem the state was willing to turn a blind-eye to the trade that provided revenue for the insurgent groups it supported. However, with an estimated 4–8 million regular ATS users, tackling drugs became a major political issue during the 1990s and saw the Thai government refuse to tolerate the illicit cross-border trade.³⁸

As Table 1 shows, by the late 1980s a constellation of factors had emerged which both encouraged the state to extend its authority over the country's borderlands and provided the greatest opportunity to do so since independence. It was for these reasons that the state found itself able to forge a series of ceasefire agreements with insurgent groups so quickly after the 1988 protests.

However, although the state found itself in an environment more conducive to state-building, it was still coming from a position of great weakness following the 1988 protests. The ceasefire accords between the government and ethnic insurgents (see Table 2) were expedient, *ad hoc* agreements designed to reduce the extent of opposition the state faced. In return for a cessation of hostilities and a promise to

36 Although initially a vociferous critic of the Burmese government in the aftermath of the 1988 protests, the Indian government has also gradually sought to improve its political and economic ties with the SPDC, hopeful that greater cross-border trade will stimulate economic development in its landlocked north-eastern territories and lured by the promise of joint co-operation against India's own insurgency groups, located on the India–Burma border. India's attitude was therefore not decisive in the late 1980s but has become increasingly important over the past 20 years. See Renaud Egretau, *Wooing the generals: India's new Burma policy* (Delhi: Authorspress, 2003).

37 Ronald Renard, *The Burmese connection: Illegal drugs and the making of the Golden Triangle* (London: Rienner Publishers, 1996), p. 108.

38 Carl Grundy-Warr and Elaine Wong, 'Geopolitics of drugs and cross-border relations: Burma–Thailand', *International Boundary and Security Bulletin*, 9, 1 (2001): 108–21, here 108 and 116.

Table 1: Causes of the ceasefire agreements

Causes	State	Insurgent groups
Political	Fearful of an alliance between pro-democracy protestors and ethnic insurgents Collapse of the Communist Party of Burma (CPB): The State Law and Order Restoration Council (SLORC) was driven by a desire to attract support of the CPB's splinter groups away from the National Democratic Front (NDF), the country's largest ethnic rebel front	War weariness Resentment against the CPB hierarchy Desire for stability and revenue to fund autonomous state-building enterprises in the areas they controlled
Economic	Parlous financial situation. In 1988 the state was close to bankruptcy Western sanctions – declining development assistance and foreign direct investment Desire to gain control of the country's lucrative cross-border trade Desire to benefit from its neighbour's rapid economic growth	Desire for economic development Willingness to consider pursuing this through greater co-operation with the state
External	Determination to capitalise on China and Thailand's desire to access Burma's resources and to regularise diplomatic relations and cross-border trade	Loss of international patrons Foreign support replaced by growing resentment at the continuing flow of drugs and refugees

sever all ties with groups still in opposition, the state was willing to grant former insurgent groups unofficial permission to pursue whatever business ventures they wished, the promise of economic development assistance, and entry into the National Convention to draft the country's new constitution.³⁹ The agreements did not seek to tackle the more intractable underlying issues surrounding the future status of the country's ethnic minority regions and may be seen as creating a 'kind of post-civil-war-not-quite-peace environment'.⁴⁰

The situation created by the ceasefires was by no means homogeneous. Some groups have refused to sign ceasefires, notably the Karen National Union (KNU) and the Shan State Army-South (SSA-S), and the ceasefires themselves have provided former insurgent groups with varying degrees of local autonomy. The level of

39 It is difficult to ascertain precise details regarding the ceasefire agreements since they were oral agreements that have never been written down. However, it is widely believed that they are underwritten by the points outlined here.

40 Callahan, 'Political authority in Burma's ethnic minority states', p. xiv.

Table 2: The ceasefire agreements

No.	Name of ceasefire group	Acronym	Date	Region	Headquarters
1	Myanmar National Democracy Alliance Army	MNDAA	March 1989	Northern Shan State Special Region 1 (Kokang)	Laukkai
2	United Wa State Army	UWSA	May 1989	Northern Shan State Special Region 2	Panhsan
3	National Democratic Alliance Army	NDAA	June 1989	Eastern Shan State Special Region 4	Mongla
4	Shan State Army (Shan State Progress Party)	SSA	September 1989	Northern Shan State Special Region 3	Seinkyawt
5	New Democratic Army (Kachin)	NDA-K	December 1989	Kachin State Special Region 1	Panwa
6	Kachin Defence Army	KDA	January 1991	Northern Shan State Special Region 5	Kuangkha
7	Pa-O National Organisation	PNO	April 1991	Southern Shan State Special Region 6	Kyuaktalon
8	Palaung State Liberation Army	PSLA	April 1991	Northern Shan State Special Region 7	Namtu
9	Kayan National Guard (breakaway group from KNLP, see below)	KNG	February 1992	Kayah (Karenni) State Special Region 1	Moby/Pekhon
10	Kachin Independence Organisation	KIO	October 1993	Kachin State Special Region 2	Laisin
11	Karenni State Nationalities Peoples' Liberation Front	KNPLF	May 1994	Kayah (Karenni) State Special Region 2	Hoya/Biya
12	Kayan New Land Party	KNLP	July 1994	Kayah (Karenni) State Special Region 3	Pyinhsuang

13	Shan State Nationalities Peoples' Liberation Organisation	SSNPLO	October 1994	Southern Shan State	Naungtaw
15	New Mon State Party	NMSP	June 1995	Mon State	Yechaungphyah
16	Burma Communist Party (Rakhine)		June 1997	Rakhine State	Buthiduang/Maungtaw

Sources: The Irrawaddy, 'List of cease-fire agreements with the Junta' (2004), http://www.irrawaddy.org/research_show.php?art_id=444, last accessed 4 Sept. 2009; Robert Taylor, *The state in Myanmar* (Singapore: NUS Press, 2009), p. 437.

autonomy granted by the state appeared to be determined by three factors. Ceasefires signed in the late 1980s and early 1990s, when the state was at its weakest, saw insurgent groups derive greater concessions than those signed later in the 1990s. Insurgent groups in control of regions with extensive natural resources have also enjoyed far greater bargaining power in their dealings with the state. Finally, those groups with powerful armies gained greater concessions as the state sought to avoid violent confrontation. Consequently, the ceasefires have created a 'spectrum of emerging political complexes' throughout the borderlands, as shown in Table 3).⁴¹

The epicentre of Burma's drugs trade is located in those areas close to the borders with China and Thailand where the state has both least control and the greatest desire to extend its authority. This paradox is hardly surprising. The same reasons that allowed insurgent groups to grow in strength – notably taxation of Burma's lucrative cross-border trade – also explain the state's desire to control these areas. The fundamental issue facing the Burmese government since 1988 has therefore been regarding how to extend its political and economic control over these borderland regions without inciting further insurgency. It has attempted to achieve this by manipulating the drug economy in order to create a system of rents, providing the foundations for establishing a 'limited access order'. By offering ceasefire groups preferential access to the drug economy the state has sought to increase the opportunity costs of violence and encourage greater co-operation with the state.

State involvement in the drugs trade

Over the past 20 years the state has created a system of rents within the drug economy through numerous mechanisms. Most obvious has been the state's willingness to offer legal impunity to groups involved in the drugs trade following their signing of ceasefire agreements. This was shown most clearly in early 2005 following the indictment of eight leaders of the UWSA by a Brooklyn federal grand jury in the United States.⁴² The state's refusal to arrest any of those charged or to end its intimate business links with the corporations they controlled demonstrated the level of

41 Ibid., p. 24.

42 Tom Kramer, 'The United Wa State Party: Narco-army or ethnic nationalist party', in *Policy Studies 38 (Southeast Asia)* (Washington, DC: East-West Center; Singapore: ISEAS, 2007), p. 54.

Table 3: Callahan’s ‘spectrum of emerging political complexes’

Level of state control	Least state control	←—————→	Most state control
Emerging political complex	‘Near devolution of authority’	‘Coexistence: resignation, accommodation and acceptance’	‘Occupation and exclusion’
Regions	Kokang and Wa Special Regions (including the Wa’s Southern Command close to the Thai–Burma border)	Chin State Kachin State Areas under the Pao National Organisation	Northern Rakhine State Parts of Karen State Kayah State
Dominant authorities	Regional non-state actors: Kokang Special Region: The Myanmar National Democracy Alliance Army (MNDAA) Wa Special Region: The United Wa State Army (UWSA)	Various forms of accommodation between the State Peace and Development Council (SPDC) and ceasefire groups	The SPDC and SPDC proxy forces: Rakhine State: The Burmese Army’s Western Regional Commander Karen State: The Burmese Army and pro-government militias such as the Democratic Karen Buddhist Army (DKBA)

Source: Table 3 is based on the spectrum developed in Mary Callahan, ‘Political authority in Burma’s ethnic minority states: Devolution, occupation, and coexistence’, *Policy Studies 31 (Southeast Asia)* (Washington, DC: East-West Center, 2007). The construction is the author’s own.

protection the government was willing to offer to former insurgent groups who had 'returned to the legal fold'.

Of greater importance has been the state's readiness to offer money-laundering services. Since 1989 state-controlled banks have accepted deposits of dubious origin without question, subject to a 'whitening tax' initially levied at 40 per cent and later reduced to 25 per cent.⁴³ The government has also laundered money through the real estate market; for an inflated price drug lords have been able to purchase property, allowing the state to exact a fee (the inflated cost paid over the actual value of the asset) in return for which drug revenue is converted into legitimate real estate.⁴⁴ The state has also offered business permits and government contracts to organisations known to be involved in the drugs trade, providing a legitimate front through which they are then able invest income derived illegally. Concerted international efforts to prevent drug revenues from entering the international economy have inadvertently given these rents a greater scarcity value and thus provided the state with further bargaining power.

Furthermore, the state has offered lucrative business opportunities to influential members of former insurgent groups in return for greater co-operation with the state, as clearly illustrated in the case of Lin Ming Xian (also known as U Sai Lin). Lin joined the CPB in 1968 and became one of the Party's leading military figures, commanding the 815 War Zone in Eastern Shan State.⁴⁵ Following the CPB's collapse in 1989 Lin maintained close links with the Kokang Commanders in the MNDAA, a relationship that enabled him to establish 'the best organized drug syndicate in northern Burma'.⁴⁶ Following the MNDAA's ceasefire agreement, Lin was selected by the SLORC as one of the 505 state-appointed delegates to the National Convention (out of 702) and has been allowed to launder his drug revenues by investing in the Union of Myanmar Economic Holdings (UMEH), Burma's largest holding company. It is also believed that a number of the lucrative gem camps owned by UMEH, which were previously under 100 per cent state control, are now privately run by drug lords such as Lin.⁴⁷ Through its interaction with the drugs trade the state has therefore been able to convert former armed opposition groups into state actors, strengthening the state in the process. As Table 4 clearly shows, the case of Lin is by no means unique and there is little exaggeration in Snyder's observation that 'the directory of Myanmar's Chamber of Commerce and Industry reads like a who's who in the drug trade'. As

43 ALTSEAN-Burma, *ATS: A need for speed*, p. 114; Lintner, 'The Golden Triangle opium trade', p. 187.

44 Shan Herald Agency for News (SHAN), *Showbusiness: Rangoon's 'war on drugs' in Shan state* (Chang Mai: SHAN, 2005), p. 54.

45 Bertil Lintner, 'The politics of the drug trade in Burma', *Indian Ocean Centre for Peace Studies, The University of Western Australia, Occasional Paper*, 33 (1993), p. 31; Lintner and Black, *Merchants of madness*, pp. 150–1.

46 Bertil Lintner, 'Drugs and economic growth: Ethnicity and exports', in *Burma: Prospects for a democratic future*, ed. Robert Rotberg (Washington, DC: The World Peace Foundation, 1988), p. 175.

47 ALTSEAN-Burma, *Special report: Ready, aim, sanction* (Bangkok: ALTSEAN-Burma, 2003), p. 87. The Government-controlled UMEH has developed an increasingly pervasive control over the Burmese Economy with all major foreign investors having to enter into joint ventures with UMEH. The report also found that 'private companies can only export under the authorization of Union of Myanmar Economic Holdings Ltd (UMEH) or Myanmar Agriculture Produce Trading (MAPT), which receive an 11% commission on transactions' (*Ibid.*, p. 80).

Table 4: Burmese companies: Links with the government and their role in the drugs trade

Company	Chairman	Main enterprises	Links with the government	Links with the drugs trade
Asia World Company	U Tun Myint Naing (Steven Law)	Burma's largest single investor in real estate; Asia World Port Management, a subsidiary company, manages Rangoon's deep-water port	Asia World Company has won many lucrative government contracts, including the renovation of Rangoon's international airport, construction projects in Burma's new capital city, Naypyidaw, and road construction in Shan State (including the new toll road from Lashio to the country's border with China)	Law is the son of the notorious drug lord, Lo Hsing Han. He is wanted by the United States on drug trafficking charges and Asia World has also been investigated on suspicions of money laundering
Hong Pang Group	Wei Hseuh-Kang	One of Burma's largest conglomerates with numerous subsidiaries: construction, jade mines, lumber trade, electronics, agriculture, textiles, jewellery, transport	Described as a 'real friend' by Major General Thein Sein in May 2001, Wei has enjoyed close government support and protection. Wei is in charge of the United Wa State Army (UWSA)'s Southern Command and his 171 Military Region has been used alongside the Burmese Army to fight the Shan State Army-South (SSA-S). His Hong Pang Group has been awarded numerous government contracts, including the building of parts of the Rangoon to Mandalay Pyi Daungsu Highway in 2001	Wei is a notorious drug lord and a close associate of the late Khun Sa. He was indicted by a Brooklyn Grand Jury in January 2005 and is wanted by both the United States and Thailand on drug trafficking charges
Kanbawza Bank	Aung Ko Win	Banking	The Kanbawza Bank is believed to be the primary channel through which State Peace and Development Council (SPDC) generals launder corrupt money	Much of the money laundered through the Kanbawza Bank is believed to originate from the drugs trade

Maung Weik and Family Company	Maung Weik	Burma's largest importer of steel and gilding glue, largely for the building and renovation of pagodas	Maung Weik has strong links with a number of senior government officials	He is believed to be closely involved in trafficking drugs from Burma to Malaysia
Myanmar Mayflower Group (shut down in 2004)	U Kyaw Win	Banking	U Kyaw Win has close connections with the government, especially with General Maung Aye, Deputy Chairman of the SPDC	Kyaw Win is listed by the US Drug Enforcement Agency as an important drug trafficker. Myanmar Mayflower Bank was heavily implicated by the United States for money-laundering offences
Olympic Construction Company	U Eike Htun	Burma's most successful construction company	U Eike Htun forged close links with former prime minister Khin Nyunt and the Olympic Construction Company has been involved in numerous joint ventures with the government's Housing Development Agency	It is strongly believed that U Eike Htun has close links with the drugs trade in his native Kokang region. The United States has imposed sanctions on Asia Wealth Bank, for which U Eike Htun is Vice President, for money-laundering offences
Peace Myanmar Group	Yang Maoliang and Yang Maoan	Spirits and liquors including Myanmar Rum and Myanmar Dry Gin, bottled drinking water, paint	Peace Myanmar Group has entered into numerous joint ventures with the Ministry of Commerce	Both surviving Yang brothers are listed by the United States on drug trafficking charges. The youngest brother was executed in China for drug trafficking

Continued

Table 4: Continued

Company	Chairman	Main enterprises	Links with the government	Links with the drugs trade
Union of Myanmar Economic Holdings (UMEH)	40 per cent owned by the Defence Ministry with the remainder controlled by senior military figures	Burma's largest Holding Company. Involved in gems, coal mining, logging	Part government owned	UMEH claims that its revenues are generated from the Burmese Army's pension funds. In reality, numerous known drug lords, such as Lin Mingxian, have invested heavily
Yangon Airways & Tetkham Company	Aik Hawk	Airline; hotels, gems and construction	Aik Hawk had personal links with former prime minister Khin Nyunt and is close to other senior generals. The company has won numerous large-scale construction contracts from the Yangon City Development Council. Aik has also provided capital for businesses owned by high-ranking generals, including General Myint Hlaing, who is current chief of the Air Defence Bureau and was the former commander of the Northeast Regional Command	Aik is the son-in-law of UWSA President, Bao Youxiang. He has close links with Wei Hsueh Kang (see Hong Pang Group above) and is closely involved in the drugs trade. His business ventures have provided an extensive money-laundering front, including through government-controlled gems auctions. Recently, however, he has come under increasing government pressure

Various enterprises	Sai Htun Aye	Casinos, hotels, construction	Sai Htun Aye has close links with numerous SPDC Generals, notably, General Myint Hlaing, Northeast Regional Military Commander. It is believed that the sports stadium built in Muse was funded solely by Sai, one of his many gifts to the government	He has forged close links with many drug producers in his native Shan State (Kokang Region). His companies have provided a valuable money-laundering facility unchallenged by the government
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Sources: ALTSEAN-Burma, *A failing grade: Burma's drug eradication efforts* (Bangkok: ALTSEAN-Burma, 2004), pp. 65–80, 115; The Irrawaddy, 'Burmese tycoons, part one', *Irrawaddy Magazine*, 8, 6 (2000); The Irrawaddy, 'Burmese tycoons, part two', *Irrawaddy Magazine*, 8, 7 (2000), The Irrawaddy, 'Above it all', *Irrawaddy Magazine*, 9, 2 (2001); The Irrawaddy, 'Tracking the tycoons', *Irrawaddy Magazine*, 16, 9 (2008); Bertil Lintner, 'The Golden Triangle opium trade: An overview', *Asia Pacific Media Services*, Mar. 2000: 7–8, 20–1, http://www.asiapacificms.com/papers/pdf/gt_opium_trade.pdf (last accessed on 10 Aug. 2011); Bertil Lintner and Michael Black, *Merchants of madness: The methamphetamine explosion in the Golden Triangle* (Chiang Mai: Silkworm Books, 2009), pp. 98–9, 115–19, 124, 130–1.

he rightly concludes, state involvement has ‘transformed narcotics from a honey pot for hinterland rebels into the central pillar of the national economy’.⁴⁸

Finally, the state has provided ceasefire groups with free access to government-controlled roads, issuing leaders with ID cards to ensure that their vehicles are able to navigate through all police check-points in Shan State without interference.⁴⁹ This provision has extended trafficking networks and has enabled the import of chemicals from India, mostly acetic anhydride, needed to convert opium into heroin. Reports from within Burma have claimed that in some cases the army has also provided protection for drug convoys and has even transported drugs in army vehicles.

Drugs and state formation

The state’s actions have contributed to the rapid expansion of Burma’s heroin and ATS production. However, rather than embodying a sign of weakened state capacity, as predicted by the mainstream discourse, the state’s involvement in the drugs trade has gradually allowed it to extend its control over the means of coercion and extraction, embodying the Tillyian paradox whereby challenges posed to the state by staunch opposition have actually forged institutions upon which state capacity has gradually developed.

Centralising the means of violence

The government’s vulnerability in the late 1980s and early 1990s forced it to temporarily suspend its preferred strategy of attempting to secure a purely military solution to the ethnic opposition forces it faced in the borderlands. Its decision to offer ceasefire groups preferential access to the drugs trade was initially little more than an expedient attempt to buy the loyalty of opposition groups in order to prevent an alliance forming between insurgents on the borders and pro-democracy protestors fleeing from the cities. Over the past 20 years, however, this policy has developed into an effective divide-and-rule strategy. The incentives offered by the state have converted many former rebel groups into proxy state actors, enabling the Burmese Army to concentrate its forces against those groups that have refused to enter into ceasefire agreements, often supported by former insurgent armies. The UWSA, for example, was heavily involved in government offensives against the SSA-S whilst government concessions have even managed to turn Karen against Karen with the pro-government Democratic Karen Buddhist Army (DKBA) fighting against the KNU. This divide-and-rule strategy has seen the government record some of its most decisive counterinsurgency victories since the outbreak of civil war.

The ceasefire agreements thus clearly benefitted the state following its near collapse in 1988. However, former insurgent groups continue to pose a serious threat especially those, such as the UWSA and MNDAA, that have retained large, well-equipped armies and that are determined to maintain their autonomy. In a sign of its growing strength, the state has begun to exert sustained pressure on these groups in recent years and is seemingly intent upon returning to its long-standing strategy to

48 Snyder, ‘Does lootable wealth breed disorder?’, p. 961.

49 Lintner, ‘The Golden Triangle opium trade’, pp. 18–19.

inflict a decisive military victory over the remaining ethnic opposition forces it faces rather than enter into any meaningful political process.⁵⁰

The SPDC's determination to consolidate further its control in the borderlands was reflected in Burma's new constitution, promulgated in 2008, which demanded that 'all the armed forces in the Union shall be under the command of the Defence Services' and by its announcement in April 2009 that all ceasefire groups must have converted themselves into border guard forces by the time of the 2010 election.⁵¹ By becoming border guard forces ceasefire groups would be forced to place their soldiers under the Burmese Army's direct command where they would be trained in the Burmese language, receive government uniforms and salaries and be forced to relinquish control over their weapons. Whilst organisations, such as the DKBA, that accepted the SPDC's demands and converted themselves into pro-government militias have retained lucrative resource concessions and continue to enjoy government complicity in their illicit activities, pressure against the MNDAA, the UWSA and the Kachin Independence Army (the military wing of the Kachin Independence Organisation or KIO), which all rejected the BGF proposals, has been growing.

In August 2009 the Burmese Army's attack on the MNDAA in the Kokang's heartlands on the Sino-Burmese border (which saw almost 40,000 civilians flee to China) was driven by a desire to heighten internal divisions within the MNDAA leadership regarding whether or not to accept the BGF proposal and to warn what would happen if they did not.⁵² The MNDAA's supposed involvement in the drug trade was used by Naypyidaw to justify the attack. This provides an important insight into how the government has used the drugs trade to create a highly effective limited access order, using its interaction with the trade both to buy loyalty and punish disobedience. On the one hand the government has been able to convert many former opposition groups into proxy state actors by protecting and increasing the profitability of their involvement in the drug trade. On the other hand the government's attempts to legitimise the offensive against the MNDAA by portraying it as part of its ongoing war on drugs (in an attempt to reduce international disapproval) has provided a powerful warning to those groups which continue to oppose the government.

As part of its efforts to develop a stronger military presence in the borderland regions in readiness for possible future conflict against those ceasefire groups that have refused to convert themselves into border guard forces the state is now in the process of establishing large numbers of pro-government militias. Although reliable evidence is limited, the state once again appears to be using the drugs trade as the central arena through which to strengthen these militias, thereby launching a second divide-and-rule strategy. To incentivise recruitment the government is offering militia groups a free hand in the drugs trade (both opium cultivation and ATS production), with some reports suggesting that this policy is creating a new hierarchy of drug

50 Evidence of this attitude was shown most clearly by an SPDC Colonel, Win Maung, in 2005, who is quoted in a 2006 report by the Shan Herald Agency for News as stating that 'ceasefire groups are merely enemies who have taken a break in the fighting against us'. Cited in Shan Herald Agency for News (SHAN), *Hand in glove: The Burma Army and the drug trade in Shan State* (Chang Mai: SHAN, 2006), p. 37.

51 *Constitution of the Republic of the Union of Myanmar*, ch. VII, Clause 338.

52 Euro Burma Office (EBO), 'The Kokang clashes – what next?', *EBO Analysis Paper No. 1* (2009): 1–7.

warlords in the borderlands.⁵³ As one such report concludes, 'while the regime is seeking to paint its manoeuvres against the ceasefire groups as a crusade against drugs, it is simultaneously building up security units that are just as notorious for drug production'.⁵⁴ This analysis is corroborated by the fact that in the November 2010 general election at least four militia leaders notorious for their involvement in the drugs trade were elected in Shan State North as representatives of the government-backed Union Solidarity and Development Party (USDP).⁵⁵

Although Chinese pressure on the Burmese government to avoid a recommencement of conflict in its borderlands may discourage further army offensives in the short term, these developments clearly epitomise the ways in which the state's involvement in the drugs trade has enabled it to buy loyalty and finance its militarisation of the country's borderland regions, which in turn has facilitated a process of co-optation and coercion that is gradually enabling the state to centralise its control over the means of violence in Burma.

Centralising the means of extraction

The state's offer of legal impunity, money-laundering services and business opportunities has also strengthened the state's economic position by directing a far greater proportion of drug revenue inwards. This 'stemming of capital flight' and the channelling of revenue into the legal economy has been one of the most important but least reported changes to Burma's political economy over the last 20 years.⁵⁶ Of course, state actors have to a limited extent always benefitted financially. The army regularly taxed drugs, took bribes and offered protection throughout Burma's civil war, especially following the state's demand that the army should 'live off the land'. However, the vast majority of income was generated abroad after the opium had been converted into heroin and was invested overseas.

During the 1990s, however, the significance of narcotics to Burma's economy changed dramatically. This was first highlighted in the 1996 Annual Foreign Economic Trends Report by the US Embassy in Rangoon. Through comparing Rangoon's official figures with statistics from the International Monetary Fund (IMF) and the United Nations Conference on Trade and Development (UNCTAD), the report revealed a discrepancy of \$400 million that entered the legal economy but was not recorded by any of Burma's trade partners. Added to which, the state spent a further \$200 million on defence in foreign currency that was not recorded in official figures, leaving an overall figure of \$600 million unaccounted for and most likely to have come from the illegal drugs trade, since Burma lacks any other resource able to generate such income illegally.⁵⁷

The state's growing monopoly over the means of extraction has also been reflected in the vast increase in revenue that it has derived from cross-border trade.

53 SHAN, *Hand in glove*, pp. 35–48; Palaung Women's Organisation (PWO), *Poisoned hills: Opium cultivation surges under government control in Burma* (Mae Sot: PWO, 2010), pp. 9–10.

54 PWO, *Poisoned hills*, p. 10.

55 Hseng Khio Fah, 'Burma's druglords become lawmakers', *Shan Herald Agency for News* (10 Nov. 2010).

56 Snyder, 'Does lootable wealth breed disorder?', p. 961.

57 US Embassy (Rangoon), *Foreign economic trends report: Burma* (Rangoon: US Embassy, 1996), pp. 92–3; Lintner, 'Drugs and economic growth', pp. 187–8.

Under Ne Win border trade generated very little income, in part due to his isolationist policies, but also because the thriving cross-border black market economy was controlled by insurgents. However, the ceasefire agreements have given the military access to the Chinese, Thai and Indian borders and control of border checkpoints. The SLORC's overhaul of Ne Win's autarkic policies coupled with the fact that dominant trade routes from central Burma into Yunnan Province now pass through territory which, if not under the direct jurisdiction of the state, is managed by groups allied to it, has meant a vast increase in the volume of legal cross-border trade. The first border trade agreement was signed in 1988 between Myanmar Export and Import Services and Yunnan Machinery Import Export Corporation. This was followed in 1994 with the first formal border agreement between the Burmese and Chinese governments. A border-trade office was established in Muse in 1995 before being converted into the much larger Border Trade Department of the Ministry of Commerce in 1996. Infrastructural improvements between Burma and China and the legalisation and institutionalisation of cross-border trade caused the volume of Burmese exports to grow by 2.5 times between 2001 and 2007, with Chinese imports increasing threefold over the same period.⁵⁸ The state's revenue from custom duties rose by more than 500 per cent in 2005 and rose again in 2006.⁵⁹

The state's increasing penetration of the border regions has also been reflected by its decision to site new industrial zones in a number of areas close to the Thai–Burma border. Through the Economic Cooperation Strategy (ECS) agreed in November 2003 at Pagan, border areas have been prioritised as areas able to provide rapid economic growth. The ECS has seen sustained co-operation between Thailand and Burma with the establishment of a number of industrial zones along the Thai–Burma border.⁶⁰

Through its involvement with the narcotics trade, the state has therefore found itself able to centralise the means of extraction in border areas by co-opting former insurgent groups and without having to embark on further prolonged counterinsurgency campaigns, a process clearly outlined in Figure 1. It is imperative to emphasise that in many cases the groups and individuals involved have not changed. In ways that have been mutually beneficial the state has merely redrawn the boundaries between inlaw and outlaw, clearly making a mockery of the sharp binaries constructed in the mainstream discourse between state and non-state actors and legal and illegal activities.

The 'globalised context' of Burma's state formation post-1988

In many ways the state's involvement in the drugs trade reflects Snyder's model of joint institutions of extraction, in which co-operation between the state and private actors has facilitated a greater degree of order and stability. The state's willingness to support the illicit activities of insurgent groups certainly provided the latter with a

58 Toshihiro Kudo, 'Myanmar's economic relations with China: Who benefits and who pays?', in *Dictatorship, disorder and decline in Myanmar*, ed. Monique Skidmore and Trevor Wilson (Canberra: Australian National University Press, 2008), pp. 96–7.

59 Sean Tunnell, 'Myanmar's economy in 2006', in Skidmore and Wilson, *Dictatorship, disorder and decline in Myanmar*, p. 113.

60 Guy Lubeigt, 'Industrial zones in Burma and Burmese labour in Thailand', in *Myanmar: The state, community and the environment*, ed. Monique Skidmore and Trevor Wilson (Canberra: Australian National University E Press and Asia Pacific Press, 2007), pp. 162–7.

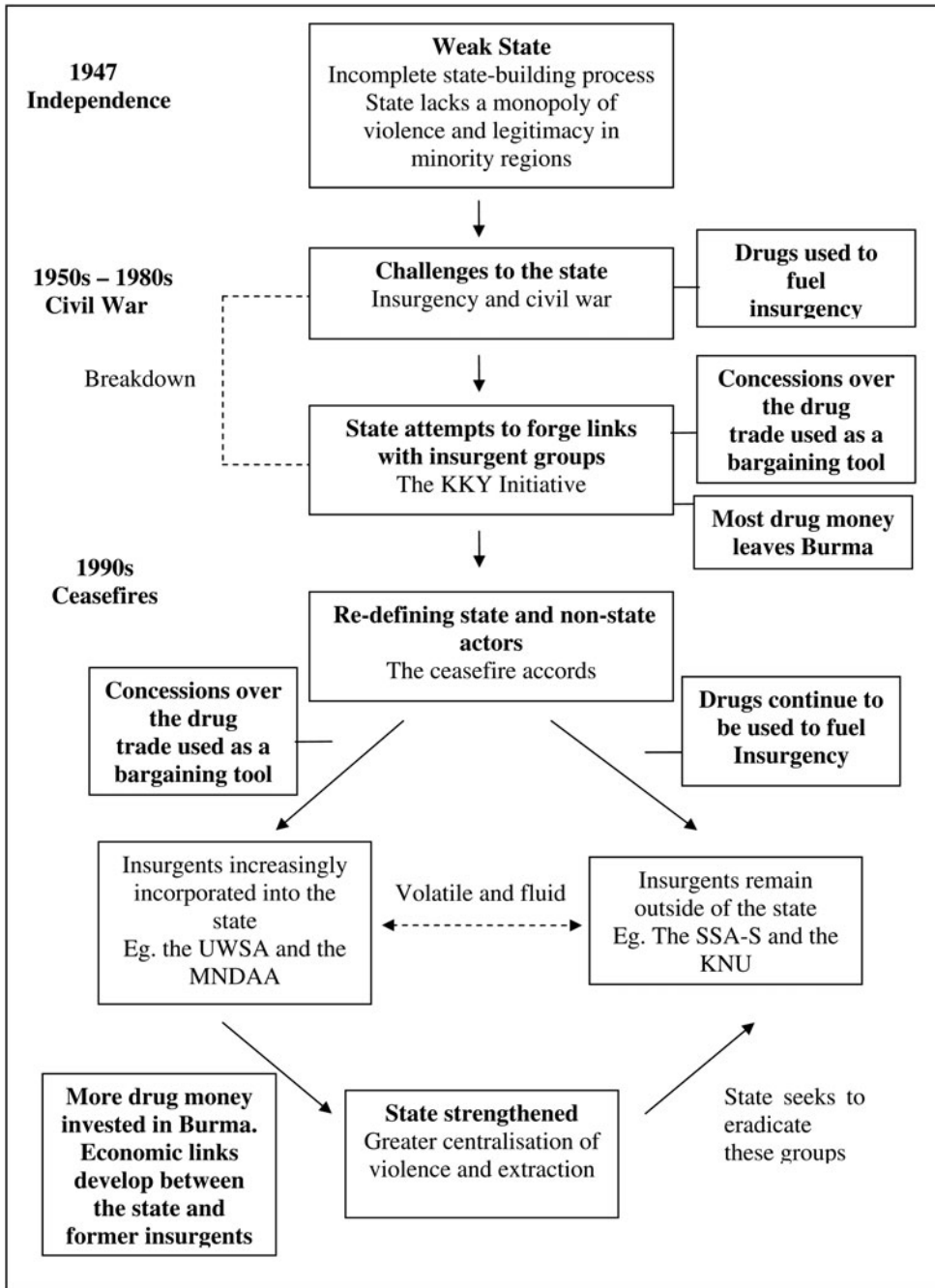


Figure 1. Drugs, insurgency and state-building in Burma.

KKY, Ka Kwe Ye; UWSA, United Wa State Army; MNDAA, Myanmar National Democratic Alliance Army; SSA-S, Shan State Army-South; KNU, Karen National Union

'lucrative exit option' without which it is unlikely that they would have been so easily co-opted.⁶¹

However, the explanatory power of Snyder's model remains limited. Many have emphasised the similarities between the rationale underpinning the KKY initiative of the late 1960s and the post-1988 ceasefire agreements. Although the latter saw the state willing to offer greater concessions, Snyder's model is unable to explain why attempts to forge joint institutions of extraction did not work during the 1960s and 1970s. Indeed, the contrast between the pre-1988 and post-1988 period is less a move from private institutions of extraction to joint extraction as Snyder seems to suggest; rather, it is the move from failed attempts to create joint institutions of extraction to successful ones.

In order to properly explain this shift, it is imperative to reconsider the full spectrum of factors that contributed to the establishment of the ceasefire agreements outlined in Table 1, especially the changing 'globalised context' of Burma's state formation in the post-1988 period, a factor that Snyder overlooks.⁶² The importance of the changing role played by international actors, primarily China and Thailand, is encapsulated in the experiences of Khun Sa, arguably the Golden Triangle's most notorious drug lord. The KKY initiative enabled Khun Sa to vastly strengthen his nascent drug business and for a time a strong synergy developed between the state and his militia.⁶³ However, his ability to cultivate close ties with the Thai military, aided by his generous contributions to the election campaigns of the country's Prime Minister General Kriangsak Chamamand, provided Khun Sa with a powerful 'exit option', enabling him to establish the secessionist Shan United Army in direct confrontation with the army whilst at the same time enjoying Thai protection of his drug-trafficking routes along the Thai–Burma border. By the late 1980s, however, the 'exit options' once available to the likes of Khun Sa had largely dried up. In 1996 the Shan United Army signed a ceasefire with the Burmese government and Khun Sa returned to the 'legal fold', investing heavily in Burma's real estate market and enjoying state protection from US drug smuggling charges.

The West's response to the opium bans launched by the MNDAA and the UWSA is also important. Although these mark the only concerted efforts to impose drug eradication in Burma, the US government's continued branding of these ethnic groups as 'narco-armies' has denied the Kokang and Wa regions access to the international aid which their leaders had hoped the bans would entitle them to and has made the opium bans unsustainable. To adopt De Waal's analogy of the political marketplace, the loss of foreign patronage and the West's reluctance to offer substantial aid has reduced the price the state has had to pay to ensure the loyalty of former insurgent groups. Although Snyder's model remains extremely insightful, it is only through a proper conceptualisation of the changed international climate that it is possible to understand why joint institutions of extraction were successfully forged

61 Snyder, 'Does lootable wealth breed disorder?', p. 959.

62 Anna Leander, 'Wars and the un-making of states: Taking Tilly seriously in the contemporary world', in *Contemporary security analysis and Copenhagen peace research*, ed. Stefano Guzzini and Dietrich Jung (London: Routledge, 2004), p. 69.

63 McCoy, 'Requiem for a drug lord', pp. 136–8.

during the late 1980s and 1990s and, in turn, why state capacity has increased so extensively over the past 20 years.

Policy implications

This study has demonstrated the inextricable links between the drugs trade and the wider political context in Burma within which it operates. The seemingly intractable perpetuation of drug production in Burma is a consequence of the fact that drugs remain embroiled within a broader set of political dynamics surrounding the construction, contestation and reproduction of state power. These complex processes, however, have been completely ignored in mainstream policy responses to the drugs trade both in Burma and throughout the developing world.

This was shown most clearly during the tenth anniversary review of the United Nations General Assembly Special Session (UNGASS) on the World Drug Problem in 2008, which inexplicably culminated with a reiteration of the same failed policies that have dominated western policy since the War on Drugs prohibition campaign was first launched by US President Richard Nixon in 1969. The review process was underpinned by a dogmatic refusal to acknowledge the political importance of drugs and accept that complex trade-offs exist between peace-building, state-building and counter-narcotics strategies. Instead, the failure to reduce the supply of illicit drugs has invariably been explained as a consequence of rectifiable technical and implementation failures. This was epitomised by the 2008 UNODC (United Nations Office on Drugs and Crime) report examining why the attempts to create a drug-free ASEAN (Association of Southeast Asian Nations) by 2015 were not on schedule. Its 'key recommendations' emphasised the need for a 'region-wide key capacities curriculum for law enforcement', 'common language training', 'location specific training' and greater cross-border collaboration and harmonisation. Adherence to these procedures, it was argued, should ensure that cultivation of illicit crops would be reduced 'by 25% in 2010, 50% in 2013 ... with full eradication of illicit crops in 2015'.⁶⁴ Although the United Nations is inevitably hamstrung by its mandatory requirement to operate in accordance with the Burmese government, this cannot justify an approach that is utterly devoid of an analysis of the wider political economy underpinning Burma's drugs trade.

The potential incompatibility of peace-building, state-building and counter-narcotics strategies must be made explicit. The rationale for state involvement in the drugs trade may extend far beyond mere greed and corruption and may instead be instrumental in creating 'symbiotic interactions between the upper- and underworld', forming a foundation for peace and stability.⁶⁵ The essentialised linkages between drugs, conflict and weak state capacity must be replaced with an understanding that it is not the presence of the drugs trade itself, but the political complexes which develop around it that determine whether it becomes a cause of stability or

64 UNODC, *Drug-free ASEAN 2015: Status and recommendations*, United Nations Office on Drugs and Crime Regional Centre for East Asia and the Pacific, publication no. 01/2008, pp. 12, 63.

65 Hans Van der Veen, 'The war on drugs in the creation of the new world (dis)order', in *Shadow globalization, ethnic conflicts and new wars: A political economy of intra-state war*, ed. Dietrich Jung (London: Routledge, 2002), p. 104.

violence, state collapse or state-building.⁶⁶ Policy considerations must therefore begin with a proper conceptualisation of how the state actually works and an understanding of the spatial dimensions of state power, with borderland regions recognised as being fundamentally important to state-building processes at the centre.

Such awareness need not foster complacency or a *laissez-faire* attitude towards Burma's drugs trade and the political situation in the country's drug-producing regions. The current ceasefires are not comprehensive peace agreements, the borderlands remain highly volatile since the agreements have not confronted many of the tensions underlying relations between the state and the ethnic regions, and although the civilian population may have benefitted from a cessation of hostilities, they continue to suffer immense hardship. Furthermore, the government's increasingly aggressive attitude towards the ceasefire groups that have refused to convert themselves into border guard forces suggests that the civil war may escalate once again in the coming years. Nevertheless, as Callahan rightly emphasises: 'conflict resolution strategies have to recognise that these emerging political complexes are not simply unfortunate bumps in the road to peace but instead constitute intricate and evolving social systems that may continue to be adapted and sustained'.⁶⁷

Policy focus must therefore move beyond a recalcitrant emphasis upon drug eradication in supply countries such as Burma and instead actively engage in developing a better understanding of these emerging political complexes and a consideration of how they may become more development oriented. As Jonathan Goodhand has emphasised, 'there is certainly fruitful middle ground to explore between consolidating an illiberal, warlord dominated peace and pursuing the so-called post conflict make over fantasy'.⁶⁸

Over the past year, the United States has suggested that it is willing to consider 'pragmatic reengagement' with Burma. Any such strategy must begin by understanding that transplanting western institutions into Burma's fragile limited access order is unlikely to work and must therefore avoid demanding rigid counter-narcotics strategies as an *ex ante* requirement for development assistance. Policy makers need to understand that the state's involvement in the drugs trade enabled it to drive a wedge between the pursuit of profit and the pursuit of violence since it ensured that armed groups would benefit most from the drugs trade if they ended their fight against the government.⁶⁹ An effective counter-narcotics strategy in Burma will only become feasible if a similar wedge is driven between drugs and the pursuit of political and economic development in the ceasefire areas. This is because the ethnic groups' motivation for involvement in the drugs trade extends far beyond mere greed and is rooted in a long-frustrated desire to stimulate economic growth and improve social provision in areas that have been almost completely neglected by the government.

Ultimately, disentangling the pursuit of economic and political development from the drugs trade will be reliant upon the Burmese government, since it requires a more comprehensive peace process and far greater levels of borderland development

66 Goodhand, 'Corrupting or consolidating the peace?', p. 405.

67 Callahan, 'Political authority in Burma's ethnic minority states', p. 4.

68 Goodhand, 'Corrupting or consolidating the peace?', p. 418.

69 Sherman, 'Burma: Lessons from the cease-fires', p. 247.

assistance. Unfortunately, the role that the drugs trade has played in strengthening the state and the government's determination to press home its advantage by seeking to replace the ceasefires with a more direct system of control makes this unlikely. Further research is now needed to understand how western 'pragmatic reengagement' with Burma may serve to encourage domestic bargaining processes focused on establishing a more durable and more development-orientated peace whilst avoiding threatening the fragile equilibrium that currently exists.

Conclusion

The SPDC's decision to continue with its 'roadmap to democracy' by holding a general election in November 2010 (albeit one that was democratically flawed)⁷⁰ and to release Aung San Su Kyi soon after took many Burma commentators by surprise. The Burmese government's refusal to honour the 1990 election results, the lack of democratic reform and the country's western isolation have created a tendency to perceive Burma as a static, stagnating backwater awaiting change. However, although the extent of human rights abuses and low levels of welfare have not changed, the past 20 years have witnessed some of the most profound political and economic developments in Burma's history. Most significantly, the state's consolidation of power has become greater than at any time since independence, especially throughout the borderlands where its authority has traditionally been minimal. Although it is highly unlikely that the election will herald a more meaningful period of democratic reform, the fact that it took place at all is a reflection of the military government's growing self-confidence that it is now in a strong enough position to manage this limited democratic opening in such a way that will not threaten its control over the country.

The state's interaction with the drugs trade has formed an invaluable fulcrum to the government's growing strength, and the prioritisation given to state-building over counter-narcotics strategies helps to explain why the latter have had such little impact. For the foreseeable future it is highly unlikely that the Burmese government will launch a comprehensive assault against the trade upon which its growing control over the borderlands has in part been built. Instead, it seems likely to continue its Janus-faced approach, portraying itself to the West as committed to tackling drugs whilst at the same time continuing to use the drugs trade as an arena through which to construct and consolidate state power.

70 See, for example, International Crisis Group, 'Myanmar's post-election landscape', *ICG Asia Briefing*, no. 118 (Brussels: International Crisis Group, 2011).