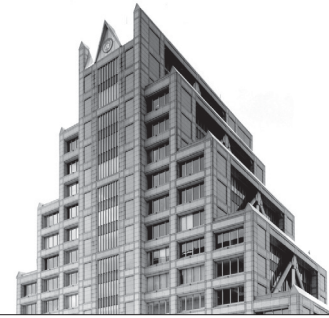




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United Nations University Centre for Policy Research
Crime-Conflict Nexus Series: No 9
April 2017

Myanmar Maneuvers

How to Break Political-Criminal Alliances in Contexts of Transition

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This material has been funded by UK aid from the UK government; however the views expressed do not necessarily reflect the UK government's official policies.

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ISBN 978-92-808-9040-2

EXECUTIVE SUMMARY

The Myanmar case study analyzes the complex interactions between illegal economies -conflict and peace. Particular emphasis is placed on understanding the effects of illegal economies on Myanmar's political transitions since the early 1990s, including the current period, up through the first year of the administration of Aung San Suu Kyi. Described is the evolution of illegal economies in drugs, logging, wildlife trafficking, and gems and minerals as well as land grabbing and crony capitalism, showing how they shaped and were shaped by various political transitions. Also examined was the impact of geopolitics and the regional environment, particularly the role of China, both in shaping domestic political developments in Myanmar and dynamics within illicit economies.

For decades, Burma has been one of the world's epicenters of opiate and methamphetamine production. Cultivation of poppy and production of opium have coincided with five decades of complex and fragmented civil war and counterinsurgency policies. An early 1990s *laissez-faire* policy of allowing the insurgencies in designated semi-autonomous regions to trade any products – including drugs, timber, jade, and wildlife -- enabled conflict to subside. The incorporation of key drug traffickers and their assets into the state structures significantly strengthened the state and the military regime. The Burmese junta negotiated ceasefires with the insurgencies, and underpinned the agreements by giving the insurgent groups economic stakes in resource exploitation and illegal economies. Under pressure, including from China, opium poppy cultivation was suppressed in the late 1990s and early 2000s, even as unregulated and often illegal trade in timber, jade, and wildlife continued. Although local populations suffered major economic deprivation, the ceasefires lasted. The armed ethnic groups, however, did not lose their source of revenues, compensating for the diminished heroin business by switching to methamphetamines and, with the participation of Chinese businesses, augmenting the legal and illegal extraction of other resources, such as timber and gems.

Since the middle of the 2000s, however, the ceasefires have started to break down, and violent conflict has escalated. As of this writing in February 2017, it is probably at its most intense at any time since the early 1990s. Among the reasons is the effort of the previous Myanmar government and military since 2008 as well as powerful Bamar and Chinese businessmen and powerbrokers (many linked to the military and military business conglomerates) to restructure the 1990s economic underpinnings of the ceasefires so their economic profits increase. Business conglomerates linked to the Tatmadaw, such as Myanmar Economic Holdings Limited (MEHL), came to enjoy special access to the significant gem mines and other resource economies and trade more broadly, serving crucial political survival interests of the military. Control of the jade economy became a key enrichment and strategic priority for the junta. The military also sought to guarantee a steady pension for former Tatmadaw officials and soldiers and thus keep them from potentially rebelling. The MEHL and other military-linked economic conglomerates and cronies hence were accorded monopolies on the import of various consumer goods.

Meanwhile, however, illegal and unregulated resource economies, including the drug trade, logging, mining, and wildlife trafficking, have thrived and devastate Burma's ecosystems, even as the plunder-underpinned peace has slid into war again.

In 2011, the Myanmar military embarked on political and economic liberalization that, though a miscalculation of the military, culminated in the election of the Aung Sang Suu Kyi government in November 2015. However, the military has retained significant formal and informal power. Indeed, despite the military's electoral miscalculation, the entire transition had been at the discretion of the junta. Illicit economies played an integral part of the transition process, being a crucial element of the golden parachute that the junta awarded itself. Moreover, with its continuing lock on constitutional power, the military regime also guaranteed itself a sufficient budget.

Any reforms that took place, including those directed at illicit economies, such as the embrace of greater transparency measures in mining, greater enforcement in logging, and the significant weakening the power of the cronies, were still at the direction of the military. Reforms and actions against illicit economies and organized crime that would not be advantageous to the military's institutional power or enrichment of key individuals have not taken place and could be subverted or vetoed by the key powerbrokers of the military. Similarly, the selective suppression of organized crime and aspects of the illicit economies has served crucial political and strategic objectives of the military.

Nonetheless, under President Thein Sein, significant economic liberalization was in fact undertaken, with a surprising willingness to change economic arrangements with privileged economic actors. As a result of growing economic competition, the footprint of the military conglomerates and crony companies in the formal economy was reduced. Thein Sein also launched an anti-corruption drive, limited in its reach and determination mainly to the civil service, but nonetheless not insignificant. A comprehensive new land law was passed, and some stolen land was returned to local populations as a result of civil society mobilization.

Even so, any political rivals of the military, including the new post-March 2016 government of Aung Sang Suu Kyi, continue to be significantly limited in how much they can challenge the military or the illicit economies and organized crime embraced by the military. In the larger balance of power vis-à-vis the military, Suu Kyi's hand remains weak and she has not chosen to challenge the military on significant issues, including the constitution. That is perhaps not surprising as such moves could still trigger a military coup d'état.

The military's continuing power and the intermeshing of the state and illicit economies have also limited Suu Kyi's scope of maneuver toward the illicit economies. Significantly, the internal political liberalization and the rise of many new constituencies and political entrepreneurs have also constrained her scope of maneuver vis-à-vis the illicit economies/ organized crime nexus. Her government has undertaken some steps toward limiting the pernicious effects of Myanmar's illegal and resource economies, such as in the suspension of mining licenses and in other efforts toward greater transparency. Yet the effects of such moves so far have been highly limited.

Sporadic and selective enforcement, often with an eye toward local political effects, has characterized many resource and illicit economies in Myanmar. Even under the post-March-2016 government of Suu Kyi, such selective enforcement persists. For example, supported by the environmental NGOs and logging policies adopted elsewhere in Southeast Asia, the military junta banned export of unprocessed logs from Burma in 2006, unless through Yangon and under the auspices of the state-run MTE. In April 2014, the Myanmar transitional government imposed an additional timber export ban. Although meant to reduce environmental destruction, improve the sustainability of the timber industry in Burma, and increase state revenues, these policies also undercut economic profits for the Kachin ethnonationalists and their businesses, thus reducing their economic incentives for peace in a context they considered economically disadvantageous.

However, illegal logging and massive environmental degradation persisted until the 2015 global economic downturn, with participation by all: insurgent ethnic groups, the military, Bamar businessmen, and Chinese companies. Similarly, in October 2015, the NGO Global Witness released a report *Jade: Myanmar's "Big State Secret,"*¹ exposing the outsized role of Myanmar's former military commanders and cronies in the trade and the massive tax evasion and widespread irregularities in licensing and on-the-ground practices, affecting the environment and labor standards, that pervade the jade economy. Wildlife poaching and trafficking also continue to be rampant and fuel a ferociously expanding appetite for wildlife products in China and East Asia. And of course, the opium poppy economy, never replaced with adequate alternative livelihoods, has dramatically rebounded. Meanwhile, the rise of visible drug addiction, particularly the abuse of methamphetamines, and the rise of virulent nationalistic political entrepreneurship, as well as anti-drug militias, generate pressure on the Myanmar government to adopt counterproductive repression policies even as the government has drafted one of the most progressive drug laws in Southeast Asia.

At the top levels of the Suu Kyi government, there is zero tolerance for corruption, an approach that has translated into less corruption at the lower levels of the government and civil service, such as for issuing licenses – a significant and important improvement. However, some allege that the anti-corruption progress, particularly in suspending the issuance of new licenses has undermined badly needed economic growth.

Indeed, the political tension between stimulating economic growth and attempting to institute retroactive anti-corruption and anti-organized-crime and illicit economies measures is high. If the Aung Sang Suu Kyi's government fails to deliver economic growth, even her base may turn away from her. With a significant economic slowdown already characterizing its first year, the government is reluctant to attempt to purge illicit money from the formal economy, as that would have pronounced negative effects on GDP growth, poverty alleviation, and income redistribution. Crucially, the Suu Kyi government fundamentally lacks enforcement capacity vis-à-vis a wide range of actors, from insurgent groups to military companies and powerful businesses. Thus even though new regulations are promulgated in Naypyidaw, they are not enforced on the ground, particularly in insecure and contested areas, but even in the non-violent Bamar center.

Furthermore, the regional geopolitics and the influence and direct role of China in Myanmar's illicit economies further constrain Suu Kyi's space for maneuver. Transnational organized crime actors from China, India, Thailand, and other places are deeply and intimately involved in Myanmar's illegal drug, logging, mining, and wildlife economy. Such transnational dimensions of crime are hardly unique to Myanmar.

However, just as with Afghanistan, geopolitics plays a crucial role in shaping Myanmar's conflict dynamics and the relationship between illicit economies and political transition. Pakistan tolerates crucial safe havens within its borders for Afghan insurgent groups because of Islamabad's geopolitical outlook and power competition with India and because of internal Pakistani political considerations. China's geopolitical positioning and internal political and development policies

critically affect both its policies in and towards Myanmar and Myanmar's policies toward illicit economies. Thus some illegal economies and organized crime in Myanmar, at least until they explode in highly controversial, contentious, and visible confrontations, serve Beijing's and local Chinese interests. A decision in Nyipyidaw to tackle them will be of limited effectiveness unless Beijing and local Chinese government actors are also on board; worse yet, it risks a direct geopolitical confrontation with them.

In short, going after crime and illicit economies needs to be a tool for increasing the power of a democratic and accountable government, and not inadvertently for weakening it. If going after organized crime and actors involved in illicit economies only weakens the new democratically-elected government, either because targeted rivals mobilize and subvert it or because overall economic growth of the country significantly slows down, both the anti-crime project and the larger political democratization project will be unsustainable.

Accordingly, the new government, civil society, and donors should stop treating the military and cronies as a monolithic entity, but rather should look for members who are most inclined toward political and democratic liberalization and cultivate them as allies. These potential allies should be encouraged to comply with desirable international practices toward the resource and illicit economies and rewarded with contracts.

Policies toward illicit economies and organized crime in Myanmar should be guided by the overarching objectives of enhancing the pluralization of power in the country, inclusivity, and accountability. However, they also need to be sensitive to conflict dynamics and cognizant of the determining realities of power distribution.

Given the basic balance of power in Myanmar, recommended are the following set of policy measures:

- Reinforcing political pluralization and accountability, in a way that not only minimizes the pernicious effects of illicit economies and the threats they pose to the state and society, but also maximizes political power accumulation of democratic and pluralistic elements. Neither crony capitalists, nor the Myanmar military and powerbrokers associated with it should be treated as monolithic actors. A sequential peel-off approach should be adopted toward such actors, with those most robustly complying with new accountability and transparency rules built into the fold as allies of the new democratic government. Revenues thus need to be brought on the books without slowing down economic growth. The most pernicious actors should be tackled sequentially, while more transparency is built into the overall system;
- Reinforcing the peace process by properly sequencing policies against illicit economies, including by not insisting on an early elimination of the drug economy without alternative livelihoods being in place and prioritizing alternative livelihoods to tackle artisanal legal logging while cracking down on industrial illegal logging;
- Using actions to tackle Myanmar's widespread and intense poaching and illegal wildlife trade as low-hanging fruit easy demonstrations of the government's resolve to effectively respond to illicit economies.

In short, anti-crime policies need to be viewed through a political-power prism, not merely as technical exercises in building institutions and rule of law.

INTRODUCTION

In November 2015, Myanmar entered a new phase in its history and political development. After decades of authoritarianism and rule by a military junta, the pro-democracy National League for Democracy (NLD), led by the Nobel Peace Prize winner Aung Sang Suu Kyi, overwhelmingly won in a national election against the political party representing the Myanmar military and affiliated crony capitalists. Unlike after the 1990 elections, the military and the quasi-civilian regime created in 2011 when Burma embarked on democratization, ceded power. Barred from becoming president by a clause in the constitution, Suu Kyi has declared herself "above the president"² and devised a new position to assume power. But her power and that of the NLD have been crucially circumscribed by the formal and informal power the Myanmar military retains.

The change in governance also ushered in hope for a new phase in the peace process with ethnic separatist groups who have been at war with the Burmese government for decades, and perhaps for new approaches to Myanmar's illicit economies. Although the Myanmar military has not given up its control over the ongoing and intensified fighting in large parts of the country, Aung San Suu Kyi and the NLD have become involved in the peace negotiations. In responding to the ethnic peace processes and the fighting, the NLD and Suu Kyi will unavoidably confront the many problematic and illegal economies that have been intertwined in both the conflict and the peace processes for decades: drugs, timber, wildlife, and gems and minerals. *These economies have crucially* shaped political developments in Myanmar, including the transition toward greater political and economic pluralism and democracy.

In this case study, I analyze the complex interactions of illegal economies and conflict and peace dynamics and the effects of the illegal economies on Myanmar's political transitions since the early 1990s, including the current period, up through the first year of the Suu Kyi administration. I describe the evolution of the illegal economies in drugs, logging, wildlife trafficking, and gems and minerals as well as land grabbing and crony capitalism, showing how they shaped political transitions and how political evolution and changes shaped them. I also examine the impact of geopolitics and the regional environment, particularly the role of China, both in shaping domestic political developments and the illicit economies in Myanmar. I show how China has been significantly affecting the state of illicit economies and organized crime in Myanmar, encouraging suppression of drug cultivation while being a key enabler and participant in the growth of other illegal economies, such as illegal logging and mining and wildlife trafficking.

For decades, Burma has been one of the world's epicenters of opiate and methamphetamine production. Cultivation of poppy and production of opium have coincided with five

decades of complex and fragmented civil war and counterinsurgency policies. Waves of poppy eradication in the 1970s and 1980s, motivated by both external pressures to reduce illicit crops and internal desires to defund the insurgencies, failed on both counts. An early 1990s *laissez-faire* policy of allowing the insurgencies in designated semi-autonomous regions to trade any products – including drugs, timber, jade, and wildlife -- enabled conflict to subside. The incorporation of key drug traffickers and their assets into the state structures significantly strengthened the state and the military regime. The state was repressive domestically and condemned internationally for its embrace of illicit economies and organized crime, but its survival was reinforced by these permissive policies. The Burmese junta negotiated ceasefires with the insurgencies, and underpinned the agreements by giving the insurgent groups economic stakes in resource exploitation and illegal economies. Under pressure, including from China, opium poppy cultivation was suppressed in the late 1990s and early 2000s, even as unregulated and often illegal trade in timber, jade, and wildlife continued. Although local populations suffered major economic deprivation, the ceasefires lasted. The armed ethnic groups, however, did not lose their source of revenues, compensating for the diminished heroin business by switching to methamphetamines and, with the participation of Chinese businesses, augmenting the legal and illegal extraction of other resources, such as timber and gems.

Since the middle of the 2000s, however, the ceasefires have started to break down, and violent conflict has escalated. Currently, the ethnic conflict in the northern parts of Myanmar is at its greatest intensity since the 1990s ceasefires. There are multiple reasons for this conflict escalation and for the difficulties of transforming the ceasefires into a lasting, just, and inclusive peace. One reason has been the efforts of the Myanmar government and military since 2008 as well as powerful Bamar and Chinese businessmen and powerbrokers (many linked to the military and military business conglomerates) to restructure the 1990s economic underpinnings of the ceasefires so their economic profits increase. Meanwhile, however, illegal and unregulated resource economies, including the drug trade, logging, mining, and wildlife trafficking, have thrived and devastated Burma's ecosystems, even as the plunder-underpinned peace has slid into war again.

In 2011, the Myanmar military embarked on political and economic liberalization that, though a miscalculation, culminated in the election of the Aung Sang Suu Kyi government. However, the military has retained significant formal and informal power. Indeed, despite the military's 2015 parliamentary elections miscalculation, the entire transition had been at the discretion of the junta. Illicit economies played an integral part of the transition process, being a crucial element of the golden parachute that the junta awarded itself. Moreover, with its continuing lock on constitutional power, the military regime also guaranteed itself a sufficient budget.

Any reforms that took place, including those directed at illicit economies, such as the embrace of greater transparency measures in mining, greater enforcement in logging, and the significant weakening of the power of the cronies, were still at the direction of the military. Reforms and actions against illicit economies and organized crime that would not be advantageous to the military's institutional power or enrichment of key individuals have not taken place and could be subverted or vetoed by the key powerbrokers of the military. Similarly, the selective suppression of organized crime and aspects of the illicit economies has served crucial political and strategic objectives of the military.

Thus, any political rivals, including the new post-March 2016 government of Aung Sang Suu Kyi, continue to be significantly limited in how much they can challenge the military or the illicit economies and organized crime it has embraced. Along with the reverence that Myanmar's population accords Aung Sang Suu Kyi, the informal power of the street, and her firm control over the NLD, Suu Kyi has also accumulated considerable formal power over several crucial ministries. In fact, Myanmar's ministries and civil service fear making any decision without the highest approval. But in the larger balance of power with the military, her hand remains weak and she has not chosen to challenge the military on significant issues, including the constitution. That is perhaps not surprising as such moves could still trigger a military coup d'état.

The military's continuing power and the intermeshing of the state and illicit economies have also limited Suu Kyi's scope of maneuver toward the illicit economies. Significantly, the internal political liberalization and the rise of many new constituencies and political entrepreneurs have also constrained her scope of maneuver vis-à-vis the illicit economies/organized crime nexus. Her government has undertaken some steps toward limiting the pernicious effects of Myanmar's illegal and resource economies, such as the suspension of mining licenses and other efforts toward greater transparency. Yet the effects of such moves so far have been highly limited. The regional geopolitics and the influence and direct role of China in Myanmar's illicit economies further constrain her space for maneuver. Moreover, her government lacks any independent enforcement capacity, particularly in the contested part of Myanmar, but even in the non-violent Bamar center.

Suu Kyi has not been able to translate her mandate to robustly start a peace process in Myanmar. Although she has embraced a more inclusive peace process than the military, after the first year, many of Myanmar's ethnic groups have soured on her government. Nor has her administration or the ethnic groups formally contemplated how to address Myanmar's illicit economies in relationship to conflict. Simply suppressing them runs a high chance of augmenting conflict intensity and eviscerating even the existing ceasefires. Through the first year of her administration, she has not been able to add significantly to the economic and political

liberalization and efforts to reshape Myanmar's illegal economies and organized crime that were undertaken during the transition quasi-civilian government of President Thein Sein.

Moreover, going after crime and illicit economies, badly needed to strengthen the rule of law, creates immediate and intense political costs that weaken an already weak government. Selectivity and prioritization in what crimes, illicit economies, and criminals are tackled at what stage is strongly required. The basic operating principle should be that going after crime and illicit economies is a tool for increasing the power of a democratic and accountable government, and not inadvertently for weakening it. If going after organized crime and actors involved in illicit economies only weakens the new democratically-elected government, either because targeted rivals mobilize and subvert it or because overall economic growth of the country significantly slows down, both the anti-crime project and the larger political democratization project will become unsustainable.

Accordingly, the new government, civil society, and donors should stop treating the military and cronies as a monolithic entity, but rather should look for members who are most inclined toward political and democratic liberalization and cultivate them as allies. These potential allies should be encouraged to comply with desirable international practices toward the resource and illicit economies and rewarded with contracts.

This case-study proceeds as follows: After providing a historical background on the intermeshing of illegal economies, including drugs, and military conflict in Myanmar, the paper discusses how the Tatmadaw (the Myanmar military) used illicit and resource economies in Myanmar as bargaining chips to mitigate conflict and obtain ceasefire deals from the armed insurgent groups. It also incorporated organized crime into the state structure to boost the state's and junta's viability. The following section discusses how the Tatmadaw then, in the late 1990s and 2000s, proceeded to renegotiate the bargains by which it acquired for itself greater stakes in the illegal economies to personally enrich top junta members as well as strengthen the regime. Crucially, the Tatmadaw would also use selective redistribution of access to the illicit economies as a mechanism to keep armed opponents subdued and to reward the pliant ones and direct proxies. The next section discusses why and how the junta decided to embrace political and economic liberalization in Myanmar and how it used the country's illicit and resource economies to award itself a golden parachute out of absolute formal power. I show how it designed the transition in a way that still accords it both decisive formal and informal power and maintains its privileged access to the country's resource and illegal economies. This section also details how the then President Thein Sein nonetheless undertook significant policy changes to limit the pernicious effects of the country's resource economy. And the section discusses how and why military conflict escalated and the limits of the

peace negotiations the military attempted. The chapter then discusses the initial steps that the Suu Kyi government took toward the peace process amidst escalating military conflict, its efforts at greater internal political liberalization, and toward the country's illicit and resource economies. It also assays the many constraints the government faces in advancing these agendas. After a summary of the conclusions, the paper provides policy recommendations for feasible steps Myanmar's government can take to advance the multiple goals involved in furthering and sustaining a progressive democratic transition and mitigating the pernicious effects of illicit economies.

INSURGENCIES, MILITIAS, AND DRUGS: THE HISTORICAL BACKGROUND

The ethnonationalist insurgencies, such as those of the Shan, Karen, and Kachin, have at various times sought independence, autonomy, and the reconfiguration of administrative boundaries. The now-defunct communist insurgency was led by the Communist Party of Burma (CPB) and was composed mostly of the Bamar, the largest and most politically and economically dominant ethnic group in the country. The CPB sought to change the political order in Burma and was supported until the 1980s by China. Also long dissipated, the Chinese nationalist Kuomintang (KMT) invasion force was driven into the Shan State of Burma from the Yunnan Province in China after Mao's victory in China in 1949.³ Overall, more than forty belligerent groups emerged during the fifty years of conflict. Some, such as the CPB and the Mong Tai Army (MTA) of the notorious opium warlord Khun Sa, numbered around 15,000 men. Others, such as the ethnonationalist Kayan Newland Party (KNLP), numbered barely over a hundred.⁴ In addition to using its official national army to fight the counterinsurgencies, the Burmese state over many decades also created various anti-insurgent militias, co-opting rebels who were willing to switch sides as well as entire armies of drug lords. Among the most notorious of these militias have been the Ka Kwe Ye (KKY) in the Shan State of the 1960s and the Panhsay People's militia of the 1990s and 2000s.

All of the insurgencies, as well as the government-sponsored paramilitaries, became involved in a variety of illicit economies, such as drugs, illegal logging, illegal mining, and smuggling in gems, licit luxury goods as well basic food products. Kokang's KKY, for example, was led by Lo Hsing-Han, one of the world's most successful drug traffickers.⁵ Drugs especially, deeply permeated all aspects of politics and conflict in Burma and the larger Golden Triangle, with various insurgency groups deriving both physical resources and political capital from sponsoring and participating in the illicit drug economy.⁶ Various drug traffickers – often colorful characters such as the lesbian Kokang warlord Olive Yang, a.k.a. “Miss Hairy Legs,” who dominated the Kokang drug trade and was a key figure in war and peace-making in

Burma⁷ – also bought themselves armies to control land and narcotics production.

Starting in the late 1960s, the military government adopted a counterinsurgency policy designed to cut off the belligerents from resources. This so-called “Four Cuts” policy was meant to cut off the rebels' supplies of food, funding, recruits, and intelligence. It included both forced relocation of the population and eradication of opium, and was carried out by the government and by the United States via aerial spraying.⁸ But this counterinsurgency policy systematically failed to limit the resources available to the belligerents. In fact, the main insurgencies kept steadily growing.

It is important to note, however, that all along the Burmese military government deployed eradication selectively, as a method to weaken and punish opponents and strengthen and pay off supporters. The poppy fields of pro-government militias or insurgencies and druglords who reduced their military activities against the government and agreed to battle opponents were not subject to eradication, at least until the rebels switched sides again. Nonetheless, for over forty years, the government was unable to defeat the insurgencies and establish territorial control.

In the late 1980s, two crucial changes took place. First in 1988, anti-government protests, fueled by a collapsing economy and desire for democracy, broke out throughout the country, including, crucially, in the central part of Burma and in the then-capital and biggest city, Yangon. As a result, the military government of Ne Win was replaced by a new junta, the State Law and Order Restoration Council (SLORC),⁹ which brutally put down the demonstrations. Second, the Communist Party of Burma, which after 1981 no longer received support from China, splintered in 1989 along ethnic lines into five major factions: the 12,000-strong United Wa State Army (USWA), the 2,000-strong Kokang Myanmar National Democratic Alliance (MNDAA) led by Peng Jiasheng, and three smaller groups in the Kachin and Shan states.

THE ECONOMIC CEASEFIRE BARGAINS OF THE 1990s

Fearing that the new insurgencies would join forces with the pro-democratic movement and protesters in the country's center, the junta, primarily through the intelligence chief Lieutenant General Khin Nyunt, proceeded to negotiate cease-fires with the various insurgencies. It did so *de facto* by giving the insurgent groups “licenses” to trade in whatever products they wanted, including drugs, as an incentive to agree to the ceasefire. Lo Hsing-Han, having previously met with key insurgent commanders such as Peng Jiasheng, was crucially instrumental in negotiating the deals, breaking off various ethnonationalist commanders from the CPB through the promise of drug riches, for which he himself was a model. In April 1989, Peng Jiasheng of the MNDAA was

one of the first to buy into the ceasefire deal and its profits, obtaining semi-autonomy in the area of his operation and its designation of Special Region Number 1. The USWA then struck a similar deal, obtaining Special Region No. 2, as did the National Democratic Alliance (NDAA), with its Mong-La-based Special Region No. 4.

Despite U.S. protests, drug de-certification, and economic sanctions, the junta also suspended eradication of opium poppy.¹⁰ In the background of the ceasefire negotiations was a major push by the junta for the modernization of the armed forces and improvements in their counterinsurgency skills and force structure. This military reform did result in improved logistics and mobility and greater government presence throughout the territory. It significantly enhanced the efficacy of the government's counterinsurgency operations, adding further pressure on the insurgencies to agree to the proposed ceasefires and their economic benefits.¹¹

Indeed, the centerpiece of the ceasefires was the junta's acquiescence to the belligerents' continued trade in any goods in their territories. In the Kachin State, the various rebel groups – the Kachin Defense Army (KDA), the New Democratic Army Kachin (NDAK), and the Kachin Independence Army (KIA) – were allowed to harvest timber and opium poppy and mine gems and gold. In the Karen State, the Democratic Karen Buddhist Army (DKBA) also taxed opium poppy cultivation and trafficked with opium and timber. In the Shan State, the UWSA, the Shan State National Army (SSNA), the MNDAA, and the MTA were given similar *laissez-faire* toward the trade of drugs.¹² In what Kevin Wood termed “ceasefire capitalism,”¹³ the junta *de facto* legalized all manner of cross-border trade with China, Thailand, and India on condition that government checkpoints be established and taxes also collected for the central government. Drugs were officially not taxed, but also not interdicted. Indeed, local Tatmadaw units not only taxed drug traffickers informally, but sometimes also opium farmers directly.¹⁴ Various local government officials nonetheless cut large profits on the drug trade. In some cases, such as insurgent leader and drug trafficker Sai Lin and his special region No. 3 bordering the Yunnan province of China, these harvesting and trading licenses were complemented by various degrees of autonomy. Surprisingly, the *laissez-faire* policy toward drugs and other illicit and unrelated economies did not result in a massive increase in poppy cultivation. Between 1991 and 1996, cultivation and production stayed at about the same level (160,000 hectares or 2,350 tons in 1991, and 163,100 hectares or 2,560 tons in 1996).¹⁵

The junta also struck similar bargains with the most prominent drug lords, including Khun Sa and Lo Hsing-Han, allowing them to invest their profits in legitimate businesses, such as construction, paper mills, beer factories, banking, and food supermarkets.¹⁶ Lo Hsing-Han, for example, founded the business empire of the Asia World Company, building

dams, pipelines, and highways in Myanmar.¹⁷ By 1998, more than half of Singapore's investments in Myanmar, worth \$1.3 billion, were made with Asia World.¹⁸ Khun Sa, Lo, and other drug traffickers operated major legal companies, including Good Shan Brothers, Asia World, Asia Wealth, and Kokang Import Export Co. When the country's economy continued to crumble as a result of decades of mismanagement and economic sanctions imposed on Burma by the United States and Europe, the significance of these illicit profits for the overall economy continued to grow and became more and more officially sanctioned. The regime absorbed the illicit money to keep the overall economy afloat. The traffickers-turned-businessmen also provided repairs to ports and construction of major roads, such as between the cities of Lashio and Muse and even in central Myanmar, making them grow not only fabulously rich but also politically powerful and friendly with the regime.¹⁹ MNDAA's Peng Jiasheng also developed close personal ties to the SLORC, and his MNDAA essentially refrained from making political demands for almost two decades.²⁰ Both the traffickers and the insurgent groups used the illicit proceeds to build political capital. The insurgent groups, such as the USWA, sponsored various public goods and social services in their regions, including roads and overall local economic activities, as well as schools, hospitals, courts, and prisons. The traffickers indulged local populations with lavish handouts.

The case of Burma thus represents a twist on *laissez-faire* toward illicit economies as a mechanism to reduce violence. The junta did not use *laissez-faire* either to win the hearts and minds of the population, or to decrease the population's support for the rebels, or to provide the government with intelligence. Rather, the junta used *laissez-faire* toward illicit economies and unregulated natural resource exploitation to buy off the insurgents and their leadership and make it materially advantageous for them to stop their armed struggle. It thus created a complex system of overlapping and shifting economic and political authorities, plus coexistence as well as competition among the ceasefire groups, national military units, local entrepreneurs, state-owned enterprises, and Chinese economic and political interests.²¹

After fifty-years of war, this political-economic bargain, though hardly static, essentially held for almost two decades. The division of the illicit economic pie allowed the junta to coopt its insurgent challengers. By giving the various ethnic rebels a license to plunder, the junta was able to mitigate conflict and achieve not peace, but lasting ceasefires. And for the ensuing two decades it would insist to the insurgent groups that it could not negotiate a permanent political settlement with them since it was merely a caretaker government and only an eventually officially-installed non-caretaker government could make a permanent deal. In addition to the cooptation and official redistribution of illicit and resource economies, the junta incorporated key organized crime figures, often leaders of ethnic insurgent groups or militias, to come in from the cold and formalize their illicit

gains in exchange for their support of the country's economy and political survival of the junta. The illicit and resource economies were thus key to conflict mitigation in the 1990s and for two decades after that.

RENEGOTIATING THE CEASEFIRE BARGAINS IN THE LATE 1990s AND IN THE 2000s DECADE

But renegotiations of the ceasefire deals also began rather quickly, because such restructuring served the interests of the military junta and because international pressures made it difficult to sustain the illicit-economies-based-conflict mitigation in an overt form. First, as the ceasefires went on, the government successfully pressured some of belligerent groups to disarm and hand over their weapons, making it less viable for them to return to conflict.²² However, while exercising autonomy in special designated regions, other rebel groups and their leaders maintained large standing armies. Throughout the 2000s, the United Wa State Army, for example, boasted 20,000 soldiers, while the Kachin Independence Army claimed to have 4,000 men under arms, a number that likely significantly increased during the decade. Both armies and others retained the capacity to raise soldiers anew and return to violent conflict, should the grand ceasefire bargain fall through – as it ultimately did in the late 2000s.²³

Nonetheless, under pressure not only from the United States but also China – whose addiction rates were growing, and whose increasingly powerful drug traffickers began to pose a threat to the authority of the Chinese Communist Party in the border regions – the Burmese junta finally undertook large-scale eradication of poppy in the late 1990s and early 2000s.²⁴ It also forced the rebels in their autonomous territories, such as Sai Lin in his Special Region No. 3 and the United Wa State Army in its area, to carry out similar eradication.²⁵ The NDAA in Mong-La formally banned cultivation in 1997, as did the MNDAA in 2003, and the USWA in 2005. Dependent on wider trade with China, the former belligerents found it hard to resist the counternarcotics pressures. Under DEA supervision, Special Region No. 3, for example, once a hotspot of opium, was essentially cleared of poppy.²⁶ Overall, production fell to 30,800 hectares (and 312 metric tons) in 2005²⁷ and 28,500 hectares (and 410 metric tons) in 2008, with the Shan State being the dominant locus of the remaining poppy cultivation.²⁸

Although the ceasefires survived the eradication drives, the rural population was drastically immiserated. Grinding poverty and disease became rampant. Poppy eradication was overwhelmingly a top-down process, often ignoring elemental needs of the population. In the Wa area, for example, the USWA ordered the relocation of some 50,000 poppy farmers to an area near the Thai border, with USWA commanders telling village headmen that a village would be moved on a specific date with little preparation time given to the village.

Moving the traditionally highland populations to lowland areas where climate and livelihoods were altogether different, and without significant provision of assistance, generated tremendous hardships. Though monitoring of the relocated population has been poor some two decades later, at least 3,000 people are believed to have died fairly immediately as a result of malaria and diarrhea.²⁹

As coping mechanisms, former opium farmers turned to unrestrained logging, forest foraging, and illicit trade in wildlife for subsistence and profit. A rampant, escalating, and increasingly systematically-organized trade in timber and wildlife into China devastated Burma's unique biodiverse ecosystems, which until then had been some of the best-preserved in Southeast Asia. The most marginalized former opium farmers, not capable of switching to unregulated natural resources exploitation and destruction, had food security for only eight months. For the remainder of the year, they had to rely on foreign food aid.³⁰ As basic social services collapsed, those unable to join the rampant logging and poaching left the hill regions where poppy cultivation used to be the dominant activity. Because eradication drives were now tolerated or even implemented by the former insurgents themselves, the insurgents' political capital greatly decreased.³¹ But as the ceasefires had suspended military conflict, the central government and the armed ethnic groups were no longer in competition for the hearts and minds of the population. Thus both actors could afford to carry out large-scale poppy eradication while being indifferent to the local populations' needs. The local population had no recourse – either militarily or via nonviolent accountability channels with the ethnic groups' leaders.³²

Indeed, areas where eradication and poppy suppression have, up to today, been most lasting have been areas where the political leadership has not been highly accountable to local populations, such as in the Wa, Mong La, and Kokang areas. Born out of the CPB, UWSA and MNDAA long exhibited centralized authoritarian tendencies in their leadership as well as being crucially dependent on at least indirect support from and toleration by China. Hence they have been acutely responsive to China's pressure regarding the elimination of opium poppy, often inviting Chinese officials to verify poppy eradication drives, despite the huge hardships on local populations.

Meanwhile, the belligerents-cum-leaders of their autonomous regions and prominent drug traffickers did not go bankrupt. Groups such as the UWSA and MNDAA maintained their income by switching to the production and trafficking of synthetic drugs, mainly methamphetamines. In the Shan State alone, over 50 meth factories began operating.³³ Unlike opium poppy fields, such factories were easy to hide, and consequently difficult to destroy. But since the production of synthetic drugs is not labor-intensive, this illicit economy provided minimum relief of the economic destitution of former opium farmers.

Crucially, the groups also embraced trading in gems and minerals, such as jade and tin, and timber. The USWA, for example, developed significant interests in both jade and tin (at least until tin prices collapsed). Mineral extraction once again often took place at the expense of local populations. The post-ceasefire extraction has centered on prominently involving Chinese companies capable of more efficient industrialized mining. The new practices have displaced artisanal local miners, reducing job opportunities.³⁴ The industrialization of mining, featuring the connivance of ethnic leaderships, Tatmadaw officials, prominent junta members, and Chinese companies, also brought systematic violations of existing mining regulations, human rights violations, vast-scale environmental degradation, and frequent accidents to local workers and surrounding villages, such as in the forms of landslides or polluted waterways. In many cases, Chinese companies also imported their own workers, again displacing local populations from the remaining labor markets, further impoverishing the marginalized local ethnic populations.³⁵ The resource/illicit economy that came to underpin the ceasefire deals was, like the meth economy, not labor-intensive -- once more, shortchanging local populations.

Valued at billions of dollars, perhaps even tens of billions of dollars per year (as elaborated below), the jade industry in particular came to be one of the most significant resource economies, perhaps even surpassing the value of the drug economy. Once industrial extraction revealed the economic value of jade (as well as timber), its economic as well as political significance also did not escape the eye of the junta. The junta thus quickly proceeded to restructure the ceasefire deals around jade mining, and took over some major mining concessions. For example, it took over the highly profitable Hpakant mine, taking that area away from the KIA which was left with merely taxing the transport routes from the mines. When the taxed companies, including Chinese, became dissatisfied with the KIA taxation policies, they could mobilize the Tatmadaw, guarding the mine, to suppress and reign in the KIA. The major profits from the mine would accrue to Gen. Than Shwe, Burma's head of state from 1992 to 2011, and his close associates and so-called cronies, key privileged businessmen associated with the junta.³⁶

Significantly, business conglomerates linked to the Tatmadaw, such as Myanmar Economic Holdings Limited (MEHL), also came to enjoy a special access to the Hpakant mine, and other resource economies and trade more broadly, serving crucial political survival interests of the military. Control of the jade economy became a key enrichment and strategic priority for the junta.³⁷ The military also sought to guarantee a steady pension for former Tatmadaw officials and soldiers and thus keep them from rebelling. The MEHL and other military-linked economic conglomerates and cronies were hence accorded monopolies on the import of various consumer goods, such as beer, liquor, cooking oil, rice, and beans, and the export of commodities such as gas and oil.

Similarly, as the value of timber extraction grew in the 1990s and 2000s and became prominently visible, the junta once again sought to renegotiate the ceasefire deals, creating its own large economic interests in operating and appropriating revenues from extraction economies, even in areas of the ceasefire deals. In the timber sector, the Myanmar Timber Enterprise (MTE) is formally the only entity permitted to extract and trade timber,³⁸ even as ethnic leadership groups would award their own concessions to Chinese companies for the extraction of valuable hardwoods. Beyond acquiring crucial economic profits and political power for the junta, the creation of entities such as MTE also allowed the government to attempt to regularize the vastly environmentally-destructive timber economy, criticized by NGOs such as Environmental Investigative Agencies and Global Witness.³⁹

This restructuring of economic bargains did not take place merely between the military and the various ethnic insurgents. The Tatmadaw also reshuffled economic spoils among the insurgent groups, as a mechanism to reward the pliant and coopted and to punish those who militarily or politically threatened local arrangements or engaged in military actions against the central government and the Tatmadaw. Thus, the USWA was not only allotted jade mining concessions even outside the areas of its control, but also allowed to become deeply invested in Yangon's economy while maintaining its large and perhaps growing profits from the illegal meth economy. Within the context of this Machiavellian political-economic bargaining, families of even key ethnic insurgent rebels came to be linked to the family of General Than Shwe.⁴⁰

Conversely, disobedient groups, including the KIA, were punished, such as through having their timber concession bombed or their poppy fields eradicated.⁴¹ Meanwhile, to compensate for its limited territorial presence, the Tatmadaw continued to coopt anti-insurgent militia groups by giving them selective access to poppy taxing and the drug trade. Despite the political liberalization and a transition to a post-junta regime since 2010 (described below), these policies persist.⁴² Thus in some areas where claimants to political power overlap in their spheres of influence and territorial control, illicit and resource economies, as well as local populations, such as poppy farmers, may be subject to taxation by as many as five armed actors.⁴³

Control of land -- in a country where most, particularly poor populations, lack titles to land -- became a crucial element of being able to control resource economies and hand out concessions. Thus until the economic and political liberalization that began in Myanmar in 2011, the junta and individual military commanders also engaged in massive amount of land grabbing, to facilitate their timber and mineral concessions or agricultural production, such as for Chinese rubber and African palm oil plantations. Once again, the land grabs generated personal and institutional revenue sources, and had strategic value. Military services and military-linked

companies occupied large tracts of land, particularly those close to roads from which extraction and transportation were more efficient but which were also strategically important for military movement during flare-ups of conflict with insurgent groups. Often, however, the military units occupied far more land than they officially required for their airfields or military bases, often multiple times that amount. They compensated local people from whom they seized the land poorly and sometimes not at all, selling extra land to other Myanmar businesses or Chinese companies.⁴⁴ Ethnic insurgent groups dealing with Chinese companies, also illegally grabbed land from local populations to enable their cross-border trade and resource extraction.⁴⁵ Such land grabs not only undermined justice and inclusion, but also fueled social strife.

The progressive accumulation of economic revenues from the structured economic ceasefire bargains, the gradual accretion of economic power at the expense of the insurgency, and the overall strengthening of the state led the junta in the late 2000s to attempt a more formal political renegotiation of the ceasefire deals. In 2004, the architect of the ceasefires, Lieutenant General Khin Nyunt, was defeated in an internal power struggle and was arrested. Several key insurgent leaders who had bought into the ceasefires were also arrested between 2004 and 2005.

Then in 2008, the junta passed a new constitution. Reflecting the lack of meaningful participation of ethnic insurgent groups and ethnic populations in the process, the constitution formally centralized resources in the hands of the central state, giving ethnic areas disproportionately little. It also concentrated in the central state control of all land not licensed to other actors. Considering its provisions highly unfair, the insurgent groups rejected its validity and insisted on another constitution-drafting process in which they would have an equitable role. These remain key positions of the ethnic armed groups and significant proportions of local ethnic populations to today.

In 2009, the military junta further upended the key elements of the 1990s ceasefires by demanding that the standing insurgent armies be transformed and absorbed into a Border Guard Force (BGF) under the control of the Tatmadaw. As if to add insult to injury, anti-insurgent militias constituted a core of the BGF. Thus if the insurgent groups agreed to be incorporated into the Force, they could be substantially defanged and lose the ability to return to violence even though no final political settlement for autonomy and political participation for the rebel groups had been reached. Repeating its time-tested approach, the Tatmadaw also used the BGF ploy to splinter and co-opt the rebel groups, provoking divisions and in-fighting within them over political goals as well as economic spoils. The post-2009 divisions and in-fighting among the Karen provides one example of this divide-and-rule strategy.⁴⁶ Many of the Karen groups, including the main Karen National Union (KNU), did not sign a ceasefire with the Myanmar government during

the 1990s and 2000s decades, while others did. The BGF scheme further exacerbated the fragmentation among them.

Similarly, in 2009 the Myanmar military junta pushed out Peng Jiashang from the leadership of the Kokang Myanmar National Democratic Alliance and forced him into exile in China. The Myanmar government replaced Peng with a former Kokang police chief accused of drug trafficking, Bai Xuoqian, who had agreed to integrate his militias into the BGF.⁴⁷ Other pro-government militia leaders who agreed to integrate into the BGF and otherwise cooperated with the junta were rewarded not only with drug trade allocations, but with parliament positions.

Most of the ethnonationalist groups, including the UWSA, KIA, and MNDAA, however, refused the BGF demand. Fighting between some of the groups and the military broke out, setting off violence in areas which had been quiet for two decades. Some 37,000 people, mostly Kokang, fled into China.

POLITICAL LIBERALIZATION AFTER 2010 UNDER PRESIDENT THEIN SEIN AND RENEWED NEGOTIATIONS WITH ETHNIC GROUPS

After several rounds of increasing repression, including of the Bamar majority and involving a violent putdown of the so-called Saffron Revolution (a series of protests against the regime by Buddhist monks between August and October of 2007), the junta decided to embark on significant political and economic liberalization. Between 2011 and 2016, under the leadership of President Thein Sein, the military negotiated its relinquishment of some of its formal power while granting itself payoffs in the form of continued privileged, if reduced, access to the country's resource economies. But since the negotiated reduction in its own power was fully at the discretion of the junta, and not the outcome of powerful street protests a la the Arab Spring, for example, the military gave itself a golden parachute, still retaining privileged access to (il)legal mining and logging and, at the level of individual commanders, also to the opium poppy economy. President Thein Sein economic reforms and his anti-corruption and rule of law efforts significantly reduced in particular crony capitalism. The prominent political opposition leader, Aung Sang Suu Kyi, was now frequently consulted. A leading parliamentarian after the 2012 by-elections in which her party – the National League for Democracy (NLD) – was allowed to run, she became an important voice in the reform efforts. Even so, the crucial transition period was still within power parameters preponderantly favoring the military and former prominent junta powerbrokers. And the shape and scope of the transition took place at the direction of the military.

The golden parachute the junta granted itself also crucially included retention of significant political power, including

a lock on decision-making, and the ability to prevent the accountability of its members. The constitution that the junta had written and passed endowed it with crucial powers, including a veto on significant decisions, by reserving 25 percent of the seats in the parliament to the military and making it a requirement that any constitutional amendment be passed with at least a 75 percent majority. In addition to having physical power on the ground as a result of its widespread presence throughout the country, the military thus gave itself autonomy over constitutional affairs. Moreover, it also passed a law that any president of Myanmar and his or her spouse, children, or the parents not be citizens of a foreign country, thus disqualifying Aung Sang Suu Kyi because her two sons are British citizens.

Several trends coincided by 2010 to motivate the junta to embark on economic and political liberalization, however incomplete, and still granting the military extensive powers. Political repression had become costlier domestically and more visible internationally. As a result of two decades of economic sanctions and many more years of economic mismanagement, the state of the economy was terrible. In 2009, the country's GDP, for example, was only half that of Laos. The military holding companies, crucial actors economically as well a device for preserving the military's power, were not run well and many were performing poorly. The military's leadership thus increasingly came to believe that its power interests could be better served by stable, parliament-approved budgets in the contexts of a growing and liberalized economy.⁴⁸

Outward orientated considerations also played a crucial role. Top among them was a fear on the part of the junta that Myanmar could become a *de facto* province of China, dominated both economically and politically by its preponderant neighbor. An improvement of relations with the West and greater legitimacy within ASEAN would allow the leadership to break from its singular dependence on China.

Crony Capitalism

Under President Thein Sein, significant economic liberalization was in fact undertaken, with a surprising willingness to change economic arrangements with privileged economic actors. As a result of growing economic competition, the footprint of the military conglomerates and crony companies in the formal economy was reduced. The scale of their footprint and power decrease is hard to ascertain as no formal and reliable data on crony companies exist in Myanmar and even the basic trends are disputed among experts.⁴⁹ Nonetheless, real and significant changes did take place. Privileged licenses on imports and exports and previously licensed monopolies were terminated. Until 2011, many military-linked companies were exempt from taxes, but President Thein Sein forced them to start paying taxes. Although the former cronies still enjoy significant economic advantage today because they have accumulated capital, as described below, the playing field was significantly levelled.

Even major military conglomerates, such as MEHL came to be subject to the Myanmar Companies Act of 2015 and face exposure of their bad practices. Further pressures to corporatize so as to compete with better-performing companies may stimulate better corporate practices and ultimately a reduction in illicit and organized crime aspects of their past and present. While the economic restructuring was hardly fully transparent, the possibility that Myanmar would replicate the 1990s Russian sell-off of state assets to oligarchs and mafia-like businesses did not take place, though a far less transparent privatization of state-owned gas stations and companies, involving a lot of money and power, took place even before the 2011 liberalization.

Corruption and Land Grabbing

Thein Sein also launched an anti-corruption drive, limited in its reach and determination mainly to the civil service, but nonetheless significant. A comprehensive new land law was passed that put a price on land by allowing land to be sold. At the same time, in addition to a paucity of clear titles, the land law repeated an old stipulation that allocated land must be developed within four years or the land can be taken back. While nominally meant to resurrect Myanmar's agriculture and prevent vast tracts of land from continuing to lie fallow, the stipulation also allows the government to seize land and thus generates uncertainty and can be subject to manipulation.⁵⁰

In addition to the new land law, during the 2011-2016 Thein Sein transition years, even some stolen land, amounting to perhaps some million acres, was returned to local populations as a result of civil society mobilization.⁵¹ While civil society mobilization was crucial, the government's willingness to allow justice to proceed was not an irrelevant factor. Land grabbing also slowed down at least in the Bamar center of the country, though it hardly went down to zero. In Yangon, for example, the military conglomerate MEHL was complicit in grabbing land for development in slum areas.⁵² On a much larger scale, land theft has continued often unfettered in various contested or ethnically-held areas, whether at the hands of Tatmadaw commanders or local ethnic insurgent groups and their Chinese business backers. Internally-displaced people and populations living in areas of active conflict are particularly vulnerable, but so are individuals in more stable areas who have land titles. For example, the land in the Kachin state that belonged to displaced Kachin populations, as a result of escalating military conflict has been invaded by both Bamar people from other parts of the country as well as Chinese companies. Thus even if the internally-displaced populations wanted to go home as a result of the reduced fighting in their home areas, they often cannot.⁵³ Land grabbing remains particularly pervasive around newly-discovered or opened-up major economic resources, such as mineral mines. Enforcement of the new land law and the prevention and prosecution of land crime thus continues to be highly imperfect and sporadic.

Illegal Logging

Sporadic and selective enforcement, often with an eye toward local political effects, also characterizes other resource and illicit economies; and such selective enforcement continues to today, under the post-March-2016 government of the major opposition political figure Aung Sang Suu Kyi. Illegal logging and trade, sponsored by many actors, including ethnic insurgent groups, for example, thrived until 2016, both undermining the intent of government policy and reducing economic incentives for a peace deal. In 2006, facing intense international criticism from international environmental groups for the razing of forests in Burma, China and Myanmar struck a new timber trade deal.⁵⁴ Supported by the environmental NGOs and logging policies adopted elsewhere in Southeast Asia, the deal banned export of unprocessed logs from Burma, unless through Yangon and under the auspices of the state-run MTE. In April 2014, the Myanmar government imposed an additional timber export ban. Although meant to reduce environmental destruction, improve the sustainability of the timber industry in Burma, and increase state revenues, these policies also undercut economic profits for the Kachin ethnonationalists and their businesses, thus reducing their economic incentives for peace in a context they considered economically disadvantageous.

Even though logging was also formally banned in the areas controlled by the KIA, illegal logging and massive environmental degradation persisted until 2015, with participation by all: the insurgents, the military, Bamar businessmen, and Chinese companies.⁵⁵ The illegal trade violates the 2006 timber deal between China and Myanmar as well as the 2014 Myanmar national log export ban. However, the illegal timber trade is economically very significant for Yunnan, amounting to 24 percent of its trade.⁵⁶ Overall, legally and illegally, China imported 37 percent of Myanmar's timber exports in 2013, second to India's imports amounting to 45 percent.⁵⁷ Many economic and political stakeholders thus have an interest in violating formal policies, and Yunnan authorities have been loath to block the entry of illegal timber (as well as illegal wildlife products and gems). Possibly as much as 94% of Yunnan's timber imports from Myanmar were illegal in 2013.⁵⁸ An unregulated trade in charcoal, often produced from illegal timber, has also boomed since 2006. Supplying China's silicon smelting industry, charcoal now represents a third of Myanmar's timber exports, though charcoal production was almost non-existent in Myanmar before 2007.⁵⁹

Overall, between 1990 and 2010, the estimated area of dense forest cover in Myanmar fell from 45 percent of the land mass to less than 20 percent.⁶⁰ At least a third of the remaining forest is under threat over the next 20 years unless better controls are established and implemented. Illegally harvested and overharvested timber species include teak, rosewoods, and *lagerstroemia*.⁶¹ Commercial-size trees have been logged out in much of the Kachin State, with some species on the verge of commercial extinction.⁶²

Nonetheless, once again, the Thein Sein government took some unprecedented enforcement measures. In addition to the 2014 timber ban, in early 2015 it also arrested 155 Chinese loggers operating in Kachin state, one of the primary areas of deforestation and logging. The arrest may not have been directed from Naypyidaw; rather it could have reflected local power and business rivalries among Tatmadaw commanders operating in the area. Although the Chinese sponsors of the loggers apparently believed that they paid sufficient bribes to the KIA and the right Tatmadaw commander, another Tatmadaw commanders proceeded with the arrest.⁶³ Nonetheless, regardless of the motivation for the arrest, Nyipyidaw did not simply hush it up by immediately releasing the Chinese loggers. Instead, despite significant criticism from China,⁶⁴ the loggers went to trial in Myitkyina, the capital of the Kachin state, and received very lengthy sentences of between 10 and 20 years. Those actions played well into Bamar nationalism and anti-Chinese sentiments in advance of the October 2015 parliamentary elections. The Myanmar government ultimately decided to reduce tensions with China over the arrest, and a week later, the loggers were pardoned along with 7,000 other Myanmar prisoners as part of a presidential amnesty.⁶⁵ Despite the political games and the relative ease of the target -- not a particularly powerful internal or external actor -- the arrest and trial for illegal logging generated a great deal of visibility.

Jade and Gem Mining

Similarly, although profitable jade mines in the Kachin area were temporarily formally closed in 2012 and official jade production plummeted by 50 percent, the illegal trade thrived.⁶⁶ In 2011, 21,000 tons of the estimated 43,000 tons of raw jade disappeared into the black market.⁶⁷ The overall value of Myanmar's jade industry was then estimated to be between \$6 billion and \$8 billion, amounting to 15% of the country's GDP.⁶⁸ In October 2015, the NGO Global Witness released a new report, *Jade: Myanmar's "Big State Secret,"* assessing the jade trade as worth \$31 billion in 2014 alone, almost half of Myanmar's formally estimated GDP.⁶⁹ These data points are highly contested: Many former government officials in Myanmar and independent experts based in Yangon dispute the numbers, arguing that they significantly overestimate the size of the jade economy.⁷⁰

Nonetheless, irrespective of the actual revenue size, massive tax evasion and widespread irregularities regarding licensing and on-the-ground practices, such as regarding environmental and labor standards, pervade the jade economy. Just like with timber extraction, given the significant violation of rules, the jade economy, while its ultimate *product* is legal, can well be understood as an illegal economy. The profits are predominantly captured by Tatmadaw commanders, including the most powerful members of the former junta, Chinese traders, privileged leaderships of insurgent groups, such as the KIA and the USWA. Military business conglomerates, such as the Union of Myanmar Economic Holdings, placed under U.S. sanctions in 2008, still dominate the jade

trade and long were a powerful voice in determining the allocation of licenses.⁷¹ Few economic benefits of the mining trickle down to local communities. The conditions for miners are mostly awful, with a lack of health, safety, and labor standards. Mining towns feature gambling dens, brothels, and open-air shooting-drug galleries. Many miners use heroin, and the spread of infectious diseases, such as HIV/AIDS (often the result of needle-sharing), is high.⁷² Illegal (as well as licensed) mining has also exacerbated environmental destruction, forcible eviction, and land theft.⁷³

Nonetheless and significantly, the Thein Sein government pursued Myanmar's acceptance to the Extractive Industries Transparency Initiative (EITI). Considered a global standard for the promotion of accountable extractive industry, EITI seeks to ensure transparency in extractive industries along the entire value chain. This was perhaps Thein Sein's most significant reform moves in the resource sector, as it would mandate transparency in licensing and revenues, including the disclosure of beneficial ownership. Myanmar was accepted as a candidate country by EITI in July 2014.

Wildlife Trafficking

Wildlife poaching and trafficking also continue to be rampant and fuel a ferociously expanding appetite for wildlife products in China and East Asia.⁷⁴ The border towns of Mong La and Tachilek have long constituted one of Asia's largest and long-established hubs for illegal ivory, tiger products, pangolins, and many other species.⁷⁵ However, major tourist hubs and trade centers, such as Mandalay, are increasingly featuring large-scale formal stores selling legal and illegal wildlife products.⁷⁶

Many of the local populations are readily complicit in illegal logging, mining, and wildlife trafficking -- resenting their displacement from some of these illegal economies by the Bamar and Chinese workers and companies, but themselves not economically able or willing to curtail natural resource extraction to sustainable levels. After years of deprivation and the absence of economic alternatives, the profits, however small a percentage of the global illegal trade, are simply too tempting. And in the context of major economic privation and the absence of legal alternative livelihoods, they may be inescapable coping mechanisms for economic survival and human security.

The Drug Economy

And of course opium poppy cultivation, never replaced with adequate legal livelihoods, has returned on a large scale. Once repression eased, the ethnic populations were simply no longer willing to suffer the economic hardships. The return to poppy has not been uniform throughout Burma, however. At least some suppression of poppy continues to hold, for example, in the Wa areas where the USWA has enough grip on the local population and the leadership lacks accountability, as described above. Whether other ethnic groups, now under increasing new military

pressure, will be willing and able to maintain such repressive policies in the absence of effective replacement economies remains to be seen.

Overall, alternative livelihoods have been slow to take off and remain severely underfunded.⁷⁷ The United Nations Office of Drugs and Crime (UNODC), has, for example, sponsored alternative livelihoods efforts, such as coffee cultivation on some 2,000 hectares out of more than 55,000 hectares cultivated with poppy. The effort is still seeking to develop value-added chains for the new coffee farmers so as to make the switch to the legal sustainable.⁷⁸ Other international agencies promoting alternative livelihoods efforts include the Thai Mae Fah Luang Foundation that has significant experience with alternative livelihoods programs from Thailand. The programs often do reduce poverty and diversify local incomes of the highly marginalized poor farmers, but the scale of the programs remains limited compared to the population that is vulnerable to poppy cultivation. Moreover, the alternative livelihoods efforts can only operate in relatively peaceful areas where military conflict has subsided and either the Tatmadaw or local armed groups permit access.⁷⁹ Overall access is thus highly constrained.

For many ethnic farmers, opium poppy cultivation continues to provide for basic necessities, including food, medicine, housing, and education, as well as remaining the only source of microcredit. In times and areas of conflict, poppy is also superior to other crops for other reasons: its opium can be harvested as soon as four months after planting. Thus since 2009, the area of poppy cultivation in Myanmar has almost tripled to an estimated 55,500 ha in 2015, from 21,600 ha in 2006 (even though Afghanistan continues to dominate the global opiate market, vastly surpassing Burma in area of cultivation and opium yields and production).⁸⁰

Nor are the *all* alternative livelihoods programs necessarily well-designed. China, for example, emphasizes development at the regional level as sufficient and rejects the concept of village-based development in its alternative livelihoods policies in Burma.⁸¹ China has thus encouraged Chinese companies to invest in rubber plantations in Kachin and Shan states, as presumed alternatives for poppy cultivation. Chinese companies benefit from access to credit and exemptions from taxes and import quotas. Yet such business approaches replicate old simplistic and inadequate crop substitution policies rather than amounting to comprehensive alternative livelihoods. They may in fact exacerbate the return to opium poppy when global rubber prices decrease. Moreover, the former poppy farmers have complained that they lost access to land as a result of these so-called alternative development policies.⁸² Instead, as Thailand's effective alternative livelihoods efforts show, a combination of broad economic growth and off-farm income as well as purposeful rural, village-level development is necessary to reduce the economic dependence on poppy and increase the sustainability of poppy suppression efforts.⁸³

Efforts to eradicate the increased poppy fields have not been extensive, and wisely, Western donors, including the United States, have not chosen to push for aggressive eradication. At current levels of eradication and in the absence of alternative livelihoods in place, and in the context of continuing limited presence of the state and escalating ethnic conflict, eradication does not have a chance of effectively suppressing production. Poppy farmers employ a variety of adaption methods, including changing harvesting seasons to avoid standard eradication times, harvesting opium poppy more than twice a year, and shifting the area of cultivation to more hidden locations. And when eradication succeeds in destroying the livelihoods of a family, the resulting indebtedness can drive the family to attempt to cultivate more opium poppy the following season to cope with the accumulated debt.⁸⁴ Nonetheless, eradication and particularly the threats of eradication do take place regularly in areas of poppy cultivation. Just like the disruption of timber trading or jade mining, eradication of poppy crops remains an important political tool for the Tatmadaw and aligned militias to disrupt revenue flows to insurgent groups that do not fall in line with the military's preferred behavior and policy approaches. Moreover, at the local level, the threat of eradication as well as interdiction of methamphetamine or heroin also remain powerful mechanisms to extract bribes from opium farmers who are thus saddled with both paying protection fees to local insurgent groups and anti-insurgent militias and bribes to eradication officers.⁸⁵ In short, for decades now, drug policy has been intimately intertwined with Myanmar's complex civil war and ethnic conflicts, and continues to be a crucial counterinsurgency tool.

Not surprisingly, given the economic bargains underpinning the political transition, top drug traffickers have not been purged from the new political system or economic transformation. For example, even though Lo Hsing-Han has been dead for two years, his roads, dams, hotels, and ports dominate Myanmar's infrastructure. New drug-linked businesses also operate, including the Shwe Taung Group, which emerged from the famous drug-laundering Asia Wealth Bank and one of the country's largest real estate developers, Jewellery Luck.⁸⁶

Ethnic Conflict

Along with its economic and political liberalization reforms, the post-junta transition regime of President Thein Sein sought to negotiate a formal peace deal with the ethnic insurgents. As a first step, the government demanded that all the insurgent groups sign a "nationwide ceasefire agreement." Within 60 days of the nationwide ceasefire, a framework for political dialogue was to be adopted, followed by a 90-day actual dialogue, culminating in a Union Accord to be submitted to the Myanmar parliament.⁸⁷ Yet many groups feared that they would lose bargaining power without knowing the actual terms of the deal, would be subject to very tight deadlines, and be at the mercy of the political moves of other ethnonationalist groups.⁸⁸ Thus, some signed the new post-2011 ceasefires, while others refused.

Predictably, the groups that renewed their signatures were those along the border with Thailand, most notably the Karen National Union (the first time this major group agreed to a ceasefire). Like others that signed, the KNU was not required to disarm, as the larger political settlement had yet to be negotiated.

Under the National Ceasefire Accord (NCA), the ethnic armed group signatories committed themselves to comply with EITI. Many of the ethnic groups did not like that provision, fearing that their economic revenues would go down as a result of EITI compliance, a powerful motivator not to sign the NCA. Nonetheless, some of the signatories have approached Myanmar's environmental and extractive-industry-monitoring NGOs to help them develop terms of reference and practices for complying with the EITI, demonstrating some considerable effectiveness of Myanmar's civil society, at least on paper.⁸⁹ As the next section discusses, implementation of commitments and regulations continue to bewilder the government.

Claiming between 4,000 and 10,000 soldiers and one of the largest ethnonationalist insurgencies, the Kachin Independence Army is among the groups which refused to join the Border Guard Force. KIA and its political branch the Kachin Independence Organization had signed a written ceasefire agreement with the military junta in 1994 and abided by it until 2011. In fact, it was the only one of the ceasefire groups that had a written agreement. Nonetheless, in 2011, the quasi-civilian government of President Thein Sein rescinded the deal and in June of that year, the Tatmadaw launched an offensive against the KIA. Conflict escalated in 2012 and 2013, displacing some 100,000 Kachin.⁹⁰

In March 2015, the KIA, along with 15 other ethnic groups, signed a draft nationwide ceasefire. Other crucial groups, however, continued to refuse to sign, some fighting the government, others teetering on the verge of fighting. Even the groups which signed insisted that they would have to go back to their headquarters for confirmation of the draft March declaration. Some of those who refused to sign did so also because of the unresolved issue of who had authority to sign and how inclusive the ceasefire would be. As discussed below, these issues came to head in the next round of the negotiations in October 2015, causing a withdrawal of some of the groups, including the KIA, from the October 2015 deal.⁹¹

Among the groups that did not sign the ceasefire deals either in March 2015 or in October 2015 is the Kokang MNDAA. Its long-time insurgent leader, Peng Jiasheng, reemerged in February 2015 after several years in exile in China where the Kokang, being ethnic Chinese, maintain support networks, and his MNDAA upped the violence.⁹² A large offensive by the Tatmadaw in the spring of 2015, displacing some 80,000 people, ultimately pushed the MNDAA to declare a unilateral ceasefire. China also

pressured both parties into the ceasefire after the violence repeatedly spilled into China and resulted in the death of Chinese citizens – even as rising Buddhist nationalism in Burma decried China as a foreign intruder and continued to stoke anti-Chinese sentiment that has been growing in Burma for several years.⁹³ China has in fact maintained good relations with many of the ethnic insurgencies, such as the MNDAA, USWA, KIA, and NDAA, and particularly those who emerged out of the Burmese Communist Party. At the same time, association with Chinese influence has hurt the political cause of the groups with the Bamar majority.

The Kokang violence also destabilized other previous Burmese insurgent areas of Kachin, Shan, and Ta-ang. Beyond the prosecution of the Rohingyas by the Tatmadaw and Bamar nationalist groups over oil and gas revenues and rising ethno-nationalism, other forms of violence also broke out in the Rakhine State where the Arakan Army (AA) has become the main militant group. Some of the groups, such as the Ta-ang State Liberation Army (TNLA) and the AA, came to the MNDAA's help. The Tatmadaw repeatedly responded with significant force.

Other ethnic insurgent groups have not crossed the line into violence, but have many sympathies for the MNDAA. Among the most important supporters is the 25,000-strong USWA, which also has family connections to the MNDAA. It fears that the Tatmadaw seeks to weaken and trick it by encircling it with defectors and enemies and cutting off its financial and resupply lines. It thus remains poised on the verge of violence.⁹⁴ Some of these groups have also upped their political demands, insisting that their special regions become full-fledged states.

Amidst this fraught moment -- with ethnic conflict bubbling underneath and sometimes overtly and significantly escalating and on the cusp of crucial 2015 parliamentary elections -- an official ceremony for a "nationwide" ceasefire took place in Naypyidaw in October 2015. Despite the celebration, the pool of the groups that re-signed the October 2015 deal, the National Ceasefire Agreement (NCA), shrank considerably after the March 2015 draft.

Insurgent groups along the border with China, however, did not sign, including the very powerful Kokang and Wa groups, such as the USWA, the Shan State Army-North (SSA-North), AA, NDAA, and TNLA. Other significant groups along the border with China, including the KIA, withdrew from the March deal in solidarity with the Kokang and Wa groups and in protest against the limited inclusiveness of the deal. Thus, only eight groups ended up as signatories of the ceasefire deal at the October 2015 formal ceremony, down from 16 groups in March.

On November 8, 2015, Myanmar held crucial parliamentary elections and to the shock and major miscalculation of the military, Aung Sang Suu Kyi's NLD swept the elections and

became the dominant party in the parliament. In the new parliament formed in 2016, the NLD occupies 387 of the 664 seats in the two houses, while the pro-military Union Solidarity Development Party (USDP) has only 42 seats out of the 360 it held before.⁹⁵ Another 166 seats are reserved for the military under existing constitutional arrangements. While the military did allow Suu Kyi and her party to take over official power, it also retained significant formal and informal power. Indeed, despite the military's 2015 parliamentary elections miscalculation, the entire transition was at the discretion of the military. Illicit economies played an integral part of the transition process, being a crucial element of the golden parachute out of formally singular power that the Tatmadaw awarded itself. Moreover, with its lock on constitutional power, the military also guaranteed itself a sufficient formal budget, with its transparency still highly limited.⁹⁶ Any reforms that took place, including those weakening the power of the cronies, were still at the direction of the military. Reforms and actions against illicit economies and organized crime that would not be advantageous to the military's institutional power or enrichment of key individuals have not taken place and could be subverted or vetoed by the key powerbrokers within the military and of the former junta. Similarly, the selective suppression of organized crime and aspects of the illicit economies has served crucial political and strategic objectives of the military. Thus, any political rivals, including the new post-March 2017 government of Aung Sang Suu Kyi, continue to be significantly limited in how much they can challenge the military or the illicit economies and organized crime embraced by the military.

AUNG SANG SUU KYI'S GOVERNMENT AND THE LEGACY OF ORGANIZED CRIME AND ILLICIT ECONOMY BARGAINS

Following her and NLD's overwhelming victory in the November 2016 elections, Aung San Suu Kyi named her close confidant, Htin Kyaw, the country's president. March 2016 thus marked the first time since 1962 when the president of Myanmar did not come from Myanmar's military. Suu Kyi herself became "state counselor." This new position, which she announced to be *above* the president, was created specifically for her to bypass the legal restrictions barring her from formal presidential powers. She also assumed several ministerial portfolios, including Minister of Foreign Affairs, Minister of the President's Office, Minister of Electric Power and Energy, and Minister of Education. Along with the reverence that Myanmar's population accords her and the informal power of the street and her firm control over the NLD, Suu Kyi thus also accumulated considerable formal power. That formal power could direct ministries: In fact, Myanmar's ministries and civil service fear making any decision without the highest approval (Suu Kyi herself). Such centralization of formal power is a double-edged sword, risking the paralysis of standard governance processes. On the one hand, the civil service is dominated by former or

current members of the military, and thus the new government questions its allegiance and anti-corruption stringency. On the other hand, the new government lacks a civilian backbench to simply replace most of the civil servants, particularly those with institutional memories, knowledge of operating procedures, and technocratic skills. The Suu Kyi government's existing top-down centralization of decision-making and the resulting slowing down of government processes has become particularly pronounced as many of Suu Kyi's appointments, including in key positions, seem to be based on personal loyalty and special relationships to her, rather than competence and technocratic expertise. But in the larger balance of power with the military, her hand remains weak and she has not chosen to challenge the military on significant issues, including the constitution. The military's continuing power and the intermeshing of the state and illicit economies have also limited her scope of maneuver toward the illicit economies. Significantly, the internal political liberalization and the rise of many new constituencies and political entrepreneurs have also constrained her scope of maneuver vis-à-vis the illicit economies/organized crime nexus.

Ethnic Conflict

Surprisingly, Aung San Suu Kyi picked ethnic peace with the insurgent groups as the priority focus of her new government. On the one hand, the ethnic peace issue is at the core of Myanmar's power structure -- the military having long justified its privileged lock on political power and the centralization of the country's economic resources on the necessity of holding the country together in the face of ethnic separatism.⁹⁷ As this study shows, ethnic conflict has also been intimately connected to the country's illicit economies.

However, the selection of that priority focus was surprising for those very same reasons. It risked potentially pitting the new government against the power of the military. Nor did the new government have -- and still today, a year into its rule lacks -- any independent capacity to enforce a peace deal against the ethnic groups and against the Tatmadaw, nor any other independent capacity to implement such a peace and reconciliation deal. Conflict management and the peace and reconciliation process pose hard tradeoffs and uncomfortable dilemmas vis-à-vis the illicit economies. Their mere suppression risks losing interest from the insurgent groups to participate in the peace process. Moreover, the issue had been of low priority for the majority Bamar population, including Suu Kyi's key constituencies, who have been far more focused on greater redistribution of economic growth and on further political liberalization. Moreover, the Bamar majority had long exhibited superiority views and discrimination tendencies toward the country's ethnic minority, which have been further augmented since 2011 by the rise of virulent Buddhist nationalism.

Finally, before the November 2015 elections, Aung San Suu Kyi was most reluctant to engage with the ethnonationalist

groups and refrained from significantly furthering their cause.⁹⁸ Even so, the NLD won considerable support in the ethnic areas that were deemed secure enough and were allowed to vote. Her popularity was such that the NLD managed to sweep the ethnic vote without the party or Suu Kyi personally having to collaborate or meaningfully engage with the ethnic minorities or their leadership.

Under Suu Kyi's supervision, the new government, with full engagement from the military, organized in August 2016 a gathering of the ethnic minorities and government and military officials in Naypyidaw -- the so-called Pangalong-21. The name was chosen to echo the 1947 inclusive ethnic gathering of the Chin, Kachin, and Shan minorities led by Suu Kyi's father, Aung Sang, the head of Burma's interim government. Significantly, even groups that did not sign the October 2015 ceasefire, such as the USWA and the Kachin groups, were invited to the Pangalong-21 conference. The inclusiveness of the meeting was important.⁹⁹ From the perspective of the peace process as currently structured, there are three categories of armed groups: those who signed initial ceasefire agreements of the 1990s; those who signed The National Ceasefire Agreement (NCA) of October 2015; and those who signed neither. Nominally, all of the groups, for the first time, could participate in the Pangalong-21 conference. That was a significant development and a step forward in the peace process.

However, the conference was organized without a clear agenda and produced no tangible outcomes. Even the inclusiveness element turned out to be highly imperfect, as some groups, including the largest and most powerful, the USWA, walked out of the proceedings in protest over protocol issues. A second follow-up meeting was to be held six months later, but its status and content remained unclear as of this writing.

Moreover, the key large substantive issues remained unaddressed. First among them is who actually benefits from peace. Fundamentally, the leadership of the ethnic groups, the military -- both at the national level and at the level of local units -- and large extractive companies from both Myanmar and foreign countries (particularly China) all benefit from the contested and broken-down ceasefires. The conflict situation -- between full-blown war and accountable peace, in which extraction and illicit economies can proceed -- benefits all. An accountable peace, if accompanied by transparency, may perhaps benefit the interests of the local ethnic populations, but does not necessarily benefit the ethnic leaders nor the military if it threatens their privileged and unconstrained access to licit and illicit resources.

Even as the ceasefires of the 1990s have broken down and intense fighting, often at the hands of the Tatmadaw, has swept the northern region, such as the Kachin and Kokang, areas, the leaders of local ethnic groups still continue to benefit from the illegal and extractive economies and

at least partially collude with the military in the distribution of the spoils.¹⁰⁰

How agreements concerning legal resources, from regularized mining and logging, would be implemented was not raised at the August 2016 conference. The issue was postponed despite the fact that formally, the National Ceasefire Agreement of October 2015 includes several committees to discuss a range of issues - security, politics, land rights, economic issues (including the allocation of natural resource revenues), social issues, and joint monitoring. The military has long favored a formula in which local ethnic groups, perhaps formally in their autonomous regions, received only a small portion of the local resources, amounting to perhaps 15 percent of revenues. In contrast, some of the prominent ethnic groups have long favored receiving as much as 70 percent of their local revenues. Previous government ideas regarding resource sharing considered by the Thein Sein government included a three-way apportioning of the local resources, with one share staying with the ethnic states/autonomous regions, one share going to central state, and one going to states/autonomous regions not endowed with significant natural resources.¹⁰¹ As discussed above, many of the armed groups were already unhappy with their need to comply with EITI regulations as part of the NCA, yet another potent element discouraging them from signing.

And while the Thein Sein government built EITI compliance into the NCA, it still fundamentally hoped that it could strike a bargain with the ethnic minorities, predominantly centering on a re-division of the economic spoils, echoing the long-term buyoff policy of the military regime. A fundamental limitation of the economic buyoff-approach has been that with so many actors to coopt, most actors do not remain happy with their share of the legal and illegal pie. Thus the ethnic armed groups and the Tatmadaw engage in constant renegotiation and rebalancing, giving some actors more at the expense of others, or trading spoils among themselves, with violence breaking out in particular localities. Pressures thus mount for a redistribution of the resource and a conflict management approach, rather than for a long-term stable and accountable peace.

Meanwhile, the political ambitions of the ethnic minorities have also grown, with many now insisting on their states existing within a federal structure, not merely as autonomous regions. Although in principle, even the Thein Sein regime was willing to contemplate a federal structure, its key issue - the power between the federal states and the subnational states yet to be formed --, remained highly uncontested and unspecified in the prior discussions. Once again, this issue did not make it onto the Pangalong-21 agenda at all. How power would be distributed among the various administrative units is also complex within the minority areas themselves. Most of the ethnic regions are not ethnically-monolithic and contain a myriad of sub-ethnic minorities who at times also feel discriminated against by the larger

ethnic minorities. What kind of power, representation, and protection the ethnic subminorities would have also remains underexplored.¹⁰² Nor would the ethnic subminorities be satisfied without sufficient (something yet to be specified) access to local resources.

There is significant variation among the ethnic armed groups regarding their accountability to local populations. As discussed above, during the latter part of the 1990s and first part of the 2000s, many of the ethnic leadership groups -- to satisfy their patrons and/or benefit from the resource plunder-- were willing to ignore and ride roughshod over the elemental needs of the local populations. Some groups, particularly the KIA and KNU, have developed more consultative processes in recent years and have delivered some social services to the local population. For example, in the town of Laiza, controlled by the KIA, housing is more affordable and schooling and hospitals are better than in many Kachin areas controlled by the Tatmadaw.¹⁰³ Such service delivery has built up some political capital for the KIA/KIO among local populations. That does not mean that some of the ethnic leaders of even the more accountable KIA and KNU are not corrupt and unaccountable nor disproportionately and individually benefitting from the resource and illicit economies. The issue of exclusion and accountability thus not only permeates the central government/military-local ethnic groups discussions and arrangements but also the local arrangements between the ethnic group leaders and local populations. Many of the local armed groups remain profoundly unaccountable and exclusionary, even as they claim, perhaps quite credibly, that their rule is still preferable to that of the Tatmadaw units.

The ethnic armed groups have not been willing to talk very much about outright illicit economies, such as drugs. Just like the Tatmadaw and cronies and organized crime actors, all of the ethnic insurgent groups have become addicted to the profits from the drug economy and to bringing the illegal revenues into the legal economy in their areas as well as Yangon. Anti-insurgent militias continue to be paid off by access to drug money. Many local Tatmadaw commanders, required to live off the land and supply their units from local taxation of both extractive and illicit economies, have also acquired the drug habit.¹⁰⁴ Thus the peace talks must include (at least eventually) a discussion of how to manage the drug economy and whether or not the ethnic groups are willing to forego their drug profits, like the leftist insurgent group in Colombia, The Revolutionary Armed Forces of Colombia—People's Army (*Fuerzas Armadas Revolucionarias de Colombia—Ejército del Pueblo*, FARC), promised in its 2016 deal with the Colombian government.¹⁰⁵ Similarly, any peace deal will need to guarantee a robust institutional budget for the Tatmadaw and resolve the local unit funding problem.

Nor have the issues of justice for victims and victims' rights been incorporated into the discussion agenda, reflecting the

privileged power position of the Tatmadaw and the lack of interest in internal accountability of the part of many of the ethnic leadership groups.

Crucially, the Pangalong-21 conference took place amidst significantly escalating violence between the Tatmadaw and the northern ethnic groups. While an outbreak of total and unrestrained ethnic violence may not be preferred by any party, the Tatmadaw has long been preparing for a renewed military fight, beefing up its resources and improving its training for that purpose for much of the past twenty years. The winter 2016 moves by the military to designate some of the ethnic groups, including the KIA, TNLA, AA, MNDAA as terrorist groups, did not pass parliament, but they were a clear signal to the groups that the Tatmadaw was prepared to significantly escalate the military conflict. The brutality against the Rohingyas and the intensifying military conflict there have in many ways been highly useful to the Tatmadaw--preoccupying Western diplomats and media and distracting their attention from the military conflict with the ethnic minorities along the border with China reaching proportions unprecedented since the early 1990s. At the same time, the repression of the Rohingyas is not only rooted in rising Bamar nationalism and religious intolerance, but also crucially in the deep-seated extractive and abusive character of the state.

Nor has the Tatmadaw given up on the long-term policy of dividing the ethnic groups and pitting them against each other, both politically, militarily, and in terms of licit and illicit economic buyoffs. Many of the ethnic groups have come to resent the KNU's signing of the ceasefire of October 2015 and sticking with it -- considering its participation in the joint monitoring committee with the military as essentially a sell-out to the military.¹⁰⁶

However, the risks of leaving some ethnic groups out of the peace process, as evidenced by the intensification of conflict and the reduction in the number of the ceasefire signatories between March 2015 and October 2015, are very high. Many of the ethnic groups are highly intertwined with others; moreover, many of the smaller ethnic groups are dependent on the support of the larger ones for both physical survival and access to the illegal and resource economies, and thus their economic survival. In contrast to Afghanistan, the ethnic conflict is far more fragmented and factionalized. The larger ethnic groups retain the military capacity to field armies in the tens of thousands. They can -- and have -- mounted significant military offensives but have not in recent years been able to overrun military bases. Not surprisingly, the larger groups, more confident of their long-term capacity to continue fighting, have been far more skeptical of the peace talks.¹⁰⁷ And they of course continue to reject the military's preferred formula that they embrace a ceasefire and disarm before the political terms of the peace are determined.

Overall, after the first year of the Aung Sang Suu Kyi government, many of the ethnic groups have become deeply

disappointed. She and the NLD have long been telling the leaders of the various ethnic groups that democracy, defined as NLD's and her own participation in free elections, must precede a stable resolution of the ethnic issues. However, many of the ethnic armed groups now see her as not having delivered in the first year and not challenging the Tatmadaw either on the military conflict issues or on the constitution. Not only her capacity to deliver, but also her willingness to challenge the military's preferred formulas have come to be questioned by many of the ethnic insurgent group leaders.¹⁰⁸ Crucially, most, if not all, of the ethnic armed groups want a new constitution, radically overhauling the 2008 constitution, something Suu Kyi certainly prefers herself but has not had the political power and wherewithal to challenge the military on. Thus although the Tatmadaw was unhappy with Suu Kyi's creating the state councilor position, it has been basically satisfied with her accommodation of its interests, particularly in the ethnic peace process and intertwined resources economies. Beyond major changes in the 2008 constitution and eliminating the lock on power that the military retains, other likely redlines for the Tatmadaw include a significant decrease in the military's income and holding it accountable for past transgressions, such as war crimes, or for participating in illicit economies. Crossing the redlines could possibly trigger a military coup d'état.

Aside from constitutional changes, in many ways, the Aung Sang Suu Kyi government has had more opportunities to push for greater accountability and inclusiveness in central Bamar areas than in the ethnic minority areas, although it chose to prioritize, so far with no political payoffs or success, the ethnic peace process.

Crony Capitalism

One particularly fruitful issue would be for the new government to further weaken the power of the cronies and improve corporate governance. One reason why this aspect of illicit economies is particularly permissive is that Suu Kyi's predecessor robustly took on the cronies and prepared the groundwork for the new government. In fact, many of the cronies were shocked by the extent to which the Thein Sein government cut them off. However, corporate governance remains inadequate, with most major companies still being family enterprises with limited or no transparency or external auditing.

Moreover, a crucial source of the remaining economic and political power of the cronies is unique access to credit, since foreign banks cannot independently operate in Myanmar and Myanmar's existing banking sector is deeply intertwined with the old cronies and military power structures. Moreover, capital can be borrowed only against owning land, not even owning other assets, such as an apartment. At the same time, many of the cronies are trying to reinvent themselves, looking for new patrons and supporting political parties -- perhaps with an eye toward the next parliamentary elections expected in 2020 -- as well as for

media outlets and NGOs. Throughout Burma, the patronage system remains powerful and pervasive.

Building on the government of its predecessor, the new government has also been rather effective in raising tax revenues, a crucial element of strengthening the state. Nonetheless, the access has been mostly in recovering taxes from multinational corporations. However, while still making significant profits, including many off-the-books, military companies are now also paying taxes.¹⁰⁹

Corruption

At the top levels of the new government, there is also zero tolerance for corruption, which has translated into less corruption at the lower levels of the government and civil service, such as for issuing licenses – a significant and important improvement. Efforts are also under way to boost the power of the anti-corruption commission and of the attorney general's office, since in Myanmar only the attorney general is able to prosecute anti-corruption cases. So that Myanmar can comply with international standards against money-laundering and thus be allowed to access international banking, even influential members of the military, such as the Home Minister, have embraced the development of greater anti-money-laundering and anti-corruption capacities.¹¹⁰

However, some allege that the anti-corruption progress, particularly in licensing, has come at the expense of a paralyzing slowdown in the issuing of licenses. Some licenses that the new government suspects of having been issued under shady terms before March 2016 have been reversed. These measures have frustrated some businesses, stimulating them to accuse the new government of undermining crucially needed economic growth.

Indeed, the political tension between stimulating economic growth and attempting to institute retroactive anti-corruption and anti-organized-crime and illicit economies measures is high. If the Aung Sang Suu Kyi's government fails to deliver economic growth, even her base may turn away from her. Moreover, disentangling money made in the legal and illegal economies is complicated, as even the illegal money makes its way from the peripheries to Yangon. With a significant economic slowdown already characterizing its first year, the government is leery to attempt to purge from the formal economy illicit money as that would have pronounced effects on GDP growth, poverty alleviation, and income redistribution. At the same time, the influx of money from the illicit and resource economies has long stimulated inflation and real estate speculation.

Jade and Gem Mining

An area where the suspension of licenses has been particularly visible is in the jade sector, arguably the largest (il)legal resource economy in Myanmar. In July 2016, the government stopped issuing new licenses until a reformed legal framework could be put in place. Moreover, hundreds of licenses

were to expire throughout Myanmar, including in the Kachin and Shan states and in the Mandalay and Sagaing regions, in the following months. By 2021, all the permits for some 19,000 blocks would expire.¹¹¹ Many NGOs welcomed the move, arguing it was a first step toward bringing accountability and transparency into mining. Nonetheless, this was hardly the first time the Myanmar government suspended issuing licenses. The Thein Sein government also did so between 2012 and 2014, with little immediate effect on making gem mining in Myanmar less pervaded by illegality. As a result of Myanmar's candidacy for EITI membership, initiated by Thein Sein, Myanmar was also supposed to disclose the beneficial ownership of mining companies by January 2017.

Not surprisingly, the suspension of licenses also generated widespread criticism from the mining sectors and many of Myanmar's businesses. Criticism mounted that the new government was mishandling the economy, with foreign investment totaling only \$1.8 billion in the first six months of 2016, compared to the annual figure of \$8 billion in 2014 and 2015.¹¹² Much of that criticism was unfair, as the slowing down of investment in Myanmar also reflected the global slowing down of demand for commodities, not merely the policies of the new government. Nonetheless, the new government came under strong pressure from the business community to resuscitate business. Suu Kyi's government thus started drafting a new investment law. However, elements of the proposal were strongly opposed by some NGOs for giving foreign companies too much power in their investment practices in Myanmar and locking the Myanmar government into a long-term disadvantageous set of conditions.¹¹³ The post-junta government thus continues to face a fundamental dilemma. On the one hand, it needs to deliver economic growth and redistribution to its constituencies and secure support from powerful economic actors to survive politically. On the other hand, it would like to reduce the extent of illegality and crime proceeds in Myanmar's economy - but this also risks slowing down economic growth.

Suu Kyi's government has also contemplated issuing smaller-size licenses, both in mining and the timber industry. Such a move would please both artisanal miners who have been pushed out from mining as a result of the unaccountable industrial practices and many NGOs. Early consideration of such new policies also received applause from NGOs monitoring the mining industry. However, economists and analysts have questioned whether smaller-size licenses and a reduction of industrial mining would accomplish either the improvement of environmental practices or generate the necessary revenues the government and country need. The real challenge for the government is how to bring the black economy on the books and significantly boost revenue recovery while not slowing down economic growth and poverty reduction.

Crucially, the Suu Kyi government fundamentally lacks enforcement capacity vis-à-vis a wide range of actors, front

insurgent groups to military companies and powerful businesses. At the time of this writing, it looked highly certain that many jade mining companies would not fully comply with the beneficial ownership disclosure by January 2017. Although the jade trade did slow down significantly in 2016, much of that slowing down was due to low international prices for jade, with owners reluctant to sell. Much of the real jade binge occurred some five to seven years ago. At the same time, even companies whose licenses nominally expired continued to mine and stock their jade or, irrespective of low international prices, to sell it. Companies-linked to the military, such as in the Hpakant mining area of Kachin state, appeared essentially indifferent to the new regulations emanating from the new government in Naypyidaw.¹¹⁴ There was even speculation that some companies were rushing to extract as much as possible before their own licenses expired.¹¹⁵

Land Grabbing and the Justice System Overall

Such lack of implementation and enforcement capacity has also been evident regarding land theft. Particularly in ethnic areas, land grabbing continues to take place, by Myanmar and foreign businesses, Tatmadaw commanders, and ethnic armed groups.¹¹⁶ Although highly limited in its enforcement capacity and still facing the overriding challenge of formal land titles often lacking in Myanmar, especially among poor segments of the population, the Aung Sang Suu Kyi government nonetheless articulated its intention to use the existing land law regulations to seize underdeveloped land and allocate it to new users. As of this writing, the government has not articulated how that intention would be operationalized or on what basis the seized land would be reallocated. Nor has the government yet released a publicly-available land registry, indicating which land it owns, which land the military owns, and what land was returned during the Thein Sein years.

For any equitable seizure of land and other rule of law practices, a functioning judiciary is crucial. Yet the judiciary overall remains the neglected institution of the transition. Some donor-led efforts to train lawyers are underway, but the scale of the problem is massive, as the judicial system was destroyed in the 1960s and has remained defunct. All the top judges also come from the military. Significant attempts to purge the key layers of the attorney general's office or top justice and replace them with civilians would pose a potent threat to the military and risk a significant confrontation with the military for the new government.¹¹⁷

Illegal Logging

Like mining, logging – both legal and illegal – registered a significant slowing down in Kachin state in 2015. Environmental NGOs, such as the Environmental Investigation Agency, that have long monitored logging in Myanmar expressed hope that the slowing down could be attributed to the arrest and prosecution of 155 Chinese loggers in Kachin state in 2015, during the Thein Sein

government, noting however, that such previous reductions in illegal logging and trade were not sustained.¹¹⁸ Certainly, the slowdown preceded Suu Kyi's government assuming power. And in fact, there was widespread expectation among logging businesses and analysts that the Suu Kyi government was likely to lift the ban on logging in 2017. Nonetheless, forestry officials and environmental NGOs in Myanmar expressed a belief that the new government was more motivated to enforce logging regulations and back up their efforts.¹¹⁹

However, it is likely that the slowing down of both legal and illegal logging in Kachin state also has much to do with the global slowdown, the drop in commodity prices and, crucially, with the fact that hardwood timber is significantly logged out in the area. Instead, illegal logging significantly picked up in 2016 in the Sagaing region, from which timber is smuggled through Kachin state to China, and in Chin state, from which rosewood is smuggled to China and teak to India. Chin state has become a key logging replacement area now that the Karen areas are logged out, with artisanal illegal loggers, state-owned companies, and Chinese business illegally operating there.¹²⁰ Only rarely does anyone get arrested for illegal logging, and even then, a bribe will usually free the arrested individual from facing penalties.¹²¹ Moreover, if the amount of timber, such as teak, illegally logged in the area of arrest, is under three tons, then the penalty is a fine. Overall, penalties for forestry regulation violations and wildlife trafficking remain weak, and Myanmar's legal system is underdeveloped in both areas.¹²² With similarly non-existent enforcement, much of illegal logging as well as wildlife trafficking also goes on in Kayah state, which currently has some of the best remaining teak in Myanmar, for illegal exports to Thailand.¹²³

Significantly, the logging and mining labor markets are rather integrated, with legally-hired workers as well as artisanal illegal loggers and miners readily switching between the two trades based on market opportunities, and migrating to other parts of Myanmar to participate in illegal logging or mining there, if violent conflict is not too intense in the new area of extraction boom.¹²⁴ Thus illegal loggers from both Rakhine and Kachin states have recently migrated to new areas of logging, such as Chin state. This illegal labor flexibility, driven by poverty, has significant implications for policy management. It indicates that localized enforcement is not enough: that just like in the case of poppy cultivation, the provision of alternative livelihoods is necessary to avoid labor displacement. However, the scale of alternative livelihoods that need to be delivered is enormous and well beyond the current scope of the government.

The Drug Economy

The discussion of the state of illicit economies in the first year of the Suu Kyi government so far highlighted the severe limitations on enforcement and implementation of progressive regulations that the new government has vis-à-vis

entrenched power structures, such as the military, and armed ethnic actors and militias.

However, the new government also faces new political challenges and new emerging poles of power, such as radical Buddhist political entrepreneurs. Its policies, including toward illicit economies, are thus also limited by its relative balance of power vis-à-vis these new political actors.

Drug policy provides a good illustration. Out in the field, eradication and interdiction are often the function of local balances of power and serve strategic political and conflict management purposes, or are a mechanism of bribes and local funding, as discussed above. These fundamentals have not changed.

Yet, with participation of the military and law enforcement agencies as well as civil society and UNODC, the new government has been writing a very progressive drug policy law and directive that would embrace public health approaches toward drug users, decriminalize drug use, and emphasize alternative livelihoods.¹²⁵ In many ways, the draft law represents one of the most progressive drug policy regulations in South East Asia. Public health approaches to drug use in Myanmar provide some bases to build on: In 2004, pilot clean-needle exchange programs sponsored by UNODC were started in northern Kachin state, Sagaing region, Mandalay, and Yangon, impressively reducing HIV/AIDS transmission. Already, some fifty to sixty methadone centers operate in the country. While laudatory, that is still completely inadequate given the scale of heroin and opiate abuse and given that the methadone centers cover only six percent of the total number of townships.¹²⁶

However, the draft law faces significant political opposition in the parliament and from new potent political actors, such as Buddhist monk politicians as well as Christian groups. Public mobilization against drug use has significantly increased, with both media and politicians calling for a tough crackdown on the drug trade and use.¹²⁷ The fact that harm-reduction policies are mostly non-existent toward methamphetamine use, and treatment rarely achieves high effectiveness, further fuels political fervor against drug users. Anti-drug militias, such as the Christian Pat Jasan group sponsored by the Kachin Baptist Church in Kachin state, have formed, rough-handling users and violently beating up and arresting drug dealers.¹²⁸

In short, whatever policies toward illicit economies and organized crime the new government of Aung Sang Suu Kyi has announced --and crucially which it can actually implement -- are a function of its relative power vis-à-vis entrenched powerbrokers and new poles of power. Fundamentally, the government's hand is weak, particularly toward the military, both as a result of the existing constitution and *de facto* on the ground. More fundamentally, the power and conflict arrangements continue to be deeply

intertwined with the illicit economies. Similarly, the new government does not have any independent enforcement capacity and only a limited direct bargaining capacity vis-à-vis armed ethnic groups and pro-government militias. A constitutional change to increase the power of the government would produce a significant confrontation with the military, perhaps risking a military coup d'état. That threat from the military was at least indirectly demonstrated in January 2017, when a prominent lawyer and close ally of Suu Kyi, U Ko Ni, was assassinated. He was the one who created the state counselor position for Suu Kyi, circumventing the constitutional restrictions on her assuming presidential powers. He also recently mobilized support for a fundamental overhaul of the existing constitution. Although the circumstances of his assassination remain murky, the president's office announced that the hitman who killed U Ko Ni was hired by a retired lieutenant colonel.¹²⁹ Regardless of what level of the military the assassination was ordered, it sent a chilling message to those contemplating constitutional reforms. At the same time, the Tatmadaw does not want to be forced to launch a coup; in fact, pushing that far can give reality to its nightmare scenarios. Similarly, if Suu Kyi decided to mobilize the people of Myanmar and organize large-scale street demonstrations for a constitutional change, the military would be highly threatened, and such a move could either activate a coup or accomplish its goal of significantly reducing the power of the military and altering basic power arrangements in the country. Rather, the existing system in which the military allows civilian government rule while retaining significant official and unofficial political and economic power serves the Tatmadaw's interests very well.

THE ROLE OF EXTERNAL ACTORS IN MYANMAR'S ILLICIT ECONOMIES AND ORGANIZED CRIME

The post-junta government's policies toward managing illicit economies and organized crime are not only constrained by the internal political balances of power in the country, but also by external balances of power and regional geopolitics. Transnational organized crime actors from China, India, Thailand, and other places are deeply and intimately involved in Myanmar's illegal drug, logging, mining, and wildlife economy. Such transnational dimensions of crime are hardly unique to Myanmar.

However, just as with Afghanistan, geopolitics plays a crucial role in shaping Myanmar's conflict dynamics and the relationship between illicit economies and political transition in Myanmar. Pakistan tolerates crucial safehavens within its borders for Afghan insurgent groups because of Islamabad's geopolitical outlook and power competition with India and because of internal Pakistani political considerations.

China's geopolitical positioning and internal political and development policies critically affect both its policies in and towards Myanmar and Myanmar's policies toward

illicit economies. Thus some illegal economies and organized crime in Myanmar, at least until they explode in highly controversial, contentious, and visible confrontations, such as in the case of Chinese loggers arrested in Kachin, serve Beijing's and local Chinese interests.

It is not merely a matter of Chinese organized crime and illegal smuggling networks having a significant reach and connections to Myanmar's illegal economies, such as wild-life trafficking, in the country. As discussed above, large, legal, and politically well-connected Chinese logging and mining companies, including those based in Yunnan, are crucially involved in and sponsor and enable illegal logging and mining in Myanmar.¹³⁰ Despite a loss of tax revenues, even trade in gems, timber, or agricultural products from Myanmar that is undeclared and off the books in China's Yunnan province bordering Myanmar benefits the local political economy of the province. It thus serves the interests of local political officials, responsible for enabling growth, job creation, and preventing social strife. Some are outright complicit in the trade rackets; others merely do not want to jeopardize economic development and job opportunities in the struggling province. In fact, until the early 2000s when Myanmar's legal and illegal resource extraction stimulated unprecedented economic growth in Yunnan, the province was rather backward, particularly in comparison with growth elsewhere in China. Moreover, Yunnan's development, critically linked to illegality in Myanmar, would allow China to shift westward some of its industry and commerce, which has been heavily concentrated in the east. This would especially be the case if China's linkages to Myanmar and infrastructure development in the country allowed China to access Myanmar's sea waterways.¹³¹

Officials of China's Forestry Ministry do not accept that illegal logging or wildlife trafficking are a problem caused by inadequate and complicit law enforcement on the Chinese side, by demand for such products emanating from China, and by the problematic behavior of Chinese businesses. (Similarly, Indian government officials refuse to accept India's responsibility for the unfettered flow of precursor agents for the production of methamphetamines to Myanmar.)¹³² Instead, they insist that the illegal economies are a function of Myanmar's internal state weakness and mismanagement. Thus China, particularly the province of Yunnan, remains highly leery of policies in Myanmar, including EITI principles, that would limit the access of Chinese companies to the natural resources of Myanmar.

Yet the environmental degradation and, crucial, labor displacement that Chinese businesses bring into Myanmar has long generated local protests. It is not that local populations always necessarily mind the illegality of the practice and even the environmental destruction (many illegal loggers and miners are from Myanmar), but they do mind that Chinese companies frequently import labor from China as they consider it more competent and subservient.¹³³ Since

2012, the long-simmering resentment against Chinese labor presence and Chinese mega-infrastructure projects and their social and environmental impact has given rise to visible public demonstrations, and even to strikes that have blocked the implementation of some of these projects, including the Myitsone Dam.

Yet Beijing's and Yunnan's interests are not fully aligned, with Beijing often more responsive to international rule of law norms and good business practices. Beijing has thus been at times uncomfortable with the most egregious and visible abuses of Chinese and Yunnan companies operating in Myanmar and at various times has pressured officials in Yunnan to mitigate the worst practices.¹³⁴ Such pressure has served the international image that China seeks to cultivate of a responsible global and corporate power. China's State Forestry Administration has been developing policies to improve the behavior (or at least veneer) of Chinese timber businesses abroad, including "Guidelines for Overseas Sustainable Forest Products Trade and Investment by Chinese Enterprises," and has created a Chinese timber legality verification system.¹³⁵ Better corporate social responsibility practices and cracking down on wayward officials has also served the power interests of China's president Xi Jinping and fitted well in his use of anti-corruption drives to reduce the political power of potential rivals or power centers. However, Yunnan's importing and resource extraction businesses have often adapted merely by faking import permits and compliance with other regulations.¹³⁶ But while China has been keen to allow even illegal gems, minerals, and timber and untaxed agricultural goods to flow into China from Myanmar, it has been equally keen to stop illegal drug flows, sponsoring both eradication drives in Myanmar and even promoting some alternative livelihoods programs in the country, as well as orchestrating regional drug interdiction efforts.¹³⁷ Yet China, with its own punitive approaches to drug use,¹³⁸ may not like the new drug policy being drafted in Myanmar, emphasizing public health and alternative livelihoods.

Like Myanmar's authorities internally, China is thus highly selective in what illicit economies it chooses to crack down on abroad, if and when it serves its interests. But Beijing does not want to jeopardize its geostrategic relations with Myanmar to the point of losing strategic access to the country. China's unfettered access to Myanmar's sea routes would not only help facilitate economic growth in western China, but crucially advance China's geostrategic interests. It would have the significant benefit of resolving China's so-called Malacca dilemma -- i.e., the fact that the presence of the U.S. military in the Malacca Straits could block Chinese trade and military movements. Yunnan thus constitutes a crucial bridgehead to Myanmar for China's economic as well as geostrategic purposes. Accordingly, securing robust access to Myanmar has long been a key preoccupation of Chinese military and political strategists. Yet a key motivation of the junta to allow political and economic liberalization in

Myanmar was precisely to break from its over-dependence on China and improve relations with the West, and to diversify its external engagements in order to limit China's leverage over Myanmar. Thus the post-2012 tilt of the Thein Sein government away from China has frequently been viewed by China as a malicious U.S. maneuver to "steal Myanmar from under us."¹³⁹

The management of ethnic conflict in Myanmar is also of interest to China, and not only because it influences Chinese access to primary commodities. China is critically concerned with the flow of conflict refugees from Myanmar into China. Many of the ethnic minorities in Myanmar's northern areas, such as the Kokang, Wa, or the Shan, span both sides of the Myanmar-China border and thus have much social affinity and support in China. Ethnic armed groups from these minorities thus enjoy at least unofficial safehavens and strategic depth in Yunnan, with the leadership being able to fall back onto those areas to fundraise and recuperate. And while China has been highly active in Myanmar's peace efforts since 2012 and has put pressure on various ethnic groups to participate in the peace talks, it has also spoken out at times, if only in soft tones, against the Tatmadaw's military offensives, while still tolerating such sanctuaries on its territory.

Aung Sang Suu Kyi has been well aware of China's role in Myanmar and its ability to influence and subvert policies toward illicit economies. The new government has been keen not to alienate China, reaching out to it both with respect to peace negotiations and economic and geostrategic issues. Indeed, Suu Kyi, upon assuming the role of the state counselor, chose China for her first trip abroad.¹⁴⁰ However, the improvement of relations between her government and China does not indicate that Beijing or Yunnan is willing to overlook and relinquish its interests in Myanmar's illicit economies and simply collaborate with any of Naypyidaw's preferred management approaches.

CONCLUSIONS

Since the 1960s, drugs and other illicit economies, including logging, mining, and wildlife trafficking, have been intertwined with both peace and conflict dynamics and political transitions in Myanmar. These illicit economies have fueled both insurgencies and ethnic separatism. *But while illicit economies fuel conflict, their suppression is often counter-productive for ending existing conflicts and can provoke new animosities and grievances and forms of conflict. Prioritization and sequencing of government efforts to end conflict and reduce illicit economies are crucial.* Indeed, in Burma, the illicit economies also underpinned the ceasefires with the armed groups that Burma was able to achieve in the 1990s and maintain for twenty years. The illicit economies and the cooption of organized crime also strengthened the state – which, no doubt, was unaccountable, abusive, and extractive -- and extended the junta's lease on life. The

illicit economies also provided an inducement, along with several other incentives, for Myanmar military to relinquish its absolute power. Along with the military's ability to retain (although reduced) both formal and informal power, the illicit economies have also been an important part of the golden parachute that the military accorded itself. Indeed, any ability to shape Myanmar's illicit economies and mitigate their pernicious effects is crucially dependent on the distribution of political power within the country, which currently does not favor a significant suppression of the illicit economies or indeed their being brought on the books. External geopolitics, and particularly China's involvement in Myanmar, further constrains the ability to shape the illicit economies. In short, power distribution, conflict and peace dynamics, political transitions, and illicit economies and organized crime have been mutually supportive in Myanmar.

In the early 1990s, *laissez-faire* policies toward illicit economies were central to the government's ability to reduce and suspend military conflict. However, the policies adopted in Burma provide a new twist on the *laissez-faire* approach: *laissez-faire* was not used by the government to win the hearts and minds of the population, but rather to buy off and co-opt the belligerents and the traffickers themselves. Indeed, the centerpiece of the ceasefires of the early 1990s was the junta's acquiescence to the belligerents' continued trade with any of the goods in their territories – including drugs, minerals, timber, and wildlife. The junta also struck similar bargains with the most prominent drug lords, allowing them to invest their profits in legitimate businesses in exchange for strengthening the state and the regime and supporting conflict suppression. After fifty-years of war, these political-economic bargains, though hardly static, held for almost two decades. The division of the illicit economic pie allowed the junta to coopt its insurgent challengers. By giving the various ethnic rebels a license to plunder, the junta was able to mitigate conflict and achieve not peace, but at least lasting ceasefires.

But re-negotiations of the ceasefire deals also began rather quickly, because such restructuring of the deals served the interests of the military junta and because international pressures made it difficult to sustain the illicit-economies-based-conflict mitigation in an overt form. Significantly, business conglomerates linked to the Tatmadaw acquired ever greater assets and access to illegally-managed economies in legal goods, such as jade and timber -- serving crucial political survival interests of the military -- while individual Tatmadaw commanders used their on-the-ground power to fund their units through the drug and other economies. The military also got into the habit of selectively suppressing the illicit economies or local access to them as a mechanism to reward obedient groups and proxies and to punish those challenging its power.

The illicit economies also became a crucial aspect of the golden parachute from absolute power that the junta

accorded itself. The military also retained significant formal and informal power, with the entire transition at the regime's discretion, even though it miscalculated with respect to the November 2015 parliamentary elections that ushered in the government of the military's long-term political opponent Aung Sang Suu Kyi. Reforms and actions against illicit economies and organized crime that would not be advantageous to the military's institutional power or enrichment of key individuals have not taken place, and can be subverted or vetoed by the key powerbrokers within the military and of the former junta. Similarly, the selective suppression of organized crime and aspects of the illicit economies has served crucial political and strategic objectives of the military.

At the same time, ethnic conflict significantly intensified in Myanmar since 2008 and in the 2012-2016 transition years. As a result of the Tatmadaw's moves, the 1990s economic bargains with the ethnic insurgents were weakened and in some cases collapsed for a variety of reasons. One was the military's greater appetite for the revenues from the illegal and resource economies. Another was its sense that it accumulated significant military power to drive through a much tougher bargain with the armed groups, both politically and economically. The Thein Sein government built unprecedented levels of transparency and compliance with international standards regarding resource economies both internally and into its negotiations with the armed groups, insisting, for example, that the armed groups embrace EITI principles as part of a new ceasefire accord. Yet his government still fundamentally hoped that it could strike a bargain with the ethnic minorities predominantly centered on a re-division of the economic spoils, echoing the long-term buy-off policy of the military regime. A fundamental limitation of the economic buyoff-approach has been that with so many actors to coopt, most actors do not remain happy with their share of the legal and illegal pie. Hence the ethnic armed groups and the Tatmadaw engage in constant renegotiation and rebalancing, giving some actors more at the expense of others, or trading spoils among themselves, with violence breaking out in particular localities. Pressures thus mount for a redistribution of the resource and a conflict management approach, rather than for a long-term stable and accountable peace. These economic limitations became all the more pronounced as the military has not been willing to give the insurgents much in terms of political gains.

The Aung Sang Suu Kyi government came in with an overwhelming public mandate. Given the reverence that Myanmar's population accords her, the informal power of the street, and her firm control of her political party, the NLD, Suu Kyi also accumulated considerable formal power by declaring herself state counselor above the president and personally taking charge of several crucial ministries. But in the larger balance of power with the military, her hand remains weak and she has not chosen to challenge the military on significant issues, including the constitution. The military's continuing power and the intermeshing of the state and

illicit economies have also limited her scope of maneuver toward the illicit economies. Significantly, the internal political liberalization and the rise of many new constituencies and political entrepreneurs have also constrained her scope of maneuver vis-à-vis the illicit economies/ organized crime nexus. Thus in many ways, the transition government of her predecessor Thein Sein was motivated and able to institute far deeper and more profound reforms shaping the illegal and resource economies, including enhancing their transparency and accountability, than the democratically-elected government Aung Sang Suu Kyi managed in its first year.

Despite Suu Kyi's surprising decision to make peace negotiations with the ethnic armed groups the number one priority for her government, little has been achieved so far and violent conflict has escalated to levels unprecedented since before the 1990s ceasefires. Meanwhile, the political ambitions of the ethnic minorities have also grown, with many now insisting on their states existing within a federal structure, not merely as autonomous regions. Nor has the Suu Kyi government, no doubt severely constrained by the military, so far robustly included resources and illicit economies, including drugs, on the negotiating agenda with the armed groups. It is highly unlikely that the armed groups will be keen to disavow the riches they illicitly gain from the countries legal and illegal economies. But simply attempting to suppress illegal economies and take away the profits from armed groups will only further escalate conflict.

Suu Kyi's government has made some important moves toward the resource and illegal economies, particularly mining. It has, for example, suspended licenses for jade extraction, a move welcomed by international and Myanmar NGOs. However, her government has had little capacity to enforce its regulations, with all manner of extractions proceeding irrespective of the regulations. Moreover, Suu Kyi's government faces fundamental political tensions between stimulating economic growth and attempting to institute retroactive anti-corruption and anti-organized-crime and illicit economies measures. If the Aung Sang Suu Kyi government fails to deliver economic growth, even her base may turn away from her. Moreover, disentangling money made in the legal and illegal economies is complicated, as even the illegal money from the peripheries often makes its way to Yangon. With a significant economic slowdown already characterizing its first year, the government is leery to attempt to purge from the formal economy illicit money as that would have pronounced effects on GDP growth, poverty alleviation, and income redistribution. And even if it risked doing so, it does not have sufficient power vis-à-vis the military to accomplish it.

The post-junta government's policies toward managing illicit economies and organized crime are not only constrained by the internal political balances of power in the country, but also by external balances of power and regional geopolitics. Transnational organized crime actors from China,

India, Thailand, and other places are deeply and intimately involved in Myanmar's illegal drug, logging, mining, and wildlife economy. More importantly, China's geopolitical positioning and internal political and development policies critically affect both its policies in and towards Myanmar and Myanmar's policies toward illicit economies. The existence of some illegal economies and organized crime in Myanmar -- at least until they explode in highly controversial, contentious, and visible confrontations, such as in the case of Chinese loggers arrested in Kachin-- serves Beijing's and local Chinese interests.

POLICY RECOMMENDATIONS

Policies toward illicit economies and organized crime in Myanmar should be guided by the overarching objectives of enhancing the pluralization of power in the country, inclusivity, and accountability. However, they also need to be sensitive to conflict dynamics and cognizant of the determining realities of power distribution.

Even though some Myanmar and international civil society groups have called for a complete removal of the military, its conglomerates, and cronies from the jade economy, such ultimate goals are not realistic in the context of the current power distribution in the country. Nor is it realistic that given its current dominant power position, the military, or any central Myanmar state, will simply be willing to make local populations near the natural resources the ultimate authority over resource extraction.¹⁴¹ Inevitably, the central state and less-resource-rich regions will demand a share of the revenues. Nor will simply breaking the economic payoff arrangements that underpinned two decades of ethnic ceasefires produce peace. In fact, such a move runs a very high risk of intensifying conflict and further reducing the armed groups' interests in a peace deal.

Reinforcing Political Pluralization and Accountability through a Sequential Politically Sensitive Approach Rather Than a Technocratic Approach

While guided by the overarching objectives, policies toward illicit economies in Myanmar need to be equally considered through the prism of the country's power relationships. In fact, the choice of specific major moves against particular organized crime actors and illicit economies should be guided not only by the objective of minimizing their pernicious effects and the threats they pose to the state and society, but also by the objective of reinforcing the political power of democratic and pluralistic elements.

Rather than taking on all of entrenched power structures and illicit actors, the new government should adopt a sequential approach, taking on one or a few actors on at a particular time. As its power grows, through demonstration effects and public approval, its challenges to powers linked to the illicit economies can and should become more ambitious. In

other words, policies toward illicit and resource economies in Myanmar should stop being treated as merely technical solutions involving institution-building and increasing transparency, but rather as a properly-sequenced political project changing the core balance of power in the country. Going after crime and illicit economies should be a tool for increasing the power of a democratic and accountable government, and not inadvertently for weakening it. If going after organized crime and actors involved in illicit economies only weakens the new democratically-elected government, either because targeted rivals mobilize and subvert it or because overall economic growth of the country significantly slows down, both the anti-crime project and the larger political democratization project will become unsustainable.

Accordingly, the new Myanmar government, civil society, and donors should stop treating the military and cronies as a monolithic entity, but rather should look for members who are most inclined toward political and democratic liberalization and cultivate them as allies. These potential allies should be encouraged to comply with desirable international practices toward the resource and illicit economies and rewarded with contracts. Greater compliance with EITI or with best practices in logging such as those articulated under efforts to reduce carbon emissions from deforestation and forest degradation, known by the acronym REDD+, and with other timber legality practices adopted in the West should be strongly emphasized as bases for reward.

Hopefully, such better-behaving actors, perhaps with pressure from civil society, will also be better able to attract joint ventures with multinational companies. Any rifts and rivalries that emerge among these power structures can then be mobilized by the government to move against the worst-behaving and least accountable power structures. Such a selective, sequential, and incremental approach should also be adopted toward external actors perniciously involved in the country's resources economies, such as many of the foreign companies operating in Myanmar. And indeed, the Suu Kyi government should encourage external multinational corporations preparing to enter into joint ventures with Burmese firms to fully disclose the nature of their operations and themselves perform due diligence. Liberalizing the banking sector would create greater competition for the cronies, level the playing field, and provide more opportunities for start-up companies not linked to existing powerbrokers and entrenched power structures.

Among the incentives that can be offered to the Tatmadaw to embrace further political and economic liberalization and mitigate the pernicious effects of illicit economies is engagement with the United States. Even though the United States and other Western countries have lifted their sanctions on Myanmar, the U.S. can reward prominent reformist commanders or those most supportive of a genuine peace process with visits to and training in the United States, while the most malicious commanders remain shunned. Young

rising officers provide a natural pool, but such outreaching to reward desirable behavior should also be extended to top officers. Given that Myanmar wants to modernize its army and reduce China's leverage in the country, there is significant likelihood that not just at the individual level but also at institutional levels at least some groups within the Tatmadaw will be responsive.

It is crucial that the central government gradually brings its extractive economies on the books to boost tax revenues. But specific moves, such as licensing procedures and what type of contracts are awarded, also need to be guided by the twin consideration of not slowing down overall economic growth.

This political-power-prism approach of taking on the most pernicious actors sequentially in no way precludes seeking to build more transparency into the overall system. Beyond insisting on formal transparency in extractive economies, disclosures of beneficial ownership, and transparency in contracts, such broader transparency includes supporting and protecting investigative journalists and civil society. Obstacles to adopting this measure by the Suu Kyi government have so far been self-generated. Rather than having an arms-length posture toward civil society and independent media, the new government should propose reforms to enhance freedom of expression and protect political mobilization. It should take on the reform of existing discriminatory laws. Such reforms would likely produce only limited backlash from the military, they would be supported by the public, and would take advantage of this current moment of opportunity when most members of the parliament coming from NLD remain resistant to corruption and cooption by other political actors and powers. That moment may not last forever.

Institution-building, including reforming the judiciary and police, while insufficient in of themselves at the current moment of power distribution, nonetheless also need to proceed. Only once the basic power distribution changes toward plurality, these institutions can have an independent and defining role. However, it is important to start now to build their capacities for later. Building up an independent civil service is crucial. That means, including for the current Suu Kyi administration, not appointing people merely on the basis of loyalty and anti-corruption criteria, but also on the basis of competence and merit.

Reinforcing the Peace Process with Careful Sequential Human-Security-Based Moves against Illicit Economies, Prioritizing the Least Politically Difficult Ones

In order to achieve sustainable peace deals, it will continue to be necessary to provide the armed groups with economic stakes in the peace. Thus the Myanmar government will have to tolerate the persistence of labor-intensive illicit economies, such as drug cultivation. However, for such a peace to be both sustainable and satisfactory from a public

goods perspective, the social and economic development of former conflict areas will be necessary to prevent undesirable unregulated and illegal economies, such as logging and wildlife trafficking. Conversely, for alternative livelihoods programs to be effective in reducing such undesirable economies in a lasting way, good security needs to be established in the rural regions. This means that ending military conflict needs to be given priority.

Yet ideas for how the spoils of the resources economies will be managed, plus a vision of the transformation of illicit economies and ultimately suppressing or mitigating their pernicious aspects, also need to become a part of the discussion. The goals should include bringing the economies in legal commodities on the books and increasing formal taxation, transparency, accountability, inclusiveness, and environmental sustainability. Many of these goals are difficult to achieve in the near future and are not easily compatible. An inclusive timber economy could, for example, augment environmental destruction and timber depletion.

In the case of economies in illegal commodities, such as drugs, the long-term objective should be to replace the illegal economies with sustainable legal livelihoods for marginalized populations unable to resist participating in the illegal economy because of human security deficiencies and poverty.

Mitigation and suppression of labor-non-intensive illicit economies, such as drug trafficking (as opposed drug cultivation) and wildlife trafficking should be prioritized. Because poaching, for example, involves a smaller number of poor participants than poppy cultivation or illegal logging, devising and implementing effective alternative livelihoods in order to discourage poaching is *relatively* easier and demands fewer resources than do alternative livelihoods efforts to discourage illegal logging or the production of drugs. (That is not to say that the anti-poaching endeavor is not complex and challenging.¹⁴²)

Alternative livelihoods programs cannot be construed as merely crop substitution. Even if the replacement crop is lucrative, price profitability is only one factor driving the cultivation of illicit crops, with other structural economic conditions playing crucial roles.¹⁴³ For alternative livelihoods to have any chance of taking off and being sustained, they must address all the structural drivers of illicit economies. They must encompass generation of sufficient employment opportunities, such as through the promotion of high-value, high-labor-intensive crops as well as through off-farm income, infrastructure building, distribution of new technologies, marketing help and the development of value-added chains, facilitation of local microcredit, and establishment of access to land without the need to participate in the illicit economy -- to name a few of the most prominent components. Nor should alternative livelihoods be designed as discreet handouts and isolated interventions, or else they

will be ineffective.¹⁴⁴ Incorporating broader human development aspects, including improving access to health and education, and reducing social and ethnic marginalization, is crucial. But they should not mask new forms of land theft and marginalization officially billed as rural development. Alternative livelihoods really mean comprehensive rural and overall economic and social development. As such, the programs require a lot of time, the politically-difficult willingness to concentrate resources, as well as the availability of sufficient resources, and -- importantly -- lasting security in the area where they are undertaken.

Alternative livelihoods also need to be integrated into overall development strategies, with attention paid to whether overall economic growth produces job creation or capital accumulation while exacerbating inequality. Macroeconomic policies, such as fiscal policies that tax labor heavily and land lightly, might have pronounced, if indirect, effects on the effectiveness of alternative livelihoods policies, but may be expressions of persisting social exclusion.

Policing and enforcement of the rule of law are indispensable elements of suppressing illegal economies and regulating the legal ones so they are not socially or environmentally destructive. However, for policing and law enforcement to be effective, it is important that local populations do not fundamentally see them as contrary to their human security, for then they will not internalize the norms and voluntarily cooperate with the authorities. Thus, providing desirable legal economic alternatives facilitates policing and rule of law.

However, alternative livelihoods strategies must become far more sensitive to their environmental impacts. Underpinning a peace deal with unrestrained destruction of forests produces at best a highly problematic reduction in conflict. Replacing the drug trade with wildlife trafficking is equally not a good deal. Both can turn an unstable peace into unrestrained plunder.

Policies addressing drug use should not become new forms of war.¹⁴⁵ Mass incarceration of users and low-level, non-violent pushers does little to suppress – and can exacerbate – the use of illicit drugs. It may also increase drug market violence and turn prisons into recruiting grounds. Stigmatizing and punishing users undermine efforts to stem the spread of HIV/AIDS and other communicable diseases. Public health approaches, such as needle-exchanges and safe-injection sites, produce far better policy outcomes and should be adopted. Public health approaches to drug treatment should acknowledge addiction as an illness requiring medical treatment. Drug prevention should focus on early-age interventions and confidence-building, such as peer pressure resistance. The Suu Kyi government should strongly promote the new Myanmar draft regulations on dealing with drug cultivation and drug use and devote political capital to getting the draft regulations adopted as a new law.

A Demonstration Effect: Countering Myanmar's Illegal Wildlife Trade

Taking effective moves against Myanmar's illegal wildlife trade would provide an important demonstration of the new government's willingness and capacity to start mitigating the pernicious effects of the country's illegal economies. The illegal wildlife trade is a low-hanging fruit for several reasons, including the current Myanmar's government own expressed interest in taking that illicit economy on.¹⁴⁶

Myanmar's entrenched power structures and armed opposition actors are far less systematically involved in the wildlife trade than in other illegal and resource economies, such as drugs or logging or mining. The sporadic involvement remains mostly at an individual powerbroker's or commander's level and has not affected institutional budgets.

Many of the principal actors involved include organized crime groups and smuggling networks from abroad: China, Thailand, and India, among others. Moving to dismantle these smuggling networks will thus produce public approval and not encounter the same internal power obstacles. Indeed, since much of wildlife trafficking in Burma remains externally funded, such as by Chinese wildlife smugglers, and is internally localized, it is not as systematically linked to the country's balances of power and conflict and peace dynamics as are other illicit and resource economies.

However, interdiction measures should focus on dismantling smuggling networks and providing in situ protection in biodiversity-rich areas, not merely seizures of wildlife goods in crucial hubs such as Tachilek (or Mong La, if the central government develops access there). Without dismantling the smuggling networks, seizures of trafficked goods will have the highly counterproductive effect of encouraging greater poaching, as smugglers will anticipate interdiction losses.¹⁴⁷ Merely dismantling trade locations or stores will simply alter smuggling methods, such as to using postal services.

Because wildlife trafficking in Myanmar is not, like trafficking in timber or gems, linked to institutional budgets of the insurgent groups, the government may also be able to induce compliance in efforts to prevent poaching and dismantle wildlife smuggling networks from at least some of the ethnic armed groups.

As mentioned above, wildlife poaching is also much less labor intensive than poppy cultivation or even illegal artisanal logging and mining; and thus alternative livelihoods programs for discouraging poor marginalized populations from poaching are relatively less resource-intensive than alternative livelihoods programs for addressing the poppy economy.

And finally, taking on poaching and wildlife trafficking in Myanmar would also be supported by international donors. Over the past several years, the international community

has embraced and emphasized combatting wildlife trafficking to an unprecedented degree. Although China and Thailand are some of the principal locales of demand for poached wildlife from Myanmar, both governments have intensified efforts at the national level to combat at least some aspects of wildlife trafficking. It will be far easier for both to cooperate with Myanmar in those efforts than in illegal logging and mining, for example, where the interests of Chinese and Thai businesses and geopolitical considerations are much stronger. And since wildlife trafficking does not inject the same amount of money or create as many job opportunities in provinces such as Yunnan, the local political costs of efforts to combat organized crime, illicit economies, and their sponsors in this domain are much lower than in other illegal economies.

ENDNOTES

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