

The Golden Triangle Opium Trade: *An Overview*

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The Beginning

Contrary to popular belief, the poppy has not always been a major cash crop in the Golden Triangle—and nor has the sale and consumption of opium always been illegal. Prior to World War Two, all countries in Southeast Asia had government-controlled opium monopolies, not unlike the tobacco monopolies today. What was illegal was to smuggle opium and to trade without a licence. Most local addicts were ethnic Chinese, who had migrated to Southeast Asia's urban centres in the 19th and early 20th centuries—and brought with them the opium smoking habit from their old homes in China.

In the beginning, Thailand (then Siam) had actually tried to stop the practice. In 1811, King Loetlalnaphalai (Rama II) had promulgated Siam's first formal ban on selling and consuming opium. In 1839, King Nangklao (Rama III) reiterated the prohibition, and he introduced the death penalty for major opium traffickers. These efforts, however, were doomed to failure. Ethnic Chinese traffickers could be arrested and punished—but a much more powerful institution was pushing Siam to open its doors to the drug: the British East India Company, which had initiated large-scale cultivation in its Indian colonies, and was looking for new export markets in the region.

Thailand was never a colony, but that did not mean that it escaped the scourges that had followed foreign rule in neighbouring countries. Finally, in 1852, Siam's revered King Mongkut (Rama IV) bowed to British pressures. He established a royal opium franchise which was "farmed out" to local entrepreneurs, mostly wealthy Chinese traders. Opium, lottery, gambling and alcohol permits were up for grabs. By the end of the 19th century, taxes on these monopolies provided between 40 and 50 per cent of Siam's government revenue.¹

The American researcher Alfred McCoy, who has written extensively about the origin and evolution of Southeast Asia's drug trade, describes how the importance of the opium business gradually increased:

In 1907, the Thai (Siamese) government eliminated the Chinese middleman and assumed direct responsibility for the management of the opium trade. Royal administration did not impede progress, however; an all-time high of 147 tons of opium was imported from India in 1913; the number of dens and retail shops jumped from twelve hundred in 1880 to three thousand in 1917; the number of opium addicts reached two hundred thousand by 1921; and the opium profits continued to provide between fifteen and twenty per cent of all government revenues.²

But despite the ready market for opium, there was surprisingly little poppy cultivation in Thailand until the 1940s. The royal monopoly imported expensive opium from India and the Middle East, while some cheaper drugs were smuggled in from China, where large-scale poppy cultivation had begun in the mid-19th century. For not even in China is the opium poppy actually an indigenous crop; it was first introduced there in by Arab traders in the 7th and 8th centuries, became popular immediately, but was not cultivated commercially to any significant extent until about 150 years ago.

The opium poppy—*papaver somniferum*—was first discovered sometime in the Neolithic Age, growing wild in the mountains bordering the eastern Mediterranean. Ancient medical chronicles show that raw opium, scraped off the pods of the poppies, was highly regarded by early physicians hundreds of years before the Christian Era. It was known to Hippocrates in ancient Greece; during the time of the Roman Empire, it was known to the great physician Galen. From its original home in what today is Afyon (hence "opium") in Turkey, opium spread westward to the Balkan peninsula—and eastward to India and China.³

Opium was first used as a medicine in China more than a thousand years ago, but its soothing effects on the user soon turned it into what today is called a "recreational drug," and some users

began smoking instead of eating it. The Spaniards had learned the habit of smoking tobacco in South America, and they brought this custom with them to their East Asian colony, the Philippines. Smoking spread from there to China in the early 17th century. Meanwhile, the Dutch in Formosa (now Taiwan) had learned to smoke a mixture of opium and tobacco to combat the effects of malaria—and some Chinese acquired this habit as well.

Gradually, some of those who smoked began to eliminate the tobacco from the blend. Opium as a stimulant had been discovered. Yet the reasons for smoking varied considerably. For the rich it was primarily a luxury, used in the same way that affluent people today snort cocaine at fashionable parties, or take ecstasy before going to discotheques. Cheaper, diluted versions of opium helped the poor escape from their daily miseries, as heroin mixed with glucose or yaa baa does in Klong Toey or other slums today.

Although small amounts of raw opium were harvested in the Golden Triangle in the 18th and 19th century, India was the main producer of the drug for international trading. Some of India's Mughal emperors tried to tax opium sales to raise revenue for the state. No single organisation, however, in any part of Asia had the will, the networks, or the political and naval power to create new markets before the advent of the colonial powers.

Britain's move to colonise India and other parts of Asia heralded a new era in international opium trading. In 1600, the East India Company had been formed with the aim of expanding trade contacts between Britain and Asia, and between British spheres of influence in the Far East. In subsequent centuries, this trade was pursued with much vigour. The stalwart mariners of the East India Company fought their way into the highly competitive markets of Asia, followed by the armies of Britain's expanding colonial empire.

China, with its teeming millions of people, held the greatest attraction. It seemed likely to be a great market for the products of the growing British Empire; and, more importantly, China could supply goods that were becoming popular in Europe itself—especially tea. Britain, however, faced severe problems in its trade relations with China. At first, the British had little to offer that the Chinese wanted. In fact, the Chinese showed interest in only one item from Britain and British India: silver. By the late 18th century, every British ship that sailed from India to Guangzhou (Canton) carried a cargo composed of 90 per cent silver bullion.⁴

By the early 19th century, India faced a shortage of silver, and another commodity had to be found. The answer was opium, which grew in abundance in India and which was gradually becoming popular in China. Opium replaced silver as the currency of trade with the Chinese. The flow of silver from India to China was effectively halted, and after the mid-nineteenth century the silver trade had completely reversed direction. Silver was now going back to India from China to pay for opium. India had also begun its own tea production, and the loser in this game was China. India's income from the Chinese opium trade paid for constructing grand, imperial buildings in Calcutta, Madras, Bombay and other cities established by the British in India. An opium tax soon produced more than one fifth of government revenue in the vast empire of British India.⁵

But Britain was far from being China's only opium supplier. Americans also sold Turkish opium to the Chinese. Clipper ships belonging to well-respected firms such as Perkins & Company and Russell & Company of Boston transported immense quantities of opium from the Middle East to China.⁶ Persian opium was later imported by any trader in a position to do so. The American merchant W.C. Hunter used one simple phrase to describe the Chinese opium trade between 1835 and 1844: "We were all equally implicated."⁷

The Chinese government tried, at least officially, to suppress the trade. Opium was devastating China's population: scores of people became addicted to the drug. Opium smoking had actually been prohibited in China in 1729; cultivating and importing opium was specifically banned in 1799.⁸ But these edicts were ignored by all Western merchants—and the ruling Qing, or Manchu, Dynasty was too weak to enforce its policies. Moreover, local officials were too corrupt to obey orders from the Court in Beijing, or unwilling to follow directives from a dynasty of foreign emperors who originated in Manchuria.

The Qing Emperors tried time and again to stop the inflow of opium and the outflow of hard currency. Then, in March 1839, Emperor Xuanzong appointed an unusually vigorous official, Lin Zexu, as commissioner for foreign trade and sent him down to Guangzhou to stamp out the opium business. Lin demanded that the merchants sign bonds promising never to bring opium to China again, on pain of death. Some American merchants signed, but the British refused. In a series of letters to Queen Victoria, commissioner Lin appealed to the British to stop the trade. There was no response, and Lin wrote in a final, carefully worded letter to the Queen:

Let us suppose that foreigners came from another country and brought opium into England, and seduced the people of your country to smoke it. Would you not, the sovereign of the said country, look upon such a procedure with anger, and in your just indignation endeavour to get rid of it? Now we have always heard that Your Highness possesses a most kind and benevolent heart. Surely then you are incapable of doing or causing to be done unto another that which you should not wish another to do unto you.⁹

Moral persuasion has never proved very effective in dealing with drug smuggling or rulers who sanction it, and the British in Guangzhou were no exception. When diplomacy did not help, Lin decided to use force. In June, he destroyed 20,000 chests of opium, weighing 133 pounds each, which had been seized from foreign merchants' warehouses. Lord Palmerston, the British Foreign Secretary, decided to retaliate: a powerful fleet, with 4,000 soldiers aboard, was assembled. An official proclamation said that the fleet would "protect British interests." Admiral George Elliot was in charge of the overall operation, with Vice-Admiral Sir William Parker and military commander Sir Henry Gough sailing with the warships.¹⁰

High-powered British naval cannons bombarded the ports along the South China Sea to force the Emperor to open them to British merchandise—which was primarily opium from India. But not everyone agreed with this policy. William Gladstone, a young Liberal politician who later became prime minister of Britain, said: "A war more unjust in origin, a war more calculated to cover this country with permanent disgrace, I do not know and I have never read of."¹¹

The British fleet laid siege to Guangzhou, took Amoy (Xiamen) and Ningbo, and finally occupied Shanghai in July 1842, cutting off supplies to Beijing which were delivered via the Grand Canal, a massive, ancient man-made waterway that connected the Yellow River—the Huanghe—with the Yangzi. China was defeated, and on 29 August, the first treaty was signed with Britain on board the Cornwallis. Known as the Treaty of Nanjing, it required that the Chinese pay \$21 million in reparations, open five ports—including Shanghai—to British trade, and cede the island of Hong Kong to Queen Victoria.¹² The new colony of Hong Kong gave the British a tremendous advantage over other opium merchants. Trade with China became a virtual British monopoly, and Hong Kong emerged as the most important transfer point for Indian opium entering the vast Chinese market. By 1854, yearly British sales of opium amounted to nearly 80,000 chests, and China's opium smokers numbered in the millions.¹³

The opium trade, organised from Hong Kong and Shanghai, laid the foundation for many personal fortunes. The most successful entrepreneurs of all were two young Britons: William Jardine and James Matheson. Veteran Australian journalist Richard Hughes described them as "both Scottish, both religious in the stiff Calvinist way, both scrupulous in financial and personal matters, both indifferent to moralistic reflections on contraband and drugs."¹⁴ Jardine-Matheson became one of the biggest trading firms in Shanghai, and remains so in Hong Kong. Its present-day executives are conventional members of the Hong Kong business world, and few of them would like to be reminded of how their company's wealth and influence originated.¹⁵

Frictions between the Chinese and the foreigners continued after the acquisition of Hong Kong and the opening of Shanghai to foreign trade. A second opium war was fought from 1856 to 1860. China lost again, and more territory was ceded to the British. The Kowloon Peninsula was added to the British colony of Hong Kong—and the British also proposed the legalisation of the opium trade, to which the Chinese reluctantly agreed. According to the terms of the new agreement, "the importer was to sell [opium] only at the port. It was to be carried to the interior by Chinese only... and the transit dues were to be arranged as the Chinese government saw fit."¹⁶

But this was on paper only. Opium continued to be the most important commodity foreigners traded with China. Following its military defeats, the Chinese were too weak, and local officials too corrupt, to stop the drug flow into their country. Britain continued to export increasing amounts of Indian opium. In the peak year of 1880, China imported more than 6,500 tons, most of which was produced in India. But then, in the 1860s, China began to grow her own on a massive scale. After 1880 the demand for foreign opium decreased, and by 1905 imported opium amounted to roughly half the amount of 1880. By the early 20th century, China's own annual opium production has risen to 22,000 tons, providing drugs for at least 15 million addicts and many more occasional users.¹⁷

The areas of China most suitable for growing the opium poppy were in Sichuan and, most importantly, in Yunnan. Yunnan was then bordered by British Burma and French Indochina: the pro-

tectorates of Laos and Tongkin (now northern Vietnam). This mountainous region was high enough to grow the opium poppy. It had also become the home of various hill tribes, ethnically distinct from both the Chinese to the north and the lowland peoples of Southeast Asia. Some tribes—such as the Karens and various Mon-Khmer speaking hill peoples—had been living in the highlands of northern Thailand, Laos and Vietnam for centuries, even before the plains people arrived. But political instability in southern China in the 19th and early 20th century had forced the southward migration of many more hill peoples such as the Hmong, the Yao, the Lahu, the Lisu and the Akha.

The opium poppy soon became a valuable cash crop for those hill-tribe refugees. It could earn two to four times the income of wheat grown on the same amount of land. In the late 19th century, poppy cultivation spread from Yunnan into northeastern Burma, and to the hill country of northern parts of Thailand and French Indochina—which also led to the establishment of opium monopolies in all those territories, although most of the drug continued to be imported from India and the Middle East.

At an early stage, the French had turned to opium to finance their conquest of Indochina. The cities of Hanoi, Hue and Saigon already had large opium-smoking populations—primarily of the Chinese merchant class—and they were initially supplied with opium imported from China. Once in power, the French licenced several opium trading houses, which all operated according to the same rules. Merchants paid a tax to the colonial government on opium both bought in the hills of Laos and Tongkin, and imported from India and the Middle East. The drug was then sold to local consumers through shops or in opium smoking parlours.

In the late 19th century, the various French drug interests were consolidated under a single government-administered opium monopoly, a powerful agency called the *Régie de l'Opium*. Profits soared and trade was brisk. By 1900, tax on opium accounted for more than half of all revenues in French Indochina. In 1930, the territory had 3,500 licenced opium dens, or one for every 1,500 adult males. Drug abuse had spread from the upper strata of society down to coolies in the ports. A. Viollis, a French writer, describes an opium den he saw in Saigon in the 1930s:

Let's enter several opium dens frequented by the coolies, the longshoremen for the port. The door opens on a long corridor; to the left of the entrance is a window where one buys the drug. For fifty centimes one gets a small five gramme box, but for several hundred, one gets enough to stay high for several days. Just past the entrance, a horrible odour of corruption strikes your throat. The corridor turns, turns again, and opens on several small dark rooms, which become veritable labyrinths lighted by lamps which give off a troubled yellow light. The walls, caked with dirt, are indented with long niches. In each niche a man is spread out like a stone. Nobody moves as we pass. Not even a glance. They are glued to a small pipe whose watery gurgle alone breaks the silence. The others are terribly immobile, with slow gestures, legs strung out, arms in the air, as if they had been struck dead. The faces are characterised by overly white teeth; the pupils with a black glaze, enlarged fixed on God knows what; the eyelids do not move; and on the pasty cheeks, this vague, mysterious smile of the dead. It was an awful sight to see walking among those cadavers.¹⁸

In Burma, the situation was entirely different. The old Burmese kingdom had been conquered in stages from 1826 to 1885 and made a province of British India. Between Britain's new colony and French Indochina lay Thailand, or Siam, which survived as an independent buffer state between the two colonial powers. But to the north of Thailand—and between Burma, Yunnan and French Indochina—was an area too politically and ethnically diverse to become a separately-run buffer territory. These were the rugged Shan hills, where hill tribes lived in the highlands and rice-growing, Buddhist Shans—cousins of the Thais and the Lao—populated the fertile river valleys. But unlike the Thais, the Shans had no unified kingdom. They were ruled by dozens of different princes, and in order to "pacify" this uncontrollable and potentially dangerous hill country, the British conquest was extended up into the Shan hills. By 1890, this area was also brought under British rule. However, the thirty-or-so Shan principalities were declared protectorates, and not made part of Burma proper. The princes were allowed to retain their titles, and were left more or less alone—as long as peace prevailed in their tiny states.

Small quantities of opium—before World War Two perhaps 30 tons or so per year— were grown in these highlands, and opium taxes produced some income for the Shan princes. But the cultiva-

tion was restricted to some remote hill areas east of the Salween river: Kokang, a district dominated by ethnic Chinese, and the wild Wa Hills, where people were headhunters well into modern times. The trade was strictly controlled by the colonial authorities under the 1910 Opium Act and later by the 1938 Opium Rules.¹⁹

Opium was a state monopoly, and a Resident Excise Officer was stationed at each vendor's shop to supervise sales and to verify that surplus opium was discarded every evening. A British government report from 1909 stated:

Licences are allotted to selected vendors at a fixed fee and the profits are determined by the difference between the wholesale rate at which opium is issued from the Treasury and the retail price at which the vendor is required to sell to customers... the receipts are growing steadily but do not yet cover expenditure.²⁰

So opium use was not that widespread. In fact, there is only one reference to opium in the main pre-war anthropological study of the Shans, written in 1910 by Leslie Milne: "No religious Shan takes opium, so it is not openly used as a medicine, but native doctors use it occasionally mixed with herbs."²¹

The situation was under much less control in China. In London, Christians and liberals argued intensely and emotionally that the opium trade from British India was immoral. Their efforts had succeeded in 1917, when India's opium exports to China were banned. But by then many Chinese warlords were already encouraging China's hill tribes to cultivate poppies so that an opium tax could pay for their troops. The Emperor in Beijing had been overthrown by a revolution in 1911-12, and something approaching civil war was raging in many parts of China.

The collapse of the millennia-old Chinese empire brought chaos and rivalry between several new, republican contenders for power. And the seeds of future conflict had already been planted—not only in southern China, but also in the remote highlands of Southeast Asia's Golden Triangle.

The Post-World War Two Opium Boom

World War Two altered not only in the political map of Asia—independence for India in 1947 eventually led to the end of colonial rule in the world's most populous continent—but also had a dramatic impact on Southeast Asia's opium trade. Touby Ly Fong, chief of the Hmong tribe in Laos and an official in the French *Régie de l'Opium* between 1939 and 1945, described how the war affected Laos:

Before World War Two, the French government bought opium in Afghanistan and India, and warehoused it at Hanoi. During the war, when they could no longer import it, they encouraged local poppy-growing so that the Chinese, the Vietnamese and French smokers in the colony could still get their supplies. The Lao themselves have never smoked much. The crop was grown mainly by Hmong tribes and the Yaos, and to some extent by the Lahus and the Lisus.²²

At first, the French tried to deal directly with the producers, which failed because payment could not be made until the French knew the morphine content of the opium, which could take several weeks. The impoverished hill-tribe growers could not wait that long, so the French employed middlemen, usually Chinese merchants who had some capital and were able to advance money. These brokers paid for the opium in cash, making sure that there was a handsome margin between the price they paid the peasants and the payment they received from the French authorities. The middle-men grew rich on the deal—but the hill tribes remained as poor as they had ever been.

On average, the French bought 40 tons of opium a year from these middle-men in Laos.²³ The consumers were to be found in Hanoi, Saigon, Vientiane and other lowland cities. Only in the French-protected kingdom of Cambodia was there very little drug abuse. Cambodia was too flat, hot and humid to grow its own opium—though some was imported and sold through government-licenced opium dens in the capital Phnom Penh. In the wake of the war, the mountains of northern Laos and northwestern Tongkin (now northern Vietnam) took over from India and the Middle East as the main supplier of opium to consumers all over French Indochina.

In Burma, the sleepy and stagnant Pax Britannica came to an abrupt end when the Japanese overran and occupied the country in 1942. Fierce battles were fought in the Shan hills between the

Japanese Imperial Army and Nationalist Chinese Kuomintang (KMT) units, invited by the Allies and dispatched by Chiang Kai-shek's commanders in Yunnan. The Allies and the Japanese each in turn bombed Shan towns and the country went into a state of chaos and destruction.

Alongside the Japanese fought the Burmese nationalists, organised in the Burma Independence Army (BIA) and commanded by Aung San, a spell-binding young personality often referred to as "the George Washington of Burma." One year before the Japanese invasion a group of thirty young Burmese, known as "The Thirty Comrades," had secretly left Burma to get military training on the Japanese controlled Chinese island of Hainan. They had been taken in by the Japanese war cry "Asia to the Asians!"

However, the BIA was not allowed to enter the Shan States or any other frontier areas. The Japanese, like the British before them, treated the Shan States as a separate political entity. They even handed over the biggest of them, Kengtung (32,000 sq. km), along with the smaller state of Mōng Pan (7,700 sq. km.), to Thailand, which was allied with Japan during the war²⁴. Later, when the group led by Aung San realised that Japan was interested only in a puppet regime in Burma, the BIA contacted its former enemies, the British, and the Burmese nationalists were reorganised into the Anti-Fascist People's Freedom League (AFPFL).

These tactical mistakes of the Burmese nationalist movement during the war widened the gap between the Burmese and the various frontier peoples who were, generally speaking, more pro-British than the Burmese. Many minority peoples—notably the Karens and the Kachins—had actually fought against the Japanese throughout the occupation, and distrusted the Burmese nationalists whom they viewed as "collaborators." And many Karens had been butchered by overzealous BIA units, further exacerbating the lack of trust in the Burmese nationalist movement.

When British rule was restored after the war, Aung San and his nationalists carried on their struggle for independence. The process might have taken a longer time, had it not been for the political upheaval in neighbouring India. In 1947, it was clear that India was going to become independent—and the British saw no reason to cling on to Burma, which as a colony had been first part of, and later ancillary to, the British possessions in India. On 27 January 1947, Aung San and the British Labour Prime Minister Clement Attlee signed an agreement which was going to give independence to Burma the following year. But what shape independence would take was still unclear. When Aung San attended meeting with the British in London, the Shan princes sent a telegram to Attlee stating that he was representing the Burmese only, and not the frontier peoples.

Despite the difficulties, the leaders of the Shan, Kachin and Chin peoples met a few weeks later at the market town of Panglong north of Loi Lem in the Shan States. They also invited Aung San, and an agreement was signed. The hill peoples agreed to join a proposed Union of Burma, provided they were granted local autonomy within their respective areas. The day when the Panglong Agreement was signed, 12 February, has since then been officially celebrated in Burma as Union Day, a national holiday. The Shan princes also asked for, and were granted, the right to secede from the proposed Union of Burma, should they be dissatisfied with the new federation. This right was ensured under the first Burmese constitution.²⁵

On paper, everything was ready for the declaration of the independence of the Union of Burma—which was going to take place at an auspicious hour at dawn on 4 January 1948—when an event occurred that was as unexpected as it was tragic. On 19 July 1947, the Burmese nation was shocked by the message that Aung San had been assassinated, along with eight of his closest associates. The state of affairs when Burma achieved its independence in 1948 could hardly have been worse. The country had suffered some of the severest air strikes in Asia during the war; the countryside was ravaged and the infrastructure almost destroyed. The inner circle of competent leaders had been murdered even before independence had been proclaimed. The new leader and independent Burma's first prime minister, U Nu, was a talented, intellectual politician but hardly the strong statesman Burma needed during its first, difficult years of independence. Army units rose in mutiny, the Karen minority took up arms and demanded a separate state, and the communists went underground to organise guerrilla forces.

In an attempt to forge national unity, the Shan leader Sao Shwe Thaik—the prince of Yawngnhe state—had been given the ceremonial post of the first President of the Union of Burma. But events in the Shan States thwarted such attempts to placate the increasingly restless hill peoples.

Following the victory of Mao Zedong's communists, and the proclamation of their People's Republic of China on 1 October 1949, Chiang Kai-shek's main KMT force retreated to Taiwan, where his "Republic of China" lived on after the loss of the mainland. Fighting continued for sev-

eral months in some remote parts of China, including Yunnan, but the communists emerged victorious even there. In January 1950, hundreds of defeated KMT forces from Yunnan—unable to withstand the attacks of the Chinese communists, and also unable to join Chiang Kai-shek's main force on the island of Taiwan—crossed over into Shan territory in northeastern Burma. Later led by wartime hero Gen. Li Mi, they in effect invaded the mountains of Kengtung and also ensconced themselves in the hilly region surrounding Mōng Hsat, close to the Thai border.

The KMT forces in the Shan hills contacted Taiwan through its embassy in Bangkok—and it was decided not to evacuate them to Taiwan, but to turn the Nationalist Chinese soldiers in the Shan hills into a "liberation army," which would build up bases in northeastern Burma—and from there try to retake China from the communists. The tiny Mōng Hsat airstrip, built during World War Two, was reconstructed into a formidable air base, capable of receiving C-46 and C-47 transport planes, which brought in arms, ammunition, and medical supplies. The KMT also recruited new soldiers from the border areas—mostly Lahu hill-tribesmen—and gave them military training. The Kengtung-based "secret" KMT army tried on no less than seven occasions between 1950 and 1952 to invade Yunnan, but was repeatedly driven back into the Shan States.²⁶

The Burmese army was sent to the Shan States to rid the country of its uninvited guests—but was unsuccessful. U Nu then raised the question in the United Nations General Assembly which, on 22 April 1953, adopted a resolution demanding that the KMT lay down its arms and leave the country. Thousands of KMT soldiers were evacuated to Taiwan by special aircraft with pomp and circumstance—at the same time as reinforcements were being flown in to Mōng Hsat by nightly flights. Thus, the number of KMT soldiers in the Shan States increased to 12,000 by the end of 1953.

The Burmese army failed to defeat them, but managed to drive some of the units across the Salween river into the Wa hills and Kokang, traditionally the best opium growing areas of the Shan States. The KMT had become involved in the Golden Triangle opium trade earlier on, but they were now able to trade more directly. They enlisted the support of Olive Yang (Yang Jinxiu or Yang Kyin-hsui), the leader of the ethnic Chinese district of Kokang. Known locally as "Miss Hairy Legs", this unfeminine woman, still in her early twenties, came to command her own army of nearly 1,000 men.

Like so many other children of aristocratic Shan States families, Olive Yang had attended the prestigious Guardian Angel's Convent School in Lashio. Former classmates remembered that their parents warned them not to play with the odd little girl: "Stay away from Olive!" they used to say. "She's got a revolver in her schoolbag."

When Olive finished her education, she no longer had to hide her gun. She was formally proclaimed ruling princess of Kokang and went about the district in a grey uniform, with a Belgian army pistol on each hip. Backed by the KMT, Olive became the first warlord—or should one say warlady—who would send opium by convoys of trucks instead of mules down to the Thai border. On these occasions, heavily armed Kokang troops—called "Olive's boys"—lined the roads to provide security.

The money she earned from these operations was used to arm and equip her army— and to buy lavish gifts for her lover, the famous Burmese film actress Wa Wa Win Shwe. Olive's troops traded with the KMT, and their armed support added to the general instability of the frontier areas. This kept the Burmese Army occupied and split up on several different fronts, which benefited the KMT. The Nationalist Chinese involvement in the Golden Triangle opium trade was openly explained by one of the KMT's most famous generals, Tuan Shi-wen (Duan Xiwen):

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.²⁷

This statement prophetically described why so many other armed groups in the Shan States—including the Burmese government's own army and local militia forces—would become involved in the complex politics of the Golden Triangle drug trade.

To finance its secret war against Mao Zedong's communists in China, the KMT turned to almost the only cash crop of any significance in the Shan hills: opium. In 1950, when the KMT had first entered the area, the annual production there had amounted to a mere 30 tons. But the KMT persuaded the hill-tribe farmers to grow more opium; they introduced a hefty opium tax that forced

the farmers to grow even more in order to make ends meet. By the mid-1950s, opium production in the Burmese sector of the Golden Triangle had shot up 10-20 times, to an annual yield of 300-600 tons. And more sons of the hill-tribe farmers were recruited to fight for a cause they knew little about.

The KMT conducted a reign of terror from its strongholds in the Shan hills. According to Elaine T. Lewis, an American missionary who was working in Kengtung state in the 1950s:

For many years, there have been large numbers of Chinese nationalist troops in the area demanding food and money from the local people. The areas in which these troops operate are getting poorer and some villagers are finding it necessary to flee.²⁸

Thousands of hill-tribesmen, mainly Akha from the hills north of Kengtung close to the Chinese frontier, where the KMT has its secret bases, left their homes and settled in Chiang Rai province in northernmost Thailand, where they still remain. Many Lahus also migrated to Thailand, which already had a fairly substantial Lahu population in the northern hills.

The KMT effort in the Golden Triangle also involved the US Central Intelligence Agency: this was the first in a series of clandestine CIA operations against undesirable regimes in the Third World, and it was later to be followed by similar missions in Tibet, Laos, the Congo, Angola, Afghanistan, Cambodia and Nicaragua. In fact, institutions and individuals who were later prominent in other covert operations got their first experience and training in the Golden Triangle. The best known of them was Col. Paul Helliwell, who operated the local transport company that flew supplies from Thailand to the KMT in Mōng Hsat. In the late 1950s, he moved to Miami where he became an important figure in the failed Bay of Pigs invasion and other CIA battles against Fidel Castro in Cuba.²⁹

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.

The KMT invasion, combined with the government's inability to repel the invaders, meant that the Shans—and the hill tribes as well—became squeezed between two forces, both of which were perceived as foreign. The KMT was conducting a reign of terror from its mountain strongholds—but, on the other hand, reports were reaching Rangoon that the government forces had been no better in their treatment of the village people in the Shan countryside.

Shan students at Rangoon University began to organise a movement which sought to strengthen Shan culture and literature—and which also became increasingly antagonistic towards the government's army. The Burmese government viewed this development with unease, especially since the constitutional right to secede from the Union would come into effect in 1958. It tried to suppress the fledgling Shan nationalist movement by using the army and its Military Intelligence Service (MIS), but the outcome was counterproductive: groups of young Shans moved into the jungle, where they organised armed guerrilla units. In 1959, the first battles took place between the government's forces and the Shan rebels.

Attempts were made to solve the crisis by political means. In 1959, the Shan princes renounced all their powers at a grand ceremony in Taunggyi—and their duties were taken over by a democratically elected Shan government. The Shan States became Shan State, and a movement also began to try to save the Union by strengthening its federal character. U Nu was willing to listen, and in February 1962 the Burmese government convened the Nationalities' Seminar in Rangoon in order to discuss the future status of the frontier areas, or the Constituent States, as they were now called. All the government ministers, Members of Parliament, heads of the Constituent States (at that time Shan State, Kachin State, Karenni or Kayah State, and Karen State) and their state ministers attended this seminar.

But on 2 March 1962, before any decision had been taken, the chief of the army, General Ne Win, staged a *^* and detained all the participants of the meeting. He also abolished the old, federal constitution and introduced military rule headed by a "Revolutionary Council" with himself as its chairman. The Shan leader Sao Shwe Thaik was arrested, and he died in prison a few months later. Another prominent Shan prince, Sao Kya Hseng of Hsipaw, was also taken away by the army and never seen again. The army claimed that it had to intervene to "save the Union from disinte-

gration." But instead, rebellions flared anew in Shan State—and new rebel armies emerged in Kachin State and many other parts of the country. Burma's frontier areas were plunged into chaos— and, as a result, opium production began to increase even more dramatically.

The Burmese Way to Ruin

The most pressing problem the new insurgents armies in northeastern Burma's frontier areas had to face was finding financial backing for their armed struggle against Burma's new military government. With no external support, funds had to be raised from the resources of their own respective areas. The Kachin rebels quickly gained control over the jade mining district around Hpakan in western Kachin State. But in Shan State there was no similar source of income for the insurgents. One commodity, however, was already well established at the beginning of the rebellion and could bring in cash: opium. Although the actual trade remained in the hands of well-connected, ethnic Chinese businessmen, the rebels controlled the countryside where the poppies were grown and were thus able to tax the business.

The KMT invasion and the devastation of the countryside had severely damaged the rice-based economy of Shan State. Farmers had to become porters for the government troops during their offensives against the insurgents. Many of them left their paddy fields and took to the hills where the opium poppy was the only viable crop they could grow—and the demand for the drug was increasing steadily. The poppy had previously been cultivated by the hill tribes and the Kokang Chinese; now many impoverished Shan farmers also took up opium farming.

Furthermore, up to the mid-1960s only opium was traded in the Golden Triangle, but the war and the chaos in the frontier areas now enabled private armies run by local warlords to carve out their own bailiwicks where their troops protected a new phenomenon: laboratories where raw opium was refined into morphine and, later, heroin. Skilled chemists were brought in from Hong Kong and Taiwan, and enormous profits were made from the trade in this, for Southeast Asia, new, expensive and very dangerous drug. Southeast Asia's first heroin refineries were established in the mid-1960s in the hills near Ban Houay Xay in Laos, across the Mekong river from Chiang Khong in Thailand. Later new refineries were established on the Thai-Burmese border as well. The economic policies of Gen. Ne Win also contributed to the rise in drug production that occurred in the mid- and late-1960s. His "Revolutionary Council" announced that the country now had to follow a new ideology called the "Burmese Way to Socialism." Its effects on the opium trade has been explained by Chao Tzang Yawngnhe, one of the sons of Shan leader and Burma's first president Sao Shwe Thaik:

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.³⁰

Within a few years of this disastrous experiment with "socialism," more than 80 per cent of all consumer goods available in Burma were smuggled in from neighbouring countries, primarily Thailand. Opium—and increasingly heroin—became the medium of exchange, as the Burmese Kyat had become worthless for trading with other countries. A new class of traders also emerged: experienced Panthays, or Yunnanese Muslims, traditionally the best muleteers in the Golden Triangle. The Panthays, who are called Hui in China and Haw in northern Thailand, had excellent contacts all over the region.

The 1962 coup and the escalation of warfare threw Shan State into anarchy. The situation deteriorated even further when China, long wary of the unpredictable general in power in Rangoon, decided to lend open support to its Burmese sister party, the Communist Party of Burma (CPB). Poorly armed CPB guerrillas had managed to hold out in remote pockets here and there in the country, but in 1968 China sent in arms, ammunition, medical supplies, and even military instructors and volunteers to support the CPB. Within less than ten years, this "new" 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. 15,000- 20,000 heavily armed troops—most of them local hill-tribe recruits commanded by Burmese communist ideologues—guarded this de facto buffer state between Burma and China.

Apart from a desire 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. The KMT was forced to retreat down to the Thai border, where they reached an understanding with the Thai authorities. They acted as a buffer and unofficial "border police," and sent soldiers to protect road construction crews in sensitive areas in Thailand where the Communist Party of Thailand (CPT) was active.³¹ Some KMT units even participated actively in counterinsurgency campaigns against CPT strongholds in Thailand.³²

On the Thai border, the KMT was reorganised into the 3rd and 5th regiments, commanded by Gen. Lee Wen-huan (Li Wenhuan) and Gen. Tuan Shi-wen (Duan Xiwen) respectively. Even before the CPB's takeover of Kokang, the Wa hills and the area north of Kengtung, Gen. Lee had established his headquarters at Tam Ngob, northwest of Chiang Mai, and Gen. Tuan at Mae Salong further to the north. But as the importance of the KMT grew along the border, so did these previously relatively small base camps. Mae Salong, especially, developed into a prosperous town with shops, restaurants and even tourist resorts.

Both the 3rd and the 5th KMT regiments established "tax stations" along the border, where they collected "customs duty" on opium convoys reaching Thai territory. Inside Shan State, they operated through allies working on their behalf. In 1964, several Shan rebel groups had united under one banner—the Shan State Army (SSA)—first headed by Sao Nang Hearn Kham, the widow of Sao Shwe Thaik. The SSA remained fiercely opposed to the KMT—its terror was one of the reasons why the Shans had taken up arms in the first place—but one of her men, Mo Heing, broke away to set up his own Shan United Revolutionary Army (SURA). This group found sanctuary at Pieng Luang on the Thai border west of Chiang Dao, an area which was under Gen. Lee's unofficial jurisdiction.

Rangoon soon became incapable of overcoming the innumerable rebel armies. In order to fight the insurgents, Gen. Ne Win had in 1963 authorised the setting up of local home guard units called Ka Kwe Ye (KKY, the actual meaning in Burmese is "defence"). They were given the right to use all government-controlled roads and towns in Shan State for opium smuggling in exchange for fighting the rebels. By allowing them to trade in opium, the Burmese government hoped that the KKY militias would be self-supporting; there was hardly any money in the central coffer in Rangoon to support a sustained counter-insurgency campaign at this stage.³³ Many KKY commanders actually became rich on the deal. The most famous were Lo Hsing-han (Luo Xinghan), the chief of Kokang KKY, and Chang Chifu (Zhang Qifu) alias Khun Sa, who headed the KKY unit in Loi Maw near the Burmese army's garrison town of Tang-yan. Lo fought alongside the Burmese army against the CPB in the early 1970s, and Khun Sa guarded the banks of the Salween river opposite the Wa hills, one of the CPB's most important strongholds. In this truly confused imbroglio, it soon became impossible to say where drug-running ended, and insurgency, counter-insurgency and espionage began. By the late 1960s, the components of the emerging opium hierarchy could be described in this way:

- The farmers who grew the poppies earned a pittance for months of laborious work. They were mostly hill-tribes, such as Kachin, Lahu, Wa, Lisu, Palaung and Akha, but there were also poor, ethnic Chinese peasants from Kokang and other areas in the hills east of Kutkai and Hsenwi in northeastern Shan State. Despite living at subsistence level, they had to pay "taxes" to various rebel groups claiming their areas, and bribes to various government officials who were supposed to enforce the law. In the

1960s and 1970s, an estimated 40 per cent of all poppy fields in Shan State were located in Kokang and Hsenwi states, 15 per cent in the Wa Hills, nearly 15 per cent in Möng Yai state, 10 per cent in Kengtung, and the remaining 20 per cent in Möng Pan, Möng Hsu, Möng Nawng, Möng Nai, and Hsi-Hseng in south and central Shan State.³⁴

The rebels who operated in the poppy growing areas collected tax from the farmers, but the most politically motivated of the groups, the SSA, was never involved to any appreciable extent in the opium business. No more than 1,000 *viss*, or roughly 1.5 tons, was grown in the SSA area south of the Hsenwi-Lashio road and north of Kehsi Mansam. This harvest was less than 0.2 per cent of all the opium produced in Shan State at that time. The SSA nevertheless levied a 10 per cent opium tax on the growers, another 10 per cent on the buyers, and an additional tax for traders and caravans passing through their territory.³⁵ Opium tax paid for the rebels' arms purchases in Thailand and Laos.

The merchants who bought the opium from the farmers and paid tax to the rebels were—and still are—respectable, local businessmen who live quite openly in government-controlled market towns. They sent their agents to the hills to purchase opium, and then used various armed bands to transport the drugs to the refineries along the Thai border or in Laos. The front for a middleman operation like this could be an ordinary trading house, doubling as a wholesaler of potatoes, pork or consumer goods.

The KKY units were often hired by the merchants to convey the drugs. Many KKY commanders were also merchants themselves. If Lo Hsing-han or Khun Sa, for instance, conducted a convoy down to the Thai border, they would be carrying their own opium as well as drugs belonging to other merchants, most of whom did not have their own private armies. A fair number of the merchants were Panthay Muslims, who remained quietly in the background despite all the turmoil, trading in opium through proxies.

The KKY commanders usually carried their opium to the market town of Tachilek, near the border junction between Burma, Laos and Thailand. There, the opium was exchanged for bars of pure gold, hence the area's nickname "the Golden Triangle". Opium money was also used to finance the purchase of the consumer goods which the commanders took back as return cargo in their lorries and mule trains.

The Burmese government was supposed to enforce the law, which officially prohibited drug trafficking. But lacking the power and the political will to do so, government officials were usually content with receiving "tea money" from private merchants and various KKY commanders. Some of the return cargo brought back by the KKY, especially fancy furniture, was given to civilian officials as well as military officers to lessen their possible irritation with the trade.³⁶

Government troops sometimes provided security for the KKY's convoys. They also often cooperated with the KKY in the battlefield, in line with the actual purpose of the programme. The garrison town of Tang-yan, strategically located between Loi Maw, Loi Sao, Loi Tao and the other main opium growing areas in northern Shan State, developed into the most important centre for the trade.

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.³⁷

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. For historical reasons, Taiwanese agents were especially active, working with not only the remnants of the KMT but also with some of the KKY forces. Since some of these were led by ethnic Chinese from Burma, a relationship was not difficult to establish. Lo Hsing-han of the Kokang KKY was closely connected with Taiwanese intelligence.³⁸ Taiwan's links with Khun Sa's Loi Maw KKY were maintained through Chang Shu-chuan (Zhang Suquan), alias Sao Hpalang, a former KMT officer of Manchurian origin who had come to Shan State from Laos in the 1960s. The CIA used as many of the KMT's contacts as possible as their own intelligence assets, and recruited mercenaries to fight another "secret war" against North Vietnamese troops and local communists in Laos.

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 syndicates operated independently, but since most of them were dom-

inated by ethnic Chinese often connected with the so-called Secret Societies, or Triads, in Taiwan, Hong Kong and Macau, links with the KMT and some of the KKY forces were easily established. These crime gangs remain one of the main obstacles to a solution to the conflict in Shan State since it is in their interest to perpetuate the state of anarchy that makes the drug trade possible. Given the vast amounts of money they possess, their power and influence—as well as their ability to manipulate local rebel leaders, government officials and drug enforcement agencies—is considerable. Perhaps significantly, international law enforcement agencies seldom turn their attention in the Triads' direction, but tend to concentrate their efforts on the armed bands—and hill-tribe peasants—inside Shan State, as if they had contacts in Hong Kong, New York and Amsterdam.

The couriers were perhaps the most visible links in the narcotics chain since they were often caught and exposed by the media. A courier could be anyone who was hired by the syndicates to carry drugs from one place to another. The couriers were often conveniently—but incorrectly—referred to by the media as well as law enforcement agencies as "drug traffickers"—perhaps to deflect attention from the syndicates, which seemed to be above the law.

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. Although most of the narcotics from the Golden Triangle was destined for foreign markets, it is often forgotten that drug abuse was—and still is—widespread in tribal villages in the Golden Triangle, causing enormous social problems locally. In the 1960s, in some opium growing villages in the Golden Triangle the addiction rate was already as high as 70-80 per cent of all male inhabitants.³⁹

However, the entire KKY programme was a political failure from the government's point of view. Instead of fighting the insurgents, the KKY commanders had to negotiate tax agreements with them—since they controlled the countryside—in order to conduct the opium convoys down to the refineries on the Thai border. In 1973, the KKY were therefore disbanded. Lo Hsing-han went underground and briefly teamed up with the SSA, until he was arrested in Thailand in August 1973 and deported to Burma. A court in Rangoon sentenced him to death—not for opium trafficking, which he had carried out with the government's unofficial permission, but for "insurrection against the state", in other words his brief alliance with the SSA.⁴⁰

Khun Sa had been jailed in 1969, but was released in 1973 after his followers kidnapped two Soviet doctors at the hospital in Taunggyi. He returned to the Thai border, where he built up a new working relationship with both the Thai and Burmese military authorities. Officially, he now headed not a government-recognised militia unit, but a "rebel army" called the Shan United Army (SUA). However, the absence of any fighting between the SUA and the Burmese army lent credence to the suggestion that the idea behind the KKY programme was not abandoned, just reshaped. To please the Thais Khun Sa, like the KMT, sent troops to protect road construction crews in insurgent areas. Despite occasional arrests, shifting alliances and new players in the game, it was business as usual in the Golden Triangle.

The War on Drugs

It was not only the Burmese government that had chosen the wrong strategy in the Golden Triangle Opium War. By directly and indirectly supporting various dubious players in the Golden Triangle, the United States had also made a grave mistake. The new drug heroin had become extremely popular, and, in the late 1960s and early 1970s, the largest clientele was to be found among the American soldiers in Vietnam. When the GIs gradually returned home, the narcotics problem went from Saigon's army barracks to the middle-class suburbs in the United States. The public became alarmed and the authorities started taking measures aimed at solving the drug problem.

In a televised speech, US President Richard Nixon launched his famous "War on Drugs", and Washington's first step was to build up its powerful Drug Enforcement Administration (DEA). But already involved in a controversial war in Vietnam, Washington quickly realised that aid and assistance had to be subtle. Some of the aid was more conveniently channelled through a newly established United Nations agency. According to an official US document:

Through the initiative of the United States, the United Nations Fund for Drug Abuse Control (UNFDAC) was established to provide voluntary contributions to enable the United Nations and its narcotics organisations to increase their narcotics control assistance to member governments. Moreover, the Fund has served as an essential supplement to US efforts in those countries which prefer to receive assistance from multilateral rather than bilateral sources.⁴¹

Millions of dollars were funnelled into the hill-tribe economy of the Golden Triangle to provide the opium farmers with substitute crops. The poppy fields and the so-called "drug kingpins" became the most important targets of American drug enforcement in Southeast Asia, and results soon began to show in Thailand. Thailand's opium production had increased in the 1950s—as was the case in French Indochina, the cut-off of supplies from India and the Middle East during World War Two, and a post-war ban on opium in Iran in the mid-1950s, had prompted Thailand's opium merchants to encourage production locally. But Thailand's production remained modest compared to that of Burma and Laos; the annual yield amounted to no more than 50-100 tons before crop substitution efforts were introduced.

With its modern infrastructure, sophisticated marketing mechanisms, massive aid from abroad—and political stability—Thailand had no problem reducing its opium production to approximately 20 tons within less than ten years.⁴² The latest report from the US State Department shows that Thailand is now virtually opium free—in 1999 the area planted in opium poppies fell to below 1,000 hectares for the first time since records were begun in the early 1970s.⁴³

But Thailand's role in the international narcotics trade had never been that of a major opium producer anyway. Thailand's excellent infrastructure was needed to transport the drugs from the rugged hills of northern Burma and Laos on to world markets in East Asia, Australia, North America and Europe. Thailand was also the only country in the Golden Triangle area which had a developed banking system. Thus, Thailand's main function in the trade has always been that of a transit country, and where the financiers were based—and that did not change, despite impressive reductions in the country's yearly opium harvests.

The Thais were also caught in a dilemma. They needed support from the nations concerned about communism and drugs, but many drug trafficking bands had for years been closely connected to Thailand's security agencies, and the Thais benefited economically from the trade. Chiang Mai, therefore, became the base for a number of highland development programmes—as well as the place where several prominent drug traffickers lived, and where laundered drug money was reinvested in the local economy.

In the mid-1970s, Charlie Win, a young Sino-Burmese who had kidnapped the two Soviet doctors in Taunggyi in April 1973 to secure Khun Sa's release, had been rewarded by the kingpin with a trading house in Chiang Mai. The company, Saha Charoenmit, officially dealt with jade and other precious stones, but it also served as a Shan United Army (SUA) warehouse in the city. Located around the corner from Moon Muang Road, Chiang Mai's main tourist strip, where foreigners gathered for fruit shakes and cheap Thai food, it was conspicuous with its solid iron gate and the high wall that surrounded it.⁴⁴

Kuomintang (KMT) Gen. Lee's presence in Thailand was even more blatant. He continued to live in his fortified villa on Faham Road in Chiang Mai, and had even acquired Thai citizenship after a "resettlement deal" in early 1972. Washington had contributed US\$1 million to the deal which had included a drug burning show in which 26 tons of opium had been publicly burnt. Gen. Lee had stated that he was washing his hands of the trade. Some observers, however, were not so convinced:

These 26 tons of what was said to be opium was burnt, although witnesses have privately testified the smell was that of burning soya-beans and banana, and not the unmistakable pungent, sticky odour of burning opium; the ex-KMT then, not surprisingly, proceeded to demand additional payment for their destruction of another ton, the 27th ton.⁴⁵

The 3rd and the 5th KMT were renamed "Chinese Irregular Forces" (CIF) and permitted to remain on Thai territory. The CIF was also placed directly under the control of the Supreme Command in Bangkok; a special task force, code-named "04", was set up to supervise the ex-KMT in Mae Salong, Pieng Luang and Tam Ngob. The status of the new CIF was further enhanced in October 1977, when Thailand—then ruled by a military junta—deposed its civilian figurehead, Thanin Kraivixien, and Gen. Kriangsak Chomanan became Prime Minister. A former commander of the 3rd Thai Army Region, which encompasses the entire north of the country, Kriangsak had been the one to negotiate Khun Sa's release from jail in Mandalay in 1974. His relationship with the ex-KMT forces was even stronger: to express their gratitude for all the sympathy Kriangsak had shown them, Gen. Tuan Shi-wen's (Duan Xiwen's) men had built a vacation house for the Thai general in Mae Salong.⁴⁶

There was also rampant corruption. In 1977, several names of prominent drug traffickers who were living in "palatial splendour" in Thailand were mentioned in a testimony given by congressman Lester Wolff before the Select Committee on Narcotics Abuse and Control of the US Congress. One of them was Chang Kai-cheng, or Thawee Sakulthanapanich, who resided in Bangkok, Chiang Mai and Mae Sai. He moved in high business circles, and owned or co-owned the Broadway Hotel and the Bai Cha-Hom Tea Company in Bangkok, a trucking and a hardware company in Chiang Rai—and had excellent narcotics connections in Hong Kong, Singapore, Malaysia, the Netherlands and the United States. Another was Chang Chen-ch'eng, aka Suthep Banjapokee, who lived

in Bangkok in a beautiful modern home which has an underground room used for gambling and smoking opium...he owns the Victory Hotel in Bangkok and a jewelry store at the rear of the hotel called Beauty Thai Silk...he began to make considerable amounts of money in 1968 when Thailand's armed forces participated in the Vietnam war. This effort gave him the opportunity to smuggle large quantities of heroin to Saigon for sale to American soldiers.⁴⁷

Sha Ming, who ran a big heroin refinery near Chiang Rai and who had enjoyed a good relationship with Kokang Ka Kwe Ye (KKY) commander Lo Hsing-han before his arrest, was mentioned as another prime mover of narcotics from the Golden Triangle to the world market. Sha Ming had moved to Thailand from Burma in 1961. He ran a heroin refinery near Ban Houay Xay in Laos, and another in Tachilek in Shan State, where he operated closely together with Lo Hsing-han and other KKY home guard commanders.

Still another was Ma Hseuh-fu, a Yunnanese who had fled to Burma after the communist takeover in China. He made his first fortune as an opium merchant in Shan State, and moved to Bangkok in 1964, where he ran the June Hotel and several tea companies. The June Hotel was popular with American Peace Corp volunteers in the 1960s. Many of them stayed there, and its coffee shop was a popular meeting place for the young Americans while on leave from their upcountry stations.⁴⁸

Ma's Cha Mon Tea Company in Bangkok served as a front for the transshipment of large quantities of heroin into international markets. A member of the Triads, the Chinese secret societies, he was closely connected with ex-KMT Gen. Lee.

Lee's rival Khun Sa was connected with other networks. Heroin, which had been refined in laboratories under Khun Sa's control, was marketed in northern Thailand by Ma Cheng-wen, a Yunnanese Muslim (Panthay) born in Burma. He came to Thailand as early as 1963 and later became head of the SUA's office in the border town of Mae Sai, opposite Tachilek in Burma, where one of his duties was to procure and distribute chemicals for the heroin refineries along the border. He operated behind the front of the I-Chin Mining Company in Chiang Mai.⁴⁹

An important connection with Bangkok's Chinese community was Lu Hsu-shui, better known by his Thai name, Vichien Vajirakaphan. He owed the Lung Feng gold shop in the heart of Bangkok's bustling Chinatown. The shop, which was opened in 1971, was used to finance Lu's narcotics trafficking. Lu was born of a poor Chinese family in Bangkok, and made his start in the narcotics business by trading opium for gold with the KMT in northern Thailand. Some of Lu's profits were invested in the popular Chiang Inn Hotel next to the night bazaar in Chiang Mai.⁵⁰

An anonymous "American living in Thailand" wrote in a letter to congressman Wolff in July 1977:

There are several strong reasons for the Thais to unofficially countenance the presence of these groups [the SUA and the ex-KMT forces] along the northern border. Of practical importance is the valuable intelligence the Thais receive from them about communist activity in northeastern Burma. The Communist Party of Burma has control of around half the opium harvest, and it disposes of the raw opium by selling it to traders...the volume has become such that the northwestern Thai towns' economy has become an appendage of it. Profits from the sale of opium and heroin are generally reinvested in another illegal trade: basic dry goods and things like radios are brought from northern Thai merchants for shipment across the border and illegal sale in Burma. If the narcotics traffic is forcibly stopped, the economy in the area will be wrecked.⁵¹

By the early 1980s, the Communist Party of Thailand (CPT) was almost defeated through a series of military operations—in which KMT/CIF forces took an active part—and a cut-off of aid from China, which followed in the wake of Vietnam's invasion of Cambodia in December 1978-January 1979. China decided to support the Khmer Rouge-led, anti-Vietnamese resistance, and the only way to do that was through Thailand. The Thais agreed to let arms shipments through to the Khmer resistance—if China ceased its support for the CPT. The Thai government also initiated a generous amnesty policy. No former guerrillas were arrested or prosecuted after they had surrendered; they were allowed back into society, where many of them found new jobs and started new lives.

But in the north of Burma, between Thailand and China, the Communist Party of Burma (CPB) with its more than 15,000 troops was still active, and that remained a security concern. The CPB also controlled Kokang and the Wa hills, the most important opium growing areas in Southeast Asia. As the anonymous American had written to Wolff, the Thais still needed cross-border intelligence, and the groups based along the Burmese border had not outlived their usefulness. In the "War on Drugs," national security concerns remained more important than taking stern measures aimed at putting an end to the entire narcotics trade.

The CPB Mutiny and Ceasefires with the Government

In the late 1980s, Burma's opium production suddenly more than doubled. According to the United States government, the 1987 harvest for Burma yielded 836 tons of raw opium; by 1995, production had increased to 2,340 tons. Satellite imagery showed that the area under poppy cultivation increased from 92,300 hectares in 1987 to 142,700 in 1989 and 154,000 in 1995.⁵²

The potential heroin output soared from 54 tons in 1987 to 166 tons in 1995, making drugs the impoverished and mismanaged country's only growth industry.⁵³ At the same time, a string of new heroin refineries were set up in Kokang and the Wa hills, conveniently located near the main growing areas in northern Burma and, equally important, close to the rapidly growing Chinese drug market and seemingly easier routes through Yunnan to the outside world.

In the early 1990s, the same laboratories in northern Burma began to produce methamphetamines. Khun Sa's old network was effectively undermined, and was further affected when, in December 1993, several divisions of government troops encircled the headquarters of his private army at Homong, a village opposite the Thai border town of Mae Hong Son, placing an effective stranglehold on his operations. In January 1996, Khun Sa eventually surrendered to the authorities in Rangoon without a fight. He abandoned Homong, moved to the capital, and left his 15,000-man strong army to fend for itself. Many soldiers went home to their villages, while others continued to roam the hills of the Thai-Burmese border, some as bandits while others claimed to be fighting for some nationalist ideal.

These dramatic changes in the pattern of opium production and the location of heroin refineries, the introduction of new drug scourges, and the opening of new smuggling routes have all emerged in the wake of two recent political events in Burma: the crushing of a popular uprising against military rule in 1988, and an unrelated mutiny the following year among the rank and file of the country's then most powerful insurgent army, the Communist Party of Burma (CPB).⁵⁴

In August and September 1988, millions of people from virtually every town and major village across Burma took to the streets to demand an end to 26 years of stifling military rule and the restoration of democracy which existed before the army took over in a coup d'etat in 1962. The protests shook Burma's military establishment, which responded fiercely. Thousands of people were gunned down as the army moved in to shore up a regime overwhelmed by popular protest. The crushing of the 1988 uprising was more dramatic and much bloodier than the better publicised events in Beijing's Tiananmen Square a year later. In the wake of the massacres in Rangoon and elsewhere in the country, more than 8,000 pro-democracy activists fled the urban centres for the border areas near Thailand, where a multitude of ethnic insurgencies, not involved in the drug trade, were active. Significantly, the main drug gang operating along the border, Khun Sa and his private army, refused to shelter any dissidents who had fled the urban areas; his main interest was business, not to fight the government.

The Burmese military now feared a renewed, potentially dangerous insurgency along its frontiers: a possible alliance between the ethnic rebels and the pro-democracy activists from Rangoon and other towns and cities. But these Thai-border-based groups—Karen, Mon, Karenni, and Pa-O—were unable to provide the urban dissidents with more than a handful of weapons. None of

the ethnic armies could match the strength of the CPB, whose 10,000 to 15,000 troops then controlled a 20,000-sq. km. territory along the Sino-Burmese border in the northeast. Unlike the ethnic insurgents, the CPB had vast quantities of arms and ammunition, which were supplied by China from 1968 to 1978 when it was Beijing's policy to support communist insurrections in Southeast Asia. Although the aid had almost ceased by 1980, the CPB had enough munitions to last through at least ten years of guerrilla warfare against the central government in Rangoon.⁵⁵

Despite government claims of a "communist conspiracy" behind the 1988 uprising, there was at that time no linkage between the anti-totalitarian, pro-democracy movement in central Burma, and the orthodox, Marxist-Leninist leadership of the CPB. However, given the strong desire for revenge for the bloody events of 1988, it is plausible to assume that the urban dissidents would have accepted arms from any source. Thus, it became imperative for the new junta that had seized power on 18 September 1988—the State Law and Order Restoration Council (SLORC)—to neutralise as many of the border insurgencies as possible, especially the CPB. A situation which was potentially even more dangerous for the SLORC arose in March and April 1989 when the hill-tribe rank-and-file of the CPB, led by the military commanders who also came from the various minorities in its northeastern base area, mutinied against the party's aging, mostly Burman political leadership. On 17 April 1989, ethnic Wa mutineers from the CPB's army stormed party headquarters at Panghsang on the Yunnan frontier. The old leaders and their families—about 300 people—escaped to China while the former CPB army split along ethnic lines and formed four different, regional resistance armies:

- The United Wa State Army (UWSA), led by Pao Yuqiang and—until he suffered a stroke in 1995—Chao Ngi Lai, comprised the bulk of the old CPB's fighting force, or 8,000-10,000 men at the time of the mutiny. The figure was soon to increase as the UWSA began procuring more weapons from China and Thailand to strengthen its forces. The Wa Hills form the centre of the CPB's old "liberated zone"—and are a major opium growing area.
- The Myanmar National Democratic Alliance Army (MNDA), led by two brothers, Peng Jiasheng and Peng Jiafu, became the new unit in Kokang—which traditionally produces the best opium in Southeast Asia. The strength of the MNDA is approximately 1,500 to 2,000 men.
- The Myanmar National Democratic Alliance Army, Eastern Shan State (sometimes referred to as the Shan State Army [East] or the 369 area) in the hills north of Kengtung where the borders of Burma, China, and Laos meet, was the name of the third ex-CPB grouping led by Lin Mingxian (Sai Lin) and Zhang Zhiming (Kyi Myint), two former Red Guards from Yunnan who had joined the CPB as volunteers during the Cultural Revolution and stayed. The area under their control is also very rich in opium, but sparsely populated. The strength of their army is estimated at 3,500 to 4,000 men. Lin Mingxian is the son-in-law of Kokang druglord Peng Jiasheng, and cooperation between their two groups is close.
- The New Democratic Army (NDA) with fewer than 1,000 men is the smallest of the former CPB forces. It is led by Ting Ying and Zalum and its area of operation is around Kambaiti, Pangwa, and Hpimaw passes on the Yunnan frontier in Kachin State. Although some poppies are grown near Kambaiti, this is not a major drug producing area.

Suddenly, there was no longer any communist insurgency in Burma, only ethnic rebels, and the SLORC worried about potential collaboration between these four new, well-armed forces in the northeast and the ethnic minority groups along the Thai border, as well as the urban dissidents who had taken refuge there. The ethnic rebels sent a delegation from the Thai border to Panghsang to negotiate with the CPB mutineers soon after the breakup of the old party—but the authorities in Rangoon reacted faster, with more determination, and with much more to offer than the ethnic rebels. Within weeks of the CPB mutiny, the chief of Burma's military intelligence, Maj.-Gen. (now Lt.-Gen.) Khin Nyunt, helicoptered up to the border areas to meet personally with Peng Jiafu, Chao Ngi Lai, and other leaders of the mutiny.

Step by step, alliances of convenience were forged between Burma's military authorities and various groups of mutineers. In exchange for promises not to attack government forces and to sever ties with other rebel groups, the CPB mutineers were granted unofficial permission to engage in any kind of business to sustain themselves — which, in Burma's remote and underdeveloped hill areas inevitably meant opium production. Rangoon also promised to launch a "border-development programme" in the former CPB areas, and the United Nations and its various agencies were invited to help fund those projects.

The success in striking those deals with the ex-CPB forces was largely due to the efforts of Lo Hsing-han, a Kokang Chinese ex-warlord who acted as an intermediary with the mutineers. Rangoon had been far-sighted enough not to execute Lo, despite the death sentence against him; that would have been tantamount to destroying a useful political tool. He was released during a general amnesty in 1980 and given two million Kyats in Burmese currency to build a new military camp at the so-called "Salween Village" in the Nampawng area southwest of Lashio.⁵⁶

Moreover, he set up a *pyi thu sit*, or "people's militia" unit, which was modelled after the infamous Ka Kwe Ye (KKY) home guards of the 1960s and early 1970s. The new *pyi thu sit* units were not as powerful as the old KKY, but the agreement between them and the central authorities was basically the same.

But it was several years before Lo Hsing-han regained his former strength and prominence. The 1989 mutiny within the CPB came at the right time, and on 20-21 March 1989, only a week after the first uprising in the CPB's Northern Bureau headquarters at Mōng Ko, a small town on the Sino-Burmese border opposite Mangshi in Yunnan, Lo Hsing-han paid his first visit to his native Kokang area, which had been under CPB control since 1968. This visit paved the way for Khin Nyunt's first meetings with the mutineers—and the remarkable cease-fire agreements which were struck between Burma's military government and thousands of former insurgents. Another intermediary who helped initiate contacts between the CPB mutineers in Kokang and the government in Rangoon was Olive Yang, the old warlady who had been instrumental in building up the opium trade in the late 1950s and early 1960s.

The CPB mutiny also provided Lo with a golden opportunity to rebuild his former drug empire, which he had lost to Khun Sa more than 15 years before. Apart from being a local home-guard commander, Lo had until the mutiny been little more than a small-scale entrepreneur, running bus companies, video parlours, and liquor franchises. Since the CPB mutiny, and the role he played as a mediator between the government and the former CPB forces, he and his son Steven Law have grown to become two of Burma's most prominent businessmen with interests in the hotel industry, transport, road construction, timber, gems, and the import and export of various legal commodities. The evidence may be circumstantial, but it is beyond doubt that the initial capital for their legitimate businesses must have come from the drug trade; there is simply no other possible source, and the timing of their rise from obscurity to prominence seems far more than a coincidence.

Within a year of the CPB mutiny, intelligence sources were able to locate at least 17 new heroin refineries in Kokang and adjacent areas, six in the Wa Hills and two on Lin Mingxian's (Sai Lin's) area north of Kengtung, where the town of Mōng La opposite Daluo in Yunnan developed into one of the most important drug-running centres in the country. The cease-fires had enabled the CPB not only to rapidly increase poppy production, but also to bring in chemicals, mainly acetic anhydride—which is needed to convert raw opium into heroin—by truck from India. The heroin trade took off with a speed that caught almost every observer of the Southeast Asia drug scene by surprise.

Ironically, at a time when almost the entire population of Burma had turned against the regime, scores of former insurgents rallied behind the ruling military, lured by lucrative business opportunities and unofficial permission to run drugs with impunity. With the collapse of the communist insurgency in 1989, several smaller ethnic armies also gave in. The 2,000-strong Shan Sate Army (SSA), which for decades had waged a war for autonomy for Shan State, made peace with Rangoon on 24 September 1989, and was granted timber concessions in the Hsipaw area in northern Shan State. They were followed by smaller groups of Pa-O and Palaung rebels who also operated in Shan State.

The Kachin Independence Army (KIA), which with 8,000 men in arms was Burma's most powerful ethnic rebel army and controlled most of Kachin State in the far north of the country, entered into an agreement with the SLORC in October 1993, and signed a formal cease-fire deal with

Rangoon in February 1994. As a result, several pro-democracy activists, who had fled to the KIA-controlled area, surrendered in July of the same year. By 1997, more than a dozen ethnic rebel armies had made peace with Rangoon.

Today, only a handful of groups along the Thai border remain in armed opposition to Rangoon, notably the badly fractured Karen National Union and scattered units of pro-democracy students, with a combined strength of 3,000-4,000 troops. The remnants of Khun Sa's old army, which have refused to surrender, number about 2,000 and now call themselves the Shan State Army (SSA) South.⁵⁷

The threat from the border areas was thwarted, the regime was safe, but the consequences for the country, and the outside world, have been disastrous. Enormous quantities of heroin—and now also methamphetamines—are pouring out of Burma in all directions, providing incomes for criminals way beyond the country's own borders. Further, what began as alliances of convenience between a beleaguered government and various political and ethnic insurgents in Burma has over the past two years been compounded by a new, totally unexpected regional crisis: Asian economic meltdown. Private companies and banks may be faltering all over East Asia and unemployment is on the rise. But the drug trade, it seems, is the only really lucrative business that is left in Burma and elsewhere in a crisis-hit region. The inevitable outcome is that the drug trade will continue to grow in magnitude and importance, despite international criticism and efforts to curb the menace.

Burma's Drug Economy

In April 1999, the United Wa State Army (UWSA) and the Burmese junta, now renamed the State Peace and Development Council (SPDC), decided to invite a group of journalists to attend the 10th anniversary celebrations of the CPB mutiny and the subsequent cease-fire agreement between the rebels and the government. The foreign visitors were taken first to Mōng La, and then to UWSA headquarters at Panghsang, where they were introduced to Mōng La commander Lin Mingxian (Sai Lin) and Wa leader Pao Yuqiang. The purpose of the trip was to show the foreigners that great headway had been made in the war on drugs. According to Reuters, whose reporter was present at the occasion, Lin and Pao denied any involvement in the drug trade, and claimed that "our consciences are clear."⁵⁸

It was perhaps hardly surprising that the drug-traffickers themselves denied that they were running heroin refineries, methamphetamine laboratories, and regional smuggling networks. But when the reporter began to quote official reports from the US State Department's Bureau for International Narcotics Matters, which named Lin, Pao and several other leaders of the cease-fire groups as some of the most prominent drug traffickers in Burma, he was rebuffed by a high-ranking Burmese military intelligence officer, who was also present: "I think they [the Americans] are just making it up—it's politically motivated." When asked who, if that was so, was running the refineries obviously located in areas which no doubt were controlled by Lin, Pao and other cease-fire leaders, the officer replied: "We are at a loss about that. But I think the real culprits are Chinese organised crime groups. They are very secretive and we don't know who is actually doing the trade."

When the officer, and Lin and Pao, went on to claim that their eradication efforts had been extremely successful, the reporter asked them why, in that case, were countries in the region are still being flooded by cheap heroin from Burma. The officer replied that the heroin must have come from "old stocks" which had been warehoused somewhere. The reporter pointed out that while raw opium can be warehoused, heroin is a perishable with a limited shelf-life. Only when an order has been made is raw opium taken out of the warehouse and refined into heroin. The officer said this was wrong, insisting that the heroin must have been refined years ago.

These statements could have been dismissed as uninformed jabber—if they had come from some low-ranking, local Burmese army officer somewhere in a remote border area. But the officer in question was Col. Kyaw Thein, head of Burma's Committee for Drug Abuse Control, the country's leading drug enforcement agency and the main contact man for the UN's drug control programme and international police agencies. Kyaw Thein was accompanied by Lt.-Gen. Khin Nyunt, the head of Burma's military intelligence apparatus, and Lt.-Col. Hla Min, the SPDC's main spokesman, and he was only conveying the official version of the situation. Khin Nyunt himself went on to praise "development efforts" in the former CPB area, and hit out at "neo-colonialist countries" for failing to support them and "levelling false accusations."⁵⁹

Khin Nyunt, the head of the Directorate of the Defence Services Intelligence (DDSI), had personally negotiated the ceasefires with the rebels, and, in return, issued their leaders with special

ID cards, which made them—and their vehicles—immune from police and customs searches at all check-points in Shan State. It was the Ka Kwe Ye (KKY) concept all over again: in return for acting as local militias, the former CPB forces were permitted to do whatever they wanted to support themselves and their troops.

It is clear that the druglords in the northeast are enjoying protection from the highest level of Burma's military establishment, and not just from some corrupt local commander. This became even more evident when Kyaw Thein was asked about Wei Xuekang, a UWSA leader who has been indicted by the United States for drug trafficking. The reply was that Wei was "not under government control."

As the celebrations were taking place, Wei, an ethnic Chinese from Yunnan who has been with the Was for decades and who runs several of their heroin and methamphetamine laboratories, was busy building up a "legitimate" business empire in the northern Burmese city of Mandalay.

The close cooperation between Burma's druglords and the SLORC/SPDC has led many to speculate that the government may be more closely involved in the trade than just providing protection for the druglords and their various businesses. Suggestions were made that drug money had been used to finance the massive build-up of Burma's armed forces that has taken place since the upheavals of 1988. In the late 1980s, the three services of Burma's armed forces totalled 185,000-195,000 men.

According to Maung Aung Myoe, a Burmese army researcher, the size of the armed forces has now reached 450,000.⁶⁰ Vast quantities of military hardware have also been bought mainly from China. Where did the money come from? Judging from official statistics issued in Rangoon, there was no source of foreign hard currency listed that could have financed arms purchases totalling more than a billion US dollars.⁶¹

Burma had no external enemy to justify a build-up of its armed forces on that magnitude—but the 1988 uprising had shaken Burma's military leadership out of its complacency. Something had to be done about the economy—why not free-market reforms to attract foreign capital and raise the living standard at home so the people would not rebel again?—and to finance this massive expansion of the army to perpetuate military rule over the country.

According to persistent reports from Burma's Shan State, systematic taxation of opium growers and heroin producers exists on the local level. The government usually collects 10 per cent in cash or in kind of any drugs produced in a certain area, but it is uncertain whether this goes to the central coffers in Rangoon, or if the money is used to finance local government activities in areas which hardly receive any support or subsidies from the central administration. What can be said with certainty, though, is that the drug trade, and the arrangement between the druglords and the central government, are important for Burma in three respects.

The first is purely political. The cease-fire agreements of 1989 helped save the government when it was under pressure from both urban dissidents and ethnic insurgents. This is also the reason why it would be extremely difficult for the government to move against the drug trade, even if they intended to do so: any serious attempts to curtail the involvement of the Was, the Kokang army, or Lin Mingxian's group could lead to a renewed civil war. The Wa army, for instance, consists of nearly 20,000 men, heavily armed with machine-guns, mortars and recoilless rifles.

The second aspect is personal. Hardly surprisingly, the cease-fire agreements have created new bonds of friendship between the drug traffickers and the Burmese military—and even the highest-ranking officers in the Burmese army, and military intelligence, have official salaries of no more than US\$10-15 per month. While those officers do not live lavishly by Southeast Asian standards, it is clear that all of them must have some additional source of income. Lin Mingxian especially is reported to have given generous contributions to high-ranking officers in Burma's military intelligence. In exchange, he enjoys protection from the government, which has enabled him to invest heavily in legitimate businesses.

Thirdly, the booming drug trade—now coupled with Asia's financial crisis—has made the overall Burmese economy heavily dependent on income derived from narcotics. As early as 1989—the year of the first cease-fires—the then SLORC decided no longer to confiscate bank deposits and foreign currency earnings of dubious origin. It instead opted for a "whitening tax" on questionable repatriated funds levied first at 40 per cent and since reduced to 25 per cent. Equally significant, in early 1993, *de facto* legalisation of the black-market exchange rate (300-350 Kyats per US dollar, as opposed to the official rate of US\$1=6 Kyats) took place and narco-funds previously held in Bangkok, Singapore, and Hong Kong flooded back into Burma.⁶²

In June 1996, the US Embassy in Rangoon released a detailed account of Burma's black economy in its yearly Foreign Economic Trends Report. It highlights statistical discrepancies, or what economists call "errors and omissions" in the country's balance of payments. By comparing Rangoon's official trade figures with statistics from a variety of sources — including the United Nations Conference on Trade and Development, the International Monetary Fund, the Australian National University and the Centre Français du Commerce Extérieur in Paris—the author of the report discovered US\$400 million in unexplained foreign financial inflows during 1995-96, up from US\$ 79 million the previous year.

The economist explains that this is basically money which came into the legal economy, and which was not recorded by any of Burma's trade partners in official export-import statistics, or, in short, that it came from smuggling. In addition, Burma spends US\$200 million annually on foreign-currency denominated defence expenditure, which is not recorded in official reports. This, the economist argue, has to be added to the total amount of money in circulation which cannot be explained in terms of official trade. Thus, the actual figure for money that could not be accounted for in fiscal 1995-96 was US\$600 million.

But why must hundreds of millions in proceeds from smuggling necessarily be drug money? The answer is that the only two other items which Burma produces and which could generate large sums of foreign exchange—jade and precious stones—are no longer smuggled to neighbouring countries in large quantities. The jade trade was previously in the hands of ethnic Kachin rebels who controlled the mines around Hpakan in Kachin State, from where the jade was smuggled to Yunnan, or down to Thailand. But in 1993-94, the government took over the jade mines, and the trade now goes through official channels via Rangoon. The same applies to the gemstone mines in the northeast: mining rights in the region are subcontracted to private entrepreneurs by the military-controlled Union of Myanmar Economic Holdings, which collects duties on the trade.

A number of other companies also benefited, directly or indirectly, from the new arrangements. In 1992, Lo Hsing-han and his family set up the Asia World Company, which a diplomatic report from Rangoon describes as "Burma's fastest growing and most diversified conglomerate." It is involved in import-export business, bus transport, housing and hotel construction, a supermarket chain, Rangoon's port development, and the upgrading of a national highway between Mandalay and Muse on the Chinese border. Its Memorandum of Association under the Myanmar Companies Act identifies Lo Hsing-han and his son Htun Myint Naing (Steven Law) as major shareholders. Other shareholders include known drug-traffickers from Kokang. In 1996 Steven Law was refused a visa to the USA on suspicion of involvement in narcotics trafficking.

Other companies with known drug connections include:

- Myanmar May Flower Group. Its ethnic Chinese chairman, Kyaw Win, has emerged as Burma's new high-profile entrepreneur. A Rangoon business magazine names his "old benefactor", an "immensely wealthy Thai entrepreneur"⁶³ — who is listed in internal documents from the US Drug Enforcement Agency as a major drug trafficker. Kyaw Win has also, from his old base at Tachilek on the Thai-Burma border, done business with Khun Sa and Lt.-Gen. Maung Aye, vice chairman of the ruling junta. In 1990 Kyaw Win moved to Rangoon and established the May Flower Trading Company and, in 1994, the May Flower Bank. In 1997 the May Flower Group took over Yangon Airways, one of Burma's two private domestic airlines.
- Peace Myanmar Group. A rapidly expanding business empire controlled by the Yang brothers from Kokang (both Yang Maoliang and Yang Maoan are listed in the US State Department's reports as major drug traffickers; their younger brother Yang Maoxian was arrested in China on drug trafficking charges in 1994, and executed in Kunming). It holds the franchise for Mitsubishi Electric in Burma, and operates a paint factory and liquor distillery producing well-known brands such as Myanmar Rum and Myanmar Dry Gin. It has a large consumer electronics showroom on Merchant Street in Rangoon in a joint venture with the Ministry of Commerce.
- The World Group of companies are owned by Wa interests and have investments in construction, retail trading, import-export, and the tourist industry. Another Wa-

controlled company, Myanmar Kyone Yeom (Group)—which once ran a finance company that foreign analysts described as "a thinly disguised money-laundering vehicle"—fell out with the government in 1998, and its chairman, Kyaw Myint (aka Michael Hu Hwa; a "colonel" in the Wa army), escaped to Thailand. He is now back in business in Rangoon.

- The Good Shan Brothers International Ltd. This company is controlled by surrendered druglord Khun Sa and his family. In February 1996, a month after Khun Sa's surrender, ten new companies were registered at an obscure address in Rangoon, a virtually empty room in a town house with little more than a sign and a mailbox outside. The registered owner of the premises is this company, which is engaged in "export, import, general trading and construction," according to the official Myanmar Business Directory. In two surprisingly candid interviews with a correspondent from the Austrian daily *Die Presse*, Khun Sa stated that he was investing in real estate, the hotel business in Rangoon, and a new motorway from Rangoon to Mandalay.⁶⁴

- "Hong Bang ("Prosperous Nation") is the overall name for Wei Xuegang's business conglomerate with branches in Kengtung, Tachilek, Mōng Yawn and all over Shan State. Over the past year, Wei has invested millions of dollars in the lumber business, mineral smelting, pig farming, and retail trade through what one Western drug-enforcement official called "the biggest money-laundering operation in Southeast Asia today."⁶⁵

- Union of Myanmar Economic Holdings (UMEH), Burma's biggest holding company, is 40 percent owned by the defence ministry's Directorate of Defence Procurement, with the rest belonging mainly to senior military personnel and their families. Known locally as the "U-paing Company" it is involved in the gems trade, banking (the Myawaddy Bank), logging, timber processing and coal mining, and is the joint-venture partner in several projects involving foreign investment. Officially, its capital comes from the Burmese army's pension funds, but druglords such as Lin Mingxian (Sai Lin) have invested heavily in this company, often in partnership with high-ranking army officers. Lin is identified in US documents as a major drug trafficker.

While all those companies are flourishing, foreign investment is drying up. During a visit to Japan in June 1999, Burmese foreign minister Win Aung said that Southeast Asia's currency crisis was responsible for a 53-per cent drop in foreign direct investment commitments in the fiscal year which ended in March 1998. Since then, even more foreign businesses have pulled out, or failed to fulfill their commitments. Apart from the oil industry, where the major investors are US and French firms, nearly all other foreign investment in Burma comes from Singapore, Malaysia, Thailand, and South Korea.

The clearest indication of the importance of drug money in the overall economy is the value of the Burmese currency. The free-market rate fell dramatically in 1997, down to less than 300 from 160 the year before. But since then, it has been stable at US\$1=320-340 Kyats—despite the huge trade imbalance, and the departure of most foreign investors. By comparison, Laos, a country in a very similar situation, has seen its currency, the Kip, nose-dive to 7,500 in March 2000 from 1,350 in September 1997. Evidently, Burma still has a large hard-currency reserve which props up its currency, and that reserve can only consist of drug money. The dramatic increase in drug exports from Burma over the past decade—heroin and now also methamphetamines—lends credence to this suggestion. Burma has become Asia's first and only state which survives on the export of narcotics.

The situation in Laos is more difficult to ascertain. With 140-160 tons of opium harvested annually, Laos is actually the world's third biggest opium producer after Burma and Afghanistan. But most opium in Laos appears to be consumed locally in hill-tribe villages, or smuggled to clandestine opium dens in Hanoi and other Vietnamese cities. There are also indications that drugs from Burma transit Laos on their way to northeastern Thailand—and down to Cambodia, which is emerging as another country heavily dependent on the export of narcotics. While no opium is

grown in Cambodia, Burmese-made heroin leaves the country through Phnom Penh's airport, and the ports of Sihanoukville and Koh Khong.⁶⁶

Thailand is no longer a major drug producer, but proceeds from narcotics trafficking bring in millions of dollars to the coffers of "influential persons" each year. Although no one has named names in the way Lester Wolff did in his 1977 report, in 1994 Thailand was rocked by a series of scandals as the US government announced that several leading politicians had been refused entry to the US because of suspected involvement in the Golden Triangle drug trade. Among them was Mongkhol Chongsuthanamane, an MP from Chiang Rai whose brother is serving a long prison sentence for drug trafficking.⁶⁷

Such exposures are possible in Thailand, which is an open society with an outspoken, free press. In Laos and, especially, Burma, all information is strictly censored and controlled by the authorities. Recent legislation against money-laundering—and vote buying (the reason why many politicians need fast cash, which drugs can easily generate)—are certainly steps in the right direction. But without a solution to the problem in Burma, Thailand and the rest of the world will continue to be flooded with narcotics, and suffer all the related social problems.

Is There Any Solution to the Problem?

The United Nations Fund for Drug Abuse Control (UNFDAC) now renamed the United Nations International Drug Control Programme (UNDCP), first became involved in Burma when in the 1970s it initiated a crop substitution programme with US\$6.5 million ear-marked for "the first phase", 1976-81, and about the same amount for two subsequent phases. But at that time most poppy fields were in areas controlled by insurgents which were up in arms against the government, so the solution was to term the programme "preventative crop substitution," under which alternative crops were introduced in areas where poppies had never been grown to make sure that peasants there did not turn to opium production.

Hardly surprisingly, this project had no impact on overall opium production in Burma, and it was halted temporarily in the wake of the upheaval of 1988. Then came the cease-fires, and various UN agencies were invited to contribute funds and expertise to the "development of the border areas." Helicopter trips were organised to Kokang, the Wa Hills and Mōng La, and UN officials were introduced to "the leaders of the local nationals," or, in other words, prominent drug traffickers such as Peng Jiasheng, Pao Yuqiang, Yang Maoliang, and Lin Mingxian.

At one of the first meetings near Kokang in February 1991, a senior field adviser from the UNFDAC's office in Bangkok, Don MacIntosh, stated: "May I say that I am pleased to be in Shan State and to have this opportunity to represent the Executive Director of the UNFDAC and the INCB (the International Narcotics Control Board) at this important drug eradication exercise."⁶⁸ The host at the occasion was Peng Jiasheng's younger brother, Peng Jiafu, who put some drugs to the torch and pledged to "end heroin production within one year and opium cultivation within seven years."⁶⁹

Seven years later, the opium poppy still bloomed in Kokang and heroin production in the area continued its relentless rise. In 1999, therefore, a new plan was unleashed. Now, the government—and the druglords—have promised "complete opium eradication by 2014", or faster if more aid is given by Western donor countries.⁷⁰ Later, "2005" was announced as the year when there would be no more opium and heroin in Burma. Such play with years and deadlines only serves to push the problem into the future—and as an excuse for not doing anything about it here and now.

There has actually been a slight drop in opium production in Burma over the past few years. According to US government estimates, Burma's opium production fell 26 percent in 1998 to 1,750 tons in 1999. The Burmese government gave a much lower figure for the overall opium production—680 tons—and asserted that it had been a significant decrease from the year before. El Niño had played havoc in the poppy fields of the Golden Triangle as well as in other cash-crop areas in Southeast Asia. Significantly, the drop in opium production affected only the poor hill-tribe farmers who grew the poppies, and thus lost their incomes; the druglords had already increased their own production of methamphetamines and other synthetic drugs to compensate for the relatively poor opium harvest.

The question also remains as to how much the production actually fell. US estimates—a drop in area under poppy cultivation to 89,500 hectares in 1999 from more than 150,000 in the early 1990s—concentrate on the area under cultivation only, and do not take into account improved cultivation techniques such as irrigation, fertilisers and multiple-cropping, which have been introduced over the past few years. The fact that the price for Southeast Asian heroin remains the same local-

ly as well as in overseas markets indicates that there could not have been any dramatic fall in the output of the drug from the Golden Triangle. The most likely explanation is that the poppy farmers in Burma now produce more per hectare than before, and that the same overall amount of opium can be produced in a smaller area.

In the midst of this booming drug empire, first the UNFDAC, and then the UNDCP, has launched a number of crop-substitution projects—and this time both the government, and the UN agencies, have direct access to the poppy growing areas; "preventative crop substitution" clearly belongs to the past. The intentions may be good, but will the projects work? The problem with any UN agency is that it is forced to go through the host government in the country where it operates, and, as we have seen, it would be economic suicide for the Burmese government to do anything substantial about the country's lucrative drug trade.

Moreover, the UN has also been forced into a partnership with local druglords such as Lin and Pao—a situation both of them have used in their propaganda to show that they are "cooperating" in the war on drugs. Lin has even gone as far as building an "opium eradication museum" at his Mōng La headquarters with graphs and pictures showing foreigners confirming that his area is an "opium-free zone." Ironically, the base for the UNDCP's operations in the area is at Ho Tao, a small town near Panghsang—which has the largest complex of heroin and methamphetamine laboratories in the world today.

No one is accusing the UNDCP of complicity in the drug trade. But statements such as MacIntosh's in 1991 does not instil confidence in the ability of the UN staff on the ground to understand the complexities of the problem. Other UNDCP officers have repeatedly praised the Burmese government's "eradication efforts", and fended off criticism of their activities in Burma. "They're doing their best," said the UNDCP's Rangoon field officer in interviews with journalists in February 1999. 72 Sadly, the UNDCP has become part of the problem rather than the solution.

Clearly, an entirely new approach is needed. The Thai daily *Bangkok Post* wrote in a strongly worded editorial on 1 February 1999: "Burma is one of the most important producers of illicit narcotics in the world. Rangoon authorities must be invited to take part in international attempts to fight trafficking. But diplomatic niceties have failed to convince the Burmese leaders that their troubles begin at home."

So what can be done to stop the flood of drugs—heroin, methamphetamines, ecstasy—from Burma, which threatens the social fabric and stability of countries all over the region? The problem with the traditional "law enforcement" approach is that it tends to ignore the political roots of the problem, as do the UN's well-meaning but ineffective crop substitution projects. In the 1970s and 1980s, the drug trade flourished along the Thai border because security concerns and economic gains were considered more important than drug suppression.

The situation inside Burma today is not that different; it is unlikely that the Burmese government could seriously move against the traffickers without upsetting its delicate cease-fire agreements with them, arrangements which have been in place for ten years and which are of vital importance for the survival of the present regime. Further, since 1989 hundreds of millions of narco-dollars have been reinvested in the country's legitimate economy, contributing more to Burma's relative economic stability than any other single business activity save for the oil industry.

At the same time, there is no question that the Burmese government is using the drug issue to "sell" itself internationally; being unable to show a decent human-rights record, it believes that it would be re-accepted into the international community if it could show some impressive seizures of drugs and other statistics, which actually bear little resemblance to the reality on the ground in the Golden Triangle. Getting the UN and its agencies on board should be seen as part of this strategy. But will it make any difference? Hardly. No anti-drug policy in Burma has any chance of success unless it is linked to a real solution to the country's political and ethnic problems, and a meaningful democratic process in Rangoon. Without openness, transparency, accountability, accurate information—and real drug enforcement efforts—no improvement can be expected in Burma's increasingly alarming drug scene. The alternative to openness is continuing conflict and repression, which will keep the heroin and now also the methamphetamines and the ecstasy flowing.

Endnotes

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- 7 J.M. Scott, op. cit. pp. 84-85.
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- 16 Pott, op. cit., p. 46.
- 17 Leonard P. Adams, "China: The Historical Setting of Asia's Profitable Plague," in Alfred McCoy, *The Politics of Heroin*, p. 361.
- 18 A. Viollis. Indochine S.O.S., quoted in *Association Culturelle Pour le Salut du Viet-Nam, Témoignages et Documents française au Viet-Nam* (Hanoi, 1945).
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- 23 Ibid., p. 117.
- 24 Both Kengtung and Mông Pan were returned to the British after the war, and their respective princes were reinstalled.
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- 36 Interview with Sao Hsö Lane, 18 April 1982.
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