



# Fire and Ice: Conflict and Drugs in Myanmar's Shan State

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# Principal Findings

**What's new?** Shan State has long been a centre of conflict and illicit drug production – initially heroin, then methamphetamine tablets. Good infrastructure, proximity to precursor supplies from China and safe haven provided by pro-government militias and in rebel-held enclaves have also made it a major global source of high purity crystal meth.

**Why does it matter?** Drug production and profits are now so vast that they dwarf the formal sector of Shan State and are at the centre of its political economy. This greatly complicates efforts to resolve the area's ethnic conflicts and undermines the prospects for better governance and inclusive economic growth in the state.

**What should be done?** The government should redouble its drug control and anti-corruption efforts, focusing on major players in the drug trade. Education and harm reduction should replace criminal penalties for low level offenders. The military should reform – and ultimately disband – militias and other pro-government paramilitary forces and pursue a comprehensive peace settlement for the state.

## *Executive Summary*

Myanmar's Shan State has emerged as one of the largest global centres for the production of crystal methamphetamine ("ice"). Large quantities of the drug, with a street value of tens of billions of dollars, are seized each year in Myanmar, neighbouring countries and across the Asia-Pacific. Production takes place in safe havens in Shan State held by militias and other paramilitary units allied with the Myanmar military, as well as in enclaves controlled by non-state armed groups. The trade in ice, along with amphetamine tablets and heroin, has become so large and profitable that it dwarfs the formal economy of Shan State, lies at the heart of its political economy, fuels criminality and corruption and hinders efforts to end the state's long-running ethnic conflicts. Myanmar's government should stop prosecuting users and small-scale sellers and work with its neighbours to disrupt the major networks and groups profiting from the trade. The military should better constrain pro-government militias and paramilitaries involved in the drugs trade, with an eye to their eventual demobilisation.

The growing drugs trade in Shan State is in part a legacy of the area's ethnic conflicts. For decades, the Myanmar military has struck ceasefire deals with armed groups and established pro-government militias. Such groups act semi-autonomously and enjoy considerable leeway to pursue criminal activities. Indeed, conditions in parts of Shan State are ideal for large-scale drug production, which requires a kind of predictable insecurity: production facilities can be hidden from law enforcement and other prying eyes but insulated from disruptive violence.

But if the drugs trade is partly a symptom of Shan State's conflicts, it is also an obstacle to sustainably ending them. The trade, which now dwarfs legitimate business activities, creates a political economy inimical to peace and security. It generates revenue for armed groups of all stripes. Militias and other armed actors that control areas of production and trafficking routes have a disincentive to demobilise, given that weapons, territorial control and the absence of state institutions are essential to those revenues. The trade attracts transnational criminal groups and requires bribing officials for protection, support or to turn a blind eye, which allows a culture of payoffs and graft to flourish and adds to the grievances of ethnic minority communities that underpin the seventy-year old civil war. Myanmar's military, which has ultimate authority over militias and paramilitaries and profits from their activities, can only justify the existence of such groups in the context of the broader ethnic conflict in the state – so the military also has less incentive to end that conflict.

Tackling the drug trade presents a complex policy challenge involving security, law enforcement, political and public health aspects. An integrated approach that addresses all of these areas will be needed to effectively address it:

- Myanmar's government should redouble its drug control efforts, ending prosecutions of small-time dealers and users and refocusing on organised crime and corruption associated with the trade. The president should instruct and empower the Anti-Corruption Commission to prioritise this.

- ❑ At the community level, the government should focus more on education and harm reduction, in line with its February 2018 National Drug Control Policy. It should work with relevant donors and international agencies to invest in education and harm reduction initiatives geared specifically toward the particular dangers of crystal meth use. Although crystal meth is currently not widely used in Myanmar, that is likely to change given the huge scale of production.
- ❑ Myanmar's military should rethink the conflict management approaches it has employed for decades. In particular, it should exert greater control over – and ultimately disarm and disband – allied militias and paramilitary forces that are among the key players in the drug business. The impunity that these groups enjoy, and the requirement that they mostly fund themselves, has pushed them to engage in lucrative illicit activities.
- ❑ The military should also investigate and take concerted action to end drug-related corruption within its ranks, focusing on senior officers who facilitate or turn a blind eye to the trade.
- ❑ Myanmar's neighbours should stop illicit flows of precursors, the chemicals used to manufacture drugs, into Shan State. As the main source of such chemicals, China has a particular responsibility to end this trade taking place illegally across its south-western border. It should also use its influence over the Wa and Mongla armed groups controlling enclaves on the Chinese border to end their involvement in the drug trade and other criminal activities.

Targeting the major players in the drug trade will not be easy and comes with risks of pushback, perhaps violent, from those involved. But the alternative – allowing parts of Shan State to continue to be a safe haven for this large-scale criminal enterprise – will see closer links between local armed actors, corrupt officials in Myanmar and the region, and transnational criminal organisations. The more such a system becomes entrenched, and the greater the profits it generates, the harder it will be to dislodge and the longer conflicts in that area are likely to persist. The people of Shan State, and Myanmar as a whole, will pay the highest price.

**Brussels, 8 January 2019**

# Fire and Ice: Conflict and Drugs in Myanmar's Shan State

## I. Introduction

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Myanmar's conflicted Shan State has long been a global centre of illegal drug production.<sup>1</sup> For decades the primary global source of opium and heroin – until it was eclipsed by Afghanistan in the 1990s – it is now the centre of a massive methamphetamine manufacturing and trafficking business, linked to sophisticated transnational criminal organisations.<sup>2</sup>

This business thrives on the proximity of Shan State to supplies of precursors – the chemicals needed for drug production – from across the Chinese border and huge local and regional markets for the drugs. It benefits from a combination of high-level corruption and the existence of safe havens controlled by army-backed militias or non-state armed groups, allowing industrial-scale synthesis of drugs and their trafficking in tonne quantities. Both precursors and drug products are often concealed within increasing large licit trade flows across the region, spurred by greater connectivity and improved transport infrastructure.

The methamphetamine business has become so large and profitable that it now dwarfs the formal economy of Shan State, and is at the centre of its political economy. This report examines the implications of this for the dynamics of the armed conflict and the prospects for resolving it, and more broadly for the political and economic stability of Shan State. It is based on Crisis Group research since May 2018, including interviews in Myanmar and Thailand with experts on drug policy and the drug trade, and research in northern Shan State, including interviews with current and former members of militias and ethnic armed groups, members of civil society and other individuals with direct knowledge of the drug trade. Research focused in particular on northern Shan State, currently the location of the most active armed conflicts – between ethnic armed groups and the Myanmar military; among ethnic armed groups or militias – and a key hub of drug production and trafficking; illicit drug production also takes place in other parts of Shan State, but there is currently less armed conflict in those areas.

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<sup>1</sup> For Crisis Group reporting on Myanmar since the 2015 elections, see Asia Reports N°s 296, *The Long Haul Ahead for Myanmar's Rohingya Refugee Crisis*, 16 May 2018; 292, *Myanmar's Rohingya Crisis Enters a Dangerous New Phase*, 7 December 2017; 290, *Buddhism and State Power in Myanmar*, 5 September 2017; 287, *Building Critical Mass for Peace in Myanmar*, 29 June 2017; 283, *Myanmar: A New Muslim Insurgency in Rakhine State*, 15 December 2016; and 282, *Myanmar's New Government: Finding Its Feet?*, 29 July 2016; and Asia Briefings N°s 153, *Bangladesh-Myanmar: The Danger of Forced Rohingya Repatriation*, 12 November 2018; 151, *Myanmar's Stalled Transition*, 28 August 2018; 149, *Myanmar's Peace Process: Getting to a Political Dialogue*, 19 October 2016; and 147, *The Myanmar Elections: Results and Implications*, 9 December 2015.

<sup>2</sup> Afghanistan overtook Myanmar as the largest opium produced in 1991, whereas Myanmar had the largest area of poppy cultivation until 2003. (The difference is due to higher yields in Afghanistan.)

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**Drug terminology**

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Three main drugs are referred to in this report:

<b>heroin</b>	In Myanmar, usually the highest-purity “number 4” grade of the drug, a white powder refined from opium grown across conflict-affected northern parts of the country.
<b>yaba</b>	Tablets typically containing a mixture of low-purity methamphetamine (“speed”) and caffeine ( <i>yaba</i> means “crazy medicine” in Thai).
<b>crystal meth</b>	High-purity crystalline form of methamphetamine, also known as “ice” for its translucent rock-like appearance, resembling shards of ice or glass.

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## II. A Long Legacy

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The drug trade and armed conflict in Shan State have been interlinked since the 1950s.<sup>3</sup> In 1949, remnants of the nationalist Chinese Kuomintang Army invaded northern Myanmar and formed a series of base areas in eastern Shan State along the border with Thailand. The Kuomintang soon established control over the transportation of opium to heroin processing labs in Laos and Thailand, and later processed high-grade heroin themselves. During the 1970s and 1980s, Myanmar produced the majority of the world's processed heroin for export, trafficked through Thailand to Hong Kong and on to markets in North America and Australia. This hub of opium cultivation and drug processing that encompassed Shan State, western Laos and northern Thailand became known as the "Golden Triangle".

During these decades, drug kingpins or organisations competed for dominance in the opium and heroin trade, including first the Kuomintang, then the ethnic Kokang warlord Lo Hsing-Han, and from the 1970s, the Sino-Shan rebel leader Khun Sa, who first operated as a local militia commander, then as the leader of rebel forces – the Shan United Revolutionary Army and subsequently the Mong Tai Army. Within this milieu proliferated a number of small and medium sized armed groups, including many rebel militias from ethnic groups such as the Wa, Palaung (Ta-ang), Kokang and Shan – often in shifting alliances over commodities and control of territory. Around the margins of large ethnic armed organisations was a plethora of smaller militias, cultivated by Myanmar's armed forces (the Tatmadaw) and nominally controlled by them, but not provided with resources. These militias were first called *Ka Kwe Ye* (village defence units) and subsequently *Pyithu Sit* (people's militias).

In the late 1960s, China stepped up support for the Communist Party of Burma, which had gone underground three months after Myanmar's independence in January 1948. The Communist Party had been struggling militarily, but with new resources it launched a successful operation from Chinese territory into northern Shan State, where it soon absorbed several border-based ethnic armies, including those of the Wa and Kokang, becoming the strongest anti-government armed force in the country for two decades.

The dynamics of Shan State's conflict changed markedly in 1989, when the Communist Party imploded in mutiny, with three major organisations forming from its rank-and-file foot soldiers: the United Wa State Army (UWSA), the Myanmar National Democratic Alliance Army (MNDAA), and the National Democratic Alliance Army (NDAA) that controlled large swathes of territory along the Chinese-Myanmar frontier. The former chief of military intelligence, Lt-Gen Khin Nyunt and warlord Lo Hsing-Han brokered a series of verbal ceasefire arrangements with national and

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<sup>3</sup> For detailed accounts of the events in this section, see Bertil Lintner, *Burma in Revolt: Opium and Insurgency since 1948* (White Lotus, 1994); and Martin Smith, *Burma: Insurgency and the Politics of Ethnicity*, 2nd edition (Zed Books, 1999). For a concise overview of ethnic conflict more broadly in Myanmar, see Crisis Group Asia Report N°214, *Myanmar: A New Peace Initiative*, 30 November 2011, Sections I and II.



local military commanders, and the areas of control of these groups were designated as seven “special regions”.<sup>4</sup>

The drug trade then entered a new phase of competitive violence, with the UWSA challenging Khun Sa's monopoly on heroin exports and moving against his Mong Tai Army's bases in eastern and southern Shan State. Pressure on Khun Sa and his army intensified with indictments in the Eastern District Court of New York of key leaders as part of “Operation Tiger Trap” in 1994, and efforts by Thailand to curtail Khun Sa's activities. As a result of this multi-front containment, Khun Sa surrendered to the government in 1996 and, in exchange for disbanding his army and leaving the drug trade, was permitted to “retire” in Yangon.<sup>5</sup> Elements of the Mong Tai Army soon reorganised as the Shan State Army-South, whose political wing is known as the Restoration Council of Shan State.

To further complicate this upheaval in the drug trade, in 1999 the Wa special region declared an opium ban in parts of its territory, which destroyed the livelihoods of poor opium farmers and sparked widespread food shortages.<sup>6</sup> In a draconian social engineering project, the Wa insurgent group, the UWSA, then forcibly relocated an estimated 100,000 ethnic Wa, Lahu and Akha civilians from the northern special region to areas in Monghsat and Mongton townships along the Thailand border across from Chiang Rai province – to populate an area called Mong Yawn, also known as the 171 military region or “southern Wa State”. This was an area previously controlled by Khun Sa's Mong Tai Army, and which the Tatmadaw had given permission to the UWSA to occupy and settle, as a quid pro quo for their help in defeating the Mong Tai Army. Mong Yawn soon became a hub for the production of a new Golden Triangle drug, *yaba*.<sup>7</sup>

Amid decades of evolving conflict dynamics, drug production in Shan State has undergone three significant phases. From the 1950s to the 1990s, heroin production was dominant. Then from the late 1990s – around the time the UWSA established its southern area and declared an opium ban in parts of its territory – heroin production declined. Methamphetamines (*yaba*) production began.

Key to this market shift was the UWSA's growing influence, and the involvement of a central drug trade entrepreneur, the Sino-Thai operator Wei Hsueh-Kang, who over the past three decades allegedly worked for the Kuomintang, the Mong Tai Army and the UWSA. U.S. courts indicted Wei in 1993 on drug trafficking charges, designated him a drug kingpin in 2000 and indicted him again in 2005, establishing

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<sup>4</sup> Shan State Special Region 1-MNDAA-Kokang; Shan State Special Region 2-UWSA-Pangsang; Shan State Special Region 3-Shan State Progress Party (SSPP)-Northern Shan State; Shan State Special Region 4-NDAA-Mongla; Shan State Special Region 5-Shan State Nationalities People's Liberation Organisation (SSNPLO)-Eastern Shan State; Shan State Special Region 6-Pao National Liberation Army (PNLA)-Southern Shan State; and Shan State Special Region 7-Palaung State Liberation Front (PSLF)-Northern Shan State. Many of these special regions, such as those of the SSNPLO and PSLF, were almost completely disarmed due to Tatmadaw pressure in the early mid-2000s, while the others were transformed into Self-Administered Areas under the 2008 constitution.

<sup>5</sup> Maung Pho Shoke, “Why Did U Khun Sa's MTA Exchange Arms for Peace”, Yangon, Meik Kaung Press, 1999.

<sup>6</sup> The whole Wa region was declared opium free in June 2005.

<sup>7</sup> In Myanmar, many people still refer to *yaba* as “ya ma”, or “horse medicine” in Thai – due to the drug's supposed ability to confer the strength of a horse.

a \$2 million bounty for information leading to his capture.<sup>8</sup> He was instrumental in turning Mong Yawn into a drug production hub and in flooding Thailand with cheap methamphetamines.<sup>9</sup> The third phase of drug production in Shan State has been the production of crystal methamphetamine for export, since the early 2010s (see Section III below).

By 2010, drug production in Shan State had shifted sharply from heroin to meth. Heroin production has not stopped – Myanmar remains the second-largest global producer, albeit now far behind Afghanistan – but the drug is no longer the predominant or most profitable one produced.<sup>10</sup> The impunity of major armed groups such as the UWSA as well as numerous subcontractors, militias and ethnic armed organisation splinter groups (such as the Democratic Karen Buddhist Army) in other cease-fire areas of eastern Myanmar – allegedly with the assistance of the UWSA – fuelled the rapid expansion of meth production.<sup>11</sup> This surge led to *yaba* becoming a major export industry, and also increased domestic consumption of the drug throughout Myanmar. More recently, the Arakan Army – established in Kachin State in 2009 – has allegedly been involved in the transit of Shan State-produced *yaba* across Myanmar and into Bangladesh, where there is a rapidly growing market for the drug.<sup>12</sup>

More frequent seizures of *yaba* in Rakhine State and Cox's Bazar in Bangladesh point to the diversification of export markets for *yaba* produced in Shan State. There is also evidence that *yaba* production is increasingly decentralised: the pills now come in many different versions, compositions and brands, for example. As one experienced analyst of the drug trade in northern Shan State observed: "It is a cooperative system. There is no single controller. It is different from when it was under the control of Lo Hsing Han or Khun Sa".<sup>13</sup>

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<sup>8</sup> Tom Kramer, *The United Wa State Party: Narco-Army or Ethnic Nationalist Party?* (East-West Center, 2007), p. 54; and U.S. Bureau of International Narcotics and Law Enforcement Affairs, Narcotics Rewards Program, [www.state.gov/j/inl/narc/rewards/275656.htm](http://www.state.gov/j/inl/narc/rewards/275656.htm).

<sup>9</sup> Ibid.

<sup>10</sup> In 2017, Myanmar accounted for 5 per cent of global opium production, compared to 86 per cent for Afghanistan. World Drug Report 2018, UNODC, volume 2, p. 28.

<sup>11</sup> See, for example, Des Ball, "Security Developments in the Thailand-Burma Borderlands", Working Paper No. 9, Australian Mekong Resource Centre, University of Sydney, October 2003.

<sup>12</sup> See "How to Fund a War", *Global New Light of Myanmar*, 28 February 2016, p. 1. The Arakan Army strongly rejected the government's allegations (see "Condemnation Letter", United League of Arakan/Arakan Army, 29 February 2016). See also "Bangladesh's drug war death toll tops 200, rights group says", Agence France-Presse, 17 July 2018.

<sup>13</sup> Crisis Group interview, well-connected local source, Lashio, November 2018.

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### III. A New Drug Dynamic

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#### A. A Surge in Production

In January 2018, the Myanmar army and police raided an abandoned house in Kutkai township in northern Shan State, seizing 30 million *yaba* pills, 1,750kg of crystal meth, more than 500kg of heroin and 200kg of caffeine powder. According to the authorities, it was the country's largest-ever drug bust, with a domestic value of some \$54 million. The following month, a joint army and police team raided two major crystal meth labs in the same area, seizing some seven million dollars' worth of advanced laboratory equipment, twelve state-of-the-art generators, huge quantities of precursor chemicals, and unused branded packaging sufficient for ten tonnes of product – suggesting that the labs were gearing up for a production run of that volume.<sup>14</sup>

While the sizes of these seizures may have been record-setting, they were not surprising. In the last few years, authorities have regularly captured huge quantities of crystal meth in Myanmar and beyond, with the bulk thought to originate from Shan State. These included 1.2 tonnes seized in Western Australia in December 2017 and 0.9 tonnes in April that year in Melbourne; almost 5 tonnes in Thailand over the course of 2017 and 15 tonnes from January–July 2018; 1.6 tonnes in Indonesia in February 2018; and 1.2 tonnes in Malaysia in May 2018.<sup>15</sup> A summary of total seizures for the Mekong sub-region over the last ten years is given below; 2018 figures will exceed those for 2017.<sup>16</sup> Gram-for-gram, crystal meth is worth more than heroin, and the total value of the Mekong drug trade is estimated at over \$40 billion per year and rising (see Section V below).

The Kutkai raids were revealing in a number of ways. First, the location was not a remote, rebel-controlled part of Shan State beyond the authorities' reach. Rather, it was relatively close to Lashio, not far from the main road to the Chinese border at Muse – Myanmar's biggest overland trade route – in an area controlled by a militia allied with the Tatmadaw. The Tatmadaw thus had access to the area, even if law enforcement personnel did not.<sup>17</sup> Crisis Group researchers could drive to the area and talk to local people there, passing through checkpoints manned by the militia and visiting the village where the abandoned house was located.

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<sup>14</sup> Crisis Group interviews, experts on regional narcotics issues, Yangon and Bangkok, May, August and November 2018; "Record narcotics haul in Shan State", *The Irrawaddy*, 19 January 2018; "Army, police raid drug labs in northern Shan State", *The Irrawaddy*, 19 February 2018.

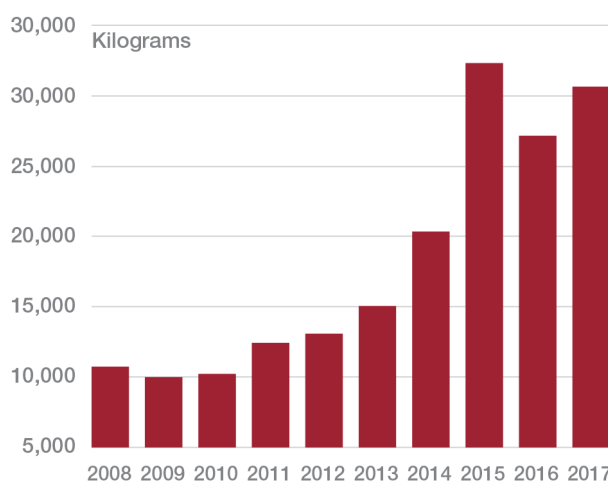
<sup>15</sup> See "Australia's biggest ever methamphetamine haul sees 1.2 tonnes of the drug seized at Geraldton", ABC News, 22 December 2017; "Indonesia seizes record 1.6 tonnes of crystal methamphetamine", Reuters, 20 February 2018; "Thai officials reveal largest ever crystal meth haul", CNN, 4 April 2018; "Meth crisis spreading as supply surges, prices drop", *Straits Times*, 21 May; "Malaysians make record bust of crystal meth, shipped from Myanmar", Reuters, 28 May 2018; "Drug arrests soar but more keep coming", *Bangkok Post*, 25 August 2018.

<sup>16</sup> The Mekong sub-region is a transnational area of the Mekong River basin encompassing Cambodia, south-west China, Laos, Myanmar, Thailand and Vietnam.

<sup>17</sup> The Myanmar drug police have expressed to interlocutors their frustration that they require military permission to access certain sensitive areas, and that the necessary permission is either not granted, or delayed such that targets have been tipped off by the time raids take place. Crisis Group interviews, drug policy experts, Yangon, November 2018.

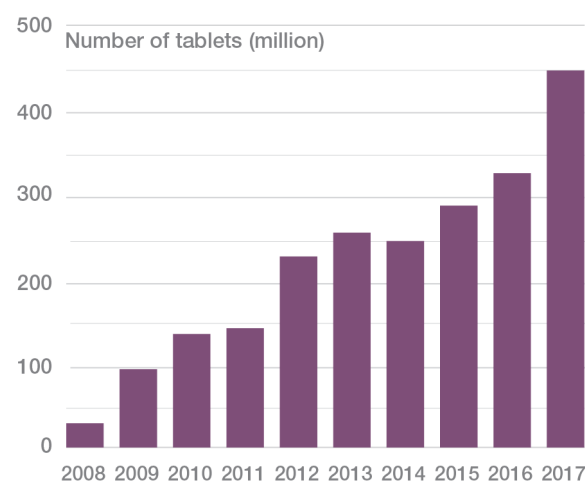
### Meth seizures in the Mekong sub-region

#### Crystal methamphetamine



Source: UNODC, preliminary 2017 figures

#### Methamphetamine tablets



Second, authorities described both the house and the laboratories as “abandoned”.<sup>18</sup> This suggests that those responsible were tipped off and fled in advance of the raids – which were triggered by Myanmar authorities being given precise coordinates of the locations and a description of the activities taking place there, so that officials apparently felt that they had no alternative but to act.<sup>19</sup> There were apparently no consequences for the militia that controls the area, which has maintained a ceasefire with the military for nearly 28 years and has a large compound in Lashio town centre that Crisis Group researchers visited.<sup>20</sup>

This case also illustrates the type of enabling environment that crystal meth producers require. As a high-purity pharmaceutical-type product, synthesising it requires trained chemists (many of whom reportedly come from Taiwan), sophisticated laboratory equipment, and a supply of specific precursor chemicals, several of which are highly controlled substances.<sup>21</sup> All of these, including the chemists, must be brought into Myanmar. Given the difficulty of doing so and the high sunk costs and

<sup>18</sup> Ibid.

<sup>19</sup> Crisis Group interviews, experts on regional narcotics issues, Yangon and Bangkok, May, August and November 2018.

<sup>20</sup> Crisis Group research visit to Lashio, November 2018.

<sup>21</sup> There are many chemical pathways for synthesizing crystal meth, but the two most popular and effective are: a) from the decongestant pseudoephedrine (or the blood-pressure medication ephedrine), a simpler and cheaper method than some others, but constrained by controls on pure ephedrine/pseudoephedrine; and b) from phenylacetone (“P2P”), which is a longer, more expensive, lower yield and more difficult process, but with the advantage that it uses different, and possibly less-controlled, precursors (this is the “Walter White method” in the popular television series *Breaking Bad*). Production in Myanmar appeared to have exclusively used the first method, but there is evidence of diversification to the second, likely due to current or predicted future (pseudo)-ephedrine supply problems; almost three tonnes of P2P was seized in Lashio township in November 2018. Crisis Group interviews, experts on regional narcotics issues, Yangon and Bangkok, May, August and November 2018; Myanmar President Office Press Release No. 24/2018, 19 November 2018.

profit margins involved, there are significant economies of scale in meth production favouring extended, high-volume operations. By contrast, *yaba* production is a simpler process that does not require significant sunk costs – in some cases, just a small pill press – leading to what has been described as a “cottage industry” in the drug.<sup>22</sup> The composition of these tablets varies enormously; some are fake and contain only caffeine as the active ingredient.

Crystal meth production requires a kind of predictable insecurity. Industrial-scale clandestine laboratories need to remain hidden and inaccessible to law enforcement or others who may scrutinise them; areas controlled by compliant non-state armed groups are ideal. At the same time, those areas cannot be too unstable, as this would put the investment at risk. Like any manufacturing business, drug production requires good transport infrastructure for the delivery of large quantities of raw materials and onward movement of the finished product. Crossing the front lines of an active conflict is not an appealing prospect in this regard.

Some parts of Shan State perfectly meet these requirements, falling into three broad categories:

- ❑ Areas under the control of militia forces allied with the Myanmar army. Some of these militias are large, well-resourced, well-armed and involved in a range of licit and illicit business activities. In return for carrying out security duties in their areas (essentially, preventing the emergence or incursion of anti-government armed groups), and fighting alongside the military on particular operations, they are given the authority to carry arms and permission to conduct business activities, and the military appears to turn a blind eye to their involvement in illicit activities – which they inevitably engage in, given that they receive no funding or other resources from the military.<sup>23</sup> Because they are armed and operate checkpoints to control access to their areas or businesses, requests for access by police and civilian government officials generally need to be routed via the Tatmadaw. This explains why the raids on the house and laboratories in Kutkai, a militia-controlled area, were carried out jointly by the military and the anti-narcotics police.<sup>24</sup>
- ❑ Areas controlled by “Border Guard Forces”. These are former armed factions or militias from different ethnic groups that in 2009-2010 accepted demands from the junta that they transform into paramilitary units.<sup>25</sup> They include a proportion of Myanmar army officers and troops, and are partially within the Tatmadaw

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<sup>22</sup> International Narcotics Control Strategy Report (hereafter, “INCS Report”), Volume I: Drug and Chemical Control, U.S. Department of State, March 2018, p. 125.

<sup>23</sup> For detailed discussion and typology of these forces, see John Buchanan, “Militias in Myanmar”, The Asia Foundation, July 2016. See also fn. 27.

<sup>24</sup> The area in question is controlled by the Kawng Kha militia, which until 2010 was known as the Kachin Defence Army, a faction that broke away from the Kachin Independence Organisation armed group in 1990. Crisis Group visit to Kawng Kha, November 2018; and Crisis Group interviews, well-placed local sources, Lashio and Kutkai, November 2018. See also, “Army, police raid drug labs in northern Shan State”, *The Irrawaddy*, 19 February 2018.

<sup>25</sup> For details on the Border Guard Force (BGF) scheme, see Crisis Group Asia Report N°214, *Myanmar: A New Peace Initiative*, 30 November 2011, Section II.B; and John Buchanan, “Militias in Myanmar”, The Asia Foundation, July 2016.

chain of command, but receive only limited funds and supplies from the military. In practice, however, the Border Guard Forces' Tatmadaw personnel tend not to participate actively in their activities or travel with them; Border Guard Force commanders often also control other troops that operate independently of the formal structure or oversight. Thus, these Border Guard Forces operate much like militias – bearing arms within a specific area they control, and having wide latitude to pursue licit and illicit business activities. Key units are based in northern and eastern Shan State.<sup>26</sup> A number of militias and Border Guard Forces have been implicated in the drug trade.<sup>27</sup>

- Enclaves under the full territorial control of armed groups that have durable ceasefires with Naypyitaw, such as the special regions controlled by the United Wa State Army (UWSA) and National Democratic Alliance Army (NDAA, or “Mongla”) on the Chinese border (and to some extent also the UWSA’s 171 military region on the Thai border).<sup>28</sup> Both groups agreed to ceasefires in 1989 that were reaffirmed in 2011, and neither have had serious clashes with the Myanmar army over the three decades those ceasefires have been in force. At the same time, these enclaves are defended by large, well-equipped forces and the Myanmar military and civilian authorities cannot freely enter.

The map in Appendix B shows the locations of some of these militias, Border Guard Forces and armed group enclaves. These different safe havens are also well-located from a transport and logistics perspective – either adjacent to the Chinese border or near major trade routes (such as the Mandalay-Lashio-Muse road or the Tachileik-Kengtung-Mongla road). Precursor chemicals, required in massive quantities given the scale of production, can be brought in from China, where they are readily available through legitimate pharmaceutical and chemical markets and from illicit precursor-producing factories. That there have been almost no precursor seizures at the border indicates that traffickers can move them freely across national boundaries.<sup>29</sup> (India is also a major producer of precursor chemicals, but its distance from Shan State and the poorer transport infrastructure means that it is not currently a signifi-

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<sup>26</sup> For example, BGF1006 (formerly part of the Myanmar National Democratic Alliance Army) in Laukkaing in the Kokang self-administered area and a number of Lahu, Akha and Wa forces in eastern Shan State (BGFs 1007-1010). BGFs in other parts of Myanmar include the ex-New Democratic Army-Kachin (numbers 1001-1003) in Kachin State and ex-Democratic Karen Buddhist Army (numbers 1011-1022) in Kayah State.

<sup>27</sup> INCS Report, 2018, p. 74; see also “Myanmar’s State-backed militias are flooding Asia with meth”, *Global Post*, 12 November 2015; and “Solving Myanmar’s drug trade means involving militias in the peace process”, *Myanmar Times*, 18 May 2016.

<sup>28</sup> The UWSA special region (“Shan State Special Region No. 2”) and Mongla special region (“Shan State Special Region No. 4”) were defined at the time of the 1989 ceasefires as the areas that these armed groups had control over. The Wa Self-Administered Division defined in the 2008 constitution is based on township boundaries, and some parts of it fall outside of the UWSA enclave; Mongla is not part of any self-administered area under the constitution. The UWSA’s 171 military region was granted to them informally by the military junta at the time, in return for their military support in defeating the drug warlord Khun Sa’s Mong Tai Army; it has no special status in the constitution.

<sup>29</sup> Crisis Group interviews, experts on regional narcotics issues, Yangon and Bangkok, May, August and November 2018. See also INCS Report, 2018, p. 65; and “Myanmar hosts talks on Asia Pacific strategy to control drug making chemicals”, UNODC Press Release, 7 November 2018.

cant source. Thailand is a minor source of precursors for meth produced in eastern Shan State; it does not manufacture any such chemicals, but some imports are diverted from legitimate uses.<sup>30)</sup>

The status of the militias and Border Guard Forces as Tatmadaw-aligned armed units gives them considerable impunity, but also gives the Tatmadaw a degree of deniability about their actions. One ethnic leader in northern Shan State told Crisis Group:

A friend of mine is a big militia leader. He drives from Lashio to Mandalay and all the way to Yangon with his militia cap on the dashboard, and no one dares to stop him, even though his vehicle is unregistered. If he can do that on the road from Mandalay to Yangon and no one stops him, can you imagine what he can do around here?<sup>31</sup>

Another observer of the drug trade in Lashio simply stated that “after Muse, there are no serious checkpoints all the way to Yangon”.<sup>32</sup>

### B. *Tip of the Iceberg*

Seizures of crystal meth, as well as *yaba*, have increased significantly in recent years. Each massive haul tends to be presented as an interdiction victory. However, these record seizures represent the tip of an iceberg, and are therefore evidence of the scale of the problem rather than of any genuine success in addressing it. Despite massive seizures, prices of crystal meth have remained stable, a clear indication that they are a small proportion of total volumes.<sup>33</sup>

*Yaba* is produced both for local consumption and export – mainly to Thailand, Indochina and South Asia, particularly Bangladesh. Seizures in Myanmar range from a small number of tablets for personal use, to large wholesale shipments of tens of millions of pills.<sup>34</sup> Crystal meth, on the other hand, is produced mostly for export – it is rarely used in Myanmar, though is starting to become more widely available.<sup>35</sup> It is typically seized in one-tonne lots or larger. Key export markets for Shan State crystal meth are Japan and Australia, which have among the highest street prices in the world for the drug; a tonne has a wholesale value in Australia of at least \$180 million, and street prices several times higher. Crystal meth is also exported to China, the Philippines, Malaysia, Indonesia, South Korea and New Zealand.<sup>36</sup>

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<sup>30</sup> INCS Report, 2018, p. 68-69.

<sup>31</sup> Crisis Group interview, ethnic political leader, Lashio, November 2018.

<sup>32</sup> Crisis Group interview, local community worker, Lashio, November 2018.

<sup>33</sup> Crisis Group interviews, experts on regional narcotics issues, Yangon and Bangkok, May, August and November 2018.

<sup>34</sup> See, for example, “Additional statistical bulletin on drug seizures, acting on information”, President Office Press Release No. 24/2018, 19 November 2018; “Myanmar says record drug seizure has street value of \$36 million”, Reuters, 31 May 2016; “Record narcotics haul in Shan State”, *The Irrawaddy*, 19 January 2018.

<sup>35</sup> “Methamphetamine use in Myanmar, Thailand and southern China: assessing practices, reducing harms”, *Transnational Institute*, forthcoming.

<sup>36</sup> UNODC statistics and Data, “Retail and wholesale drug prices”, <https://dataunodc.un.org/drugs/prices>.

The trade is becoming increasingly professionalised, dominated by transnational criminal syndicates operating at huge scale. Crystal meth is now packed in branded tea packets, both to facilitate concealment and to give it a specific product identity. Increasingly, local production in destination countries is being displaced by imports: China has been effective in cracking down on illicit meth laboratories on its territory, but in practice that has meant displacing them across the border into Shan State. Australian biker gangs have opened up chapters in South East Asia as they have shifted from cooking meth in Australia using smuggled precursors, to procuring the final product in the region and smuggling that instead.<sup>37</sup>

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<sup>37</sup> Crisis Group interviews, experts on regional narcotics issues, Yangon and Bangkok, May, August and November 2018; see also “Hells Angels: Founding member of Thai chapter bashed as Australian bikies take over ‘dark business’”, ABC News, 27 March 2017.



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## **IV. The Links Between Drugs and Conflict**

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### **A. Current Conflict Dynamics**

The various ways in which the armed conflict and illegal drug production intertwine are not new. They have evolved alongside political alliances between the central government and ethnic armed groups, and with market shifts in drug production. Key to changing patterns in drug production over the last several years, however, has been the end of a period of relative stability that northern Shan State experienced between the early 1990s and 2011 and the tactics the Tatmadaw have used to quell violence.<sup>38</sup>

Open armed conflict in northern Shan resumed partly because of the outgoing military junta's determination to transform armed groups with which it had reached ceasefires into Border Guard Forces, nominally under the Tatmadaw chain of command, a scheme it announced in April 2009. Many ceasefire groups – especially smaller or less politically-oriented ones – agreed.<sup>39</sup> The army then applied political, military and economic pressure on those who refused, ultimately leading to open warfare in some areas; for example:

- ❑ In August 2009, the Tatmadaw attacked the Myanmar National Democratic Alliance Army (MNDAA) in Laukaing, the capital of the Kokang self-administered zone – a city on the Chinese border notorious for hosting numerous casinos – vanquishing the group's longstanding commander, Pheung Kya-shin, who fled into China along with his troops and over 30,000 displaced civilians. The junta installed a rival Kokang faction as a pro-government Border Guard Force to administer the casino city.<sup>40</sup>
- ❑ Increased political pressure on the Kachin Independence Organisation (KIO) to accept the Border Guard Force proposal was part of the reason for the breakdown of its seventeen-year ceasefire and the resumption of armed conflict in Kachin State and Kachin-majority areas of northern Shan State in 2011.<sup>41</sup> As the KIO came under increasing pressure, it supported the formation of two new armed groups – the Ta-ang National Liberation Army (TNLA) and the Arakan Army – equipping and training them at its bases in Kachin State from 2009. These groups went on to form the kernel of a loose “northern alliance” of armed groups fighting state authorities and allied militias in northern Shan.<sup>42</sup>

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<sup>38</sup> For detailed discussion of Golden Triangle drug markets and trends, and links to conflict and corruption, see “Bouncing back: Relapse in the Golden Triangle”, Transnational Institute, June 2014.

<sup>39</sup> John Buchanan, “Milicias in Myanmar”, The Asia Foundation, July 2016.

<sup>40</sup> That is, BGF 1006. See Tom Kramer, “Burma's cease-fires at risk: consequences of the Kokang crisis for peace and democracy”, Transnational Institute, September 2009.

<sup>41</sup> See Crisis Group Asia Briefing N°140, *A Tentative Peace in Myanmar's Kachin Conflict*, 12 June 2013.

<sup>42</sup> The northern alliance today comprises the KIO's military units based in northern Shan along with the MNDAA (Kokang), the TNLA, the Arakan Army – and de facto the Shan State Army-North as well. These groups are also part of a broader political alliance with the UWSA and the NDAA (Mongla). See David Scott Mathieson, “Burma's Northern Shan State and Prospects for Peace”, United States Institute for Peace, Peace Brief 234, September 2017.

Today, northern Shan State is experiencing intensifying armed conflict between several armed groups and the Tatmadaw, and increasingly among the armed groups themselves, particularly between Shan and Ta-ang groups. Conflict zones – which are mainly around Kyaukme, Hsipaw, Namtu, Kutkai and Namkhan townships – are marked by sporadic clashes across rural areas that cause repeated temporary displacement of civilians, often affecting the same villages several times a year. While the number of people in static displacement camps in northern Shan is relatively low – only several thousand, compared to over 95,000 in Kachin State – these figures are misleading as they do not account for multiple short-duration displacements that have serious effects on livelihoods and civilian protection.<sup>43</sup>

Local civilian authorities and the Tatmadaw's North-Eastern Command in Lashio heavily restrict humanitarian access for local aid workers and international relief agencies; accessing the Kokang and Wa areas is particularly challenging. The conflict also carries allegations of serious human rights violations, which a UN-appointed Fact Finding Mission found to be “characterised by systematic attacks directed at civilians and civilian objects, and indiscriminate attacks” amounting to crimes against humanity and war crimes. The mission found that the Tatmadaw perpetrated the majority of these attacks, but that armed groups were also responsible for serious abuses.<sup>44</sup>

#### **B. *The Role of the Drug Trade in the Conflict***

The conflict in northern Shan includes armed groups with very different historical involvement with, and stated policies on, illegal drugs. Even within the northern alliance, there are groups such as the MNDAA that were notorious for their involvement in drug production and trafficking prior to their defeat and expulsion from the Kokang region in 2009; the Arakan Army, which is alleged to fund its operations in part through *yaba* trafficking; and the TNLA, which has an avowedly anti-drug policy.<sup>45</sup>

The TNLA's recent history demonstrates that involvement in the drug trade is never clear-cut for groups in Shan State. The TNLA is the latest incarnation of ethnic Ta-ang (Palaung) armed resistance. The Tatmadaw forcibly disarmed and disbanded an earlier group, the Palaung State Liberation Army, in 2005. Locals claim that because this group had restricted drug trafficking in its area, its disbandment led to a dramatic rise in drug production and consumption in Ta-ang areas of northern

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<sup>43</sup> United Nations Office for the Coordination of Humanitarian Affairs, “Myanmar: Civilians displaced by fighting in Kachin/Shan 2017-18”, 20 September 2018.

<sup>44</sup> Report of the Independent International Fact-Finding Mission on Myanmar, Human Rights Council, Thirty-ninth session, 10-28 September 2018, doc. A/HRC/39/64. See also “Human casualties will be the cost of war as RCSS moves north”, *The Irrawaddy*, 29 November 2018.

<sup>45</sup> Bertil Lintner, *Burma in Revolt: Opium and Insurgency since 1948* (White Lotus, 1994), pp. 293, 315; “Foreign nations question support for Myanmar's opium battle”, Associated Press, 5 March 1999; “Palaung group accuses Tatmadaw of failing to control drug trade”, *Myanmar Times*, 10 November 2013; and “How to fund a war”, *Global New Light of Myanmar*, 28 February 2016, p. 1. The Arakan Army strongly rejected the government's allegations (see “Condemnation Letter”, Arakan Army, 29 February 2016).

Shan (in particular, Kutkai, Namkhan and Manton), which had negative impacts on rural Ta-ang society.<sup>46</sup>

The TNLA formed against this backdrop in 2009 and declared that, along with fighting the Tatmadaw, it would also combat the scourge of illegal drugs. This stance, and the group's high-profile destruction of opium poppy fields, immediately put it on a collision course with militias involved in the heroin business that were protecting those fields, in particular the Pansay militia. Sporadic clashes have occurred between the two groups, most commonly around the opium harvesting period. At times, the Pansay militia has called on the Tatmadaw for support, including heavy artillery and air power, in its battles with the TNLA.<sup>47</sup> This is one direct way in which the drug trade and the armed conflict between ethnic groups are linked.

Other links are indirect. Even as the TNLA pursues its anti-drug activities, it needs to raise the significant funds necessary for maintaining its insurgency. This it does at least in part through "revolutionary taxation" – in particular, extorting commercial vehicles plying the Lashio-Muse trade route, which must pay half-yearly fees to the group, and forcing Ta-ang businesses and shops to pay protection money. On occasion, the TNLA and its allies have even mounted attacks on the 105 Mile border trade zone in Muse, as they did in November 2016, shutting down much of Myanmar's trade with China for several days – in part aimed at opening another front at a time of Tatmadaw operations in other areas, and also imposing a financial cost on Myanmar.<sup>48</sup>

Yet with so much of the northern Shan economy revolving around drugs, it is virtually impossible to avoid money related to the drug trade. Precursor smuggling and drug trafficking provide some of the most lucrative opportunities for the TNLA's taxation, with higher tax rates reportedly being levied for these activities, and seized drugs reportedly often sold by the TNLA back into the supply chain (other revenues come from the thriving illegal logging trade, extractive industries, and human trafficking). There are no indications that the TNLA has used any of its income to help promote alternative livelihoods for Ta-ang opium farmers.<sup>49</sup>

Thus, there are direct links between conflict and drugs, specifically around occasional eradication efforts and clashes between actors in the drug trade. The illicit economy allows these armed groups to generate revenue from taxation or extortion, helping to fund and sustain Myanmar's seventy-year-old civil war. The immense profitability of the drug trade attracts transnational criminal organisations and promotes corruption that deepens the grievances of ethnic minority communities that underpin the civil war. That civil war in turn provides a justification for the Tatmadaw's militia strategy, creating the conditions for a corrosive political economy dominated by armed actors operating with impunity.

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<sup>46</sup> See "Poisoned hills: Opium cultivation surges under government control in Burma", Palaung Women's Organisation, 2010.

<sup>47</sup> "A Return to War: Militarized Conflicts in Northern Shan State", Institute for Security and Development Policy Asia Paper, July 2018.

<sup>48</sup> "China strengthens border force amid clashes", *Frontier Myanmar*, 27 November 2016.

<sup>49</sup> Crisis Group interviews, militia members and other well-informed individuals, northern Shan State, November 2018.

### C. *Ethno-political Clashes, Anti-drug Raids or Bank Heists?*

Disentangling the motives behind armed group's actions can be hard: operations portrayed as anti-drug efforts or ethno-nationalist clashes, and reported as such in the media, may in fact be aimed at least in part at capturing profits from the drugs trade.

In March 2017, for example, the MNDAA staged a brazen attack on several targets in Laukkaing, with its commandos dressed in police uniforms first raiding the Laukkaing police station to neutralise any response, then attacking several casinos and hotels and the home of a leader of the rival Kokang faction now in charge of the zone. The raid was presented as a fight between ethnic groups in international media outlets, but resembled an elaborate bank heist more than a rebel assault.<sup>50</sup> It left behind more than 30 casualties, many of them Kokang soldiers, and major damage to casinos. The raiders made off with an estimated 500 million yuan (US\$73 million) loaded into several trucks.<sup>51</sup> Some 20,000 civilians were displaced by fighting, with many fleeing into China. The Myanmar Ministry of Defence alleged the MNDAA also seized 120 male and 150 female casino workers as hostages to cover their retreat, releasing Chinese citizens among the captives soon after.<sup>52</sup>

In May 2018, the TNLA attacked a casino owned and operated by the Pansay militia in the border town of Muse, leaving nineteen dead and over 27 wounded – mostly civilians caught in the crossfire. The TNLA claimed that the casino was being used to sell drugs.<sup>53</sup> Other sources suggest that the TNLA attacked at least in part due to deepening tensions between it and the Pansay militia, following that militia's arrest of a large number of young Ta-ang people on charges of being TNLA informants.<sup>54</sup> Though there may be multiple factors behind the assault, the opportunity to seize large sums of cash from an adversary is likely to have played some part in the TNLA's calculations and choice of target.

Indeed, while such attacks are infrequent, similar allegations of these establishments being used for illegal activities have been reported along the string of Myanmar-China "casino-capitalism" sites from Kachin State to Muse, Laukkaing, Pangsang, Mongla and Tachileik, as well as the notorious King's Roman on the bank of the Mekong river in Laos, bordering Myanmar and Thailand. The casinos are crucial enterprises not just for gambling and money laundering, but also for racketeering, drug distribution, human trafficking, prostitution and wildlife smuggling – part of an interlinked illicit political economy in the area.<sup>55</sup>

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<sup>50</sup> See, for example, "30 dead as intense fighting breaks out in Myanmar-China border town", Agence France-Presse, 6 March 2017.

<sup>51</sup> Ann Wang, "China-linked rebels' casino cash grab stills Myanmar border city", *South China Morning Post* (Magazine), 4 June 2017; and National Reconciliation and Peace Centre, Announcement No. 1/2017, 6 March 2017.

<sup>52</sup> "Tatmadaw continues operations after 48 clashes with MNDAA", *Global New Light of Myanmar*, 14 March 2017, pp. 1, 9.

<sup>53</sup> "Press Release on taking the military action into a casino owned by the Pansay Militia near Nam Paw Pankham Bridge of Muse-Namkham Highway at the China-Myanmar border", Palaung State Liberation Front/TNLA News and Information Department, 13 May 2018.

<sup>54</sup> Crisis Group interviews, well-informed individuals, Lashio, November 2018.

<sup>55</sup> See, for example, "Mong La, Myanmar's dreary 'sleaze capital'", *Frontier Myanmar*, 12 November 2015; and "Treasury Sanctions the Zhao Wei Transnational Criminal Organization", Press Release, U.S. Department of the Treasury, 30 January 2018.

**D. *Why Is There Not More Violence?***

While there is significant violence and armed conflict in northern Shan State, remarkably little of it appears on the surface to revolve directly around the drug economy. Thus, Lashio is the main hub of the northern trade, yet the city is not convulsed by public violence between competitive cartels or factions. Why does it not suffer the enormous bloodshed that blighted the Colombian city of Medellin during the heyday of cartel activity in the 1990s or, until recently, Ciudad Juarez, on the Mexico-U.S. border or other Mexican cities where armed groups battle for control of drug transit routes?

The answer lies in the fact that the intersection of armed conflict and the illicit economy in northern Shan has for decades operated as “an economic-commercial world of interdependent, entrepreneurial patron-client clusters”, that is geared toward avoiding fighting as much as practicable around economic ventures such as drugs.<sup>56</sup> This system, described to Crisis Group by several people involved, functions in a relatively stable and predictable way as long as the chain of actors from the Tatmadaw, to larger militia units involved in production, to smaller militias subcontracted to provide localised security, and the armed organisations that levy taxes on the trade all benefit and receive due compensation. Given the multiplicity of armed actors involved and the massive profits at stake, violence is remarkably rare.<sup>57</sup>

On occasion, however, the system breaks down and violence erupts. Two cases where greed, grievance or principle trumped cooperation were discussed in Section IV.C above. In another case in 2015, fighting between two prominent militias involved in illicit activity, Kawng Kha and Manpang, resulted in over 40 deaths and scores of injuries, with many casualties arriving at Lashio hospital, until “the North-east Commander ordered them to stop” – a clear indication of who the ultimate arbiter of disputes and illicit economic rents is.<sup>58</sup>

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<sup>56</sup> Chao-Tzang Yawngkhwe, “The political economy of the opium trade: implications for Shan State”, *Journal of Contemporary Asia*, 23.3, 1993, pp. 308-26.

<sup>57</sup> Ibid.; Crisis Group interviews, militia members and other well-informed individuals, northern Shan State, November 2018.

<sup>58</sup> Crisis Group interview, local community worker, Lashio, November 2018.

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## V. Broader Implications

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### A. *The Political Economy*

Northern Shan State sits astride Myanmar's primary overland trade route, the Mandalay-Lashio-Muse road, connecting the country to its largest trade partner, China (see map in Appendix B). This connectivity and geostrategic location have provided not only opportunities for legal business in northern Shan, but also for enormous profits from illicit activities. While estimating the size of the illicit trade is difficult, well-informed locals suggest that it is the major contributor to the area's GDP, and that occasional local crackdowns on such trade immediately dampen economic activity as a whole.<sup>59</sup>

In 2017, authorities in the region seized more than 25 tonnes of crystal meth, nearly all believed to have been produced in Myanmar. Even larger amounts have been confiscated so far in 2018. Regional narcotics experts estimate seizure rates at below 10 per cent, suggesting a total annual production significantly in excess of 250 tonnes. The regional wholesale value of this haul is in the tens of billions of dollars, and the price increases significantly with distance from Shan State, as the box below highlights. Profits in Myanmar are likely several billion dollars per year for crystal meth alone, and perhaps a similar amount for *yaba*, although a significant proportion of these profits may remain outside Myanmar, laundered through casinos in border zones and kept in bank accounts in regional financial centres.<sup>60</sup>

#### **The Crystal Meth Value Chain (per kg, in USD)**

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Street price in Australia	\$600,000+
Wholesale price in Australia	\$180,000+
Wholesale price in Myanmar (for Yangon delivery)	\$15,000+
Factory-gate price in Shan State	\$3,000+

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Source: UNODC drug price data; Crisis Group interviews.

Unlike heroin production, which employs large numbers of people – opium farmers and traders – the profits from meth production enrich a tiny few. That said, the meth trade may generate significant indirect economic activity in Shan State and beyond, with large sums thought to be laundered via the Yangon and Mandalay land and property markets, which are a major driver of growth and jobs in the Myanmar economy – although the sector has slowed in recent years.<sup>61</sup>

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<sup>59</sup> One example of a localised crackdown was the 2015-2016 efforts by the anti-drug vigilante group Pat Jasan in Kachin and northern Shan states; some ethnic armed organisations launched crackdowns in their areas at the same time. Crisis Group interviews, Lashio, November 2018. Shan State's GDP was around \$3.5 billion (current dollars) in 2014 (based on a per-capita rate of \$600 and a population of 5.8 million). See Myanmar Economic Monitor, World Bank, October 2017, p. 49.

<sup>60</sup> Crisis Group interviews, experts on regional narcotics issues, Yangon and Bangkok, May, August and November 2018; see also "Asia's meth boom", *CNN*, 2 November 2018.

<sup>61</sup> Crisis Group interviews, experts on regional narcotics issues, Yangon and Bangkok, May, August and November 2018; Crisis Group interviews, militia members and other well-informed individuals, northern Shan State, November 2018; "Growth amid uncertainty", Myanmar Economic Monitor, World Bank, May 2018.

However, much of the economic activity created by the drug trade has extremely negative consequences: the expansion of local drug markets leading to widespread addiction and associated social ills, better resourced militia forces that act with impunity and often violently, and greater illegal activity in smuggling, protection, trafficking and racketeering. The environmental impact of drug production is grave, as many of the precursors and waste products are highly toxic and disposed of improperly into waterways or the ground – in huge quantities given that each tonne of meth results in some five tonnes of chemical residue.<sup>62</sup>

More fundamentally, a drug trade that dwarfs legitimate business activities creates a political economy inimical to peace and security. Militias and other armed actors that control areas of production and trafficking routes have a huge disincentive to ever demobilise, given that weapons, territorial control and the absence of state institutions are essential for their lucrative revenues. The trade requires bribing officials for protection, support or to turn a blind eye, which creates an environment where other illegal activities and a culture of payoffs can flourish. Even armed groups and ethnic insurgencies not directly involved in drug production and trafficking find that it is nevertheless the source of a major part of their informal tax revenues, also locking them into the drug economy. The Myanmar military, which has ultimate authority over militias and Border Guard Forces and profits from their activities can only justify the existence of such semi-autonomous armed groups in the context of the broader ethnic conflict in the state – so the Tatmadaw also therefore has no incentive to end that conflict.

Militia leaders' influence is underscored by the fact that several have risen to elected office. The head of one of the largest such groups in Shan State implicated in the drug trade, the Pansay militia, was a Shan State parliamentary representative until 2015; the former head of the Kutkai militia is currently speaker of the lower house of the national parliament (both deny involvement in the drug trade).<sup>63</sup>

## **B. Geopolitics and the China Factor**

Since the collapse of the Chinese-backed communist insurgency in northern Myanmar in 1989, Shan State's economy has become closely bound with that of south-west China. Chinese investment has surged, huge plantations – everything from watermelons to bananas to rubber – have been established to serve the Chinese market, and cross-border trade has skyrocketed. Transport infrastructure has improved to accommodate the increased flows, which also facilitates illicit trade, including drugs. Large volumes of contraband can be concealed among other commodities moving along highways and across major border crossings, rather than having to be smuggled on the back of mules over remote mountain passes. The “ants moving houses”

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<sup>62</sup> One person cited the destruction of his family's paddy fields due to runoff from a *yaba* lab. Crisis Group interview, Lashio, November 2018. See also “Environmental impacts of methamphetamine”, ABC News, 26 July 2012; “Dangers of meth labs”, U.S. Forest Service Law Enforcement and Investigations, [www.fs.fed.us/lei/dangers-meth-labs.php](http://www.fs.fed.us/lei/dangers-meth-labs.php).

<sup>63</sup> “The drug war in Myanmar's mountains”, IRIN, 5 November 2015; “Dirty war, dirty tactics”, *Frontier Myanmar*, 22 March 2016; “NLD elects alleged drug lord as lower house speaker”, *Cocanuts Yangon*, 22 March 2018; “T Khun Myat: Who is the new Pyithu speaker?”, *Frontier Myanmar*, 22 March 2018.

approach – using hundreds of low-level couriers each transporting small amounts of drugs – has given way to large consignments. A record May 2018 seizure in Malaysia of 1.2 tonnes of crystal meth from Myanmar was the first discovered in a containerised shipment.<sup>64</sup>

Economic integration is set to accelerate as a new multi-billion-dollar China-Myanmar Economic Corridor (CMEC) takes shape, the memorandum of understandings for which were signed by Chinese and Myanmar officials in September 2018.<sup>65</sup> The scheme includes an upgraded road and new high-speed rail line connecting Kunming, the capital of south-western Chinese province of Yunnan, with the port of Kyaukpyu on the Rakhine seaboard, via northern Shan and Mandalay, along with a number of associated trade, infrastructure and energy projects. This project, part of China's "Belt and Road Initiative", will give the rapidly growing but landlocked economy of south-west China access to the Indian Ocean, and China as a whole an alternative to the congested Straits of Malacca sea route.<sup>66</sup>

CMEC's scale and geostrategic importance will pull Myanmar, and Shan State in particular, even further into China's economic and political orbit. In the long term, this could lead to a reduction in illicit economies, as lucrative opportunities emerge in the formal economy, and as the enabling environment of conflict and insecurity comes to an end, something that China has considerable leverage over and that would be in its long-term interest. In the short term, however, the opposite could be true. In the recent history of the Golden Triangle, increased trade and improved infrastructure have expanded rather than narrowed opportunities for illicit profiteering. People in northern Shan State with detailed knowledge of the drug trade suggest that is likely to be the case in that area with CMEC.<sup>67</sup>

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<sup>64</sup> Sheldon Zhang and Ko-lin Chin, "Ants Moving Houses: The Social Organization of Heroin Trafficking in the China-Burma Border Areas", Paper presented at the annual meeting of the American Society of Criminology, December 2013; "Malaysians make record bust of crystal meth, shipped from Myanmar", Reuters, 28 May 2018.

<sup>65</sup> "China signs CMEC MOUs with Myanmar", *Global Times*, 11 September 2018.

<sup>66</sup> Crisis Group Asia Report N°177, *China's Myanmar Dilemma*, 14 September 2009, Section III.C. The Belt and Road Initiative is a development strategy announced by Chinese President Xi Jinping in 2013 involving massive infrastructure networks connecting China to Europe, Asia and Africa.

<sup>67</sup> Crisis Group interviews, well-connected local sources and militia members, northern Shan State, November 2018.



## **VI. What Should Be Done?**

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### **A. A Complex Policy Challenge**

The drug trade is an important source of revenue for armed groups and militias, with the huge profits fuelling greater militarisation in Shan State that, while it does not always produce immediate or intense armed clashes, greatly undermines the future prospects for peace. Illicit activity also drives a political economy dominated by armed groups, organised crime and corruption that will be more difficult to dislodge over time and as it generates greater profits. Graft and other ills associated with the drugs trade aggravate the grievances among ethnic minorities at the heart of the long-running civil war.

Illicit drug production and trafficking in Shan State is a complex policy challenge involving security, law enforcement, political and public health aspects. Myanmar's authorities and donors need an integrated approach that addresses all of these areas. Organised crime and corruption are making greater inroads, many of its people and communities are severely affected by an epidemic of cheap and easily-available drugs, and the country's reputation and international relations are suffering as it has become the predominant regional source of methamphetamines (both *yaba* and ice).

In February 2018, Myanmar released its first ever National Drug Control Policy. The policy was developed by the police drug prevention committee with support from UNODC, following an extensive consultation process.<sup>68</sup> It recognises the seriousness and scale of meth production in Myanmar, and also the importance of a harm reduction approach to drug use in the country – that is, prioritising public health approaches for users and refocusing law enforcement and criminal justice efforts toward combating organised crime and corruption.<sup>69</sup> Almost simultaneously, the parliament enacted an amended drug law, which was not developed in coordination with the new policy, with which it is partly contradictory, in particular as it retains a focus on draconian criminal penalties for drug users caught with even tiny quantities of drugs.<sup>70</sup>

President Win Myint is also giving welcome attention to the issue through his anti-drug initiative and in particular the establishment in June 2018 of a Drug Activity Special Complaint Department to receive tips from members of the public. Such an approach, however, tends to drive arrests and prosecution of drug users and small dealers and can undermine harm reduction efforts because it further stigmatises drug users, makes it more difficult for them to access harm reduction services and deprives them of those services if they are incarcerated. It is therefore inconsistent with the objectives set out in the new national policy of prioritising public health and refocusing law enforcement and criminal justice efforts toward combating organised crime and corruption. Some Myanmar officials estimate that up to 70 per cent of the country's prison population has been incarcerated for drug offenses, mostly posses-

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<sup>68</sup> "National Drug Control Policy", Central Committee for Drug Abuse Control, Myanmar, 20 February 2018.

<sup>69</sup> For detailed analysis of the policy, see "Will Myanmar complete its transition towards an evidence-based approach to drug control? A Myanmar Commentary", Transnational Institute, 20 March 2018.

<sup>70</sup> Law Amending the 1993 Narcotic Drugs and Psychotropic Substances Law, 14 February 2018.

sion of small quantities.<sup>71</sup> That the government has recently expressed its intention to target major players is a welcome change.<sup>72</sup>

Tackling the drug trade will not be easy and comes with risks of pushback, perhaps violent, from those involved. But the alternative – allowing parts of Shan State to continue to be a safe haven for this large-scale criminal enterprise – will lead to greater insecurity and curbing it will become more difficult as organised crime and armed militias become more powerful. In order to ensure a coherent and effective strategy, the Myanmar government should reconcile the inconsistent approaches set out in the new national policy, the revised drug law, and the president's anti-drug campaign to ensure that it stops prosecuting users and small-scale sellers and instead focuses on the upper echelons of organised crime and corruption.

### *B. Political and Security Aspects*

The Tatmadaw should reconsider its approach to managing conflict in Myanmar's borderlands. For decades, its strategy has relied on cutting tactical ceasefire deals with groups or establishing pro-government militias, and in return allowing them to pursue licit and illicit economic activities. This has ultimately fuelled violence and allowed criminal enterprises and a corrosive political economy to flourish. Peace, stability and development in these areas have suffered as a result.<sup>73</sup>

In particular, the Tatmadaw should review its policies around militias and Border Guard Forces, the fact that they receive limited or no resources from the military, and the freedoms and impunity they are granted in order to enable them to be self-funding. The costs of these policies are high for the military itself. They impact its ability to deliver security and stability in those areas, as well as damaging its reputation. The drug trade and other illegal activities have taken a heavy toll on communities across Myanmar. Countries in the region and beyond must deal with many of the consequences, including drug flows, insecurity and the increasing power of transnational criminal organisations.<sup>74</sup>

Responsibility for drug production and other illegal activities in non-state-controlled areas – that is, the Wa and Mongla enclaves – lies with their de facto authorities. Wa leaders have a stated ten-year plan to eliminate methamphetamines from its areas (including its southern area) by June 2024, though it could achieve this sooner if its leaders wanted.<sup>75</sup> The reality, however, is that without a political settlement to the area's ethnic conflicts, it will be very difficult for Shan State to move away from an economy dominated by organised crime and corruption and

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<sup>71</sup> INCS Report, 2018, pp. 124-125.

<sup>72</sup> "Public urged to inform on major drug dealers", *Myanmar Times*, 27 November 2018.

<sup>73</sup> See, for example, Mary Callahan, "Political Authority in Burma's Ethnic Minority States: Devolution, Occupation, and Coexistence", East-West Center, 2007; Martin Smith, "State of Strife: The Dynamics of Ethnic Conflict in Burma", East-West Center, 2007; and "Bouncing back: Relapse in the Golden Triangle", Transnational Institute, June 2014.

<sup>74</sup> See, for example, "Treasury Sanctions the Zhao Wei Transnational Criminal Organization", Press Release, U.S. Department of the Treasury, 30 January 2018; and Jeremy Douglas, "Parts of Asia are slipping into the hands of organized crime", CNN, 14 November 2018.

<sup>75</sup> When asked why it would take so long, one Wa political leader suggested that the investors probably needed to make their profits first. Crisis Group interview, Wa political leaders, November 2018.

based on drugs and other illicit activities, including wildlife smuggling, unregulated mining, illicit casinos, money laundering and racketeering. Progress toward such a settlement would require the government and military to adopt a more proactive, flexible approach to the format and inclusivity of negotiations with ethnic armed groups and consider political concessions. Talks must include discussion of security sector reform and demobilisation of paramilitary structures such as militias and Border Guard Forces, issues that are currently not on the table.<sup>76</sup>

### C. *Corruption*

In addition to his focus on tackling the illegal drug trade, President Win Myint has also prioritised the fight against corruption. His first meeting after his inauguration was with the Anti-Corruption Commission, at which he urged the chair – a reform-minded former general – to follow evidence wherever it led and to alert him if he faced interference. The commission's empowerment led almost immediately to charges against the director of Myanmar's food and drug administration for allegedly demanding money in connection with a tender award. In May 2018, the finance minister resigned in the middle of a high-profile investigation, though the commission ultimately said it did not have grounds to pursue charges.<sup>77</sup>

The president should draw a more explicit linkage between his anti-drug and anti-corruption efforts. Effectively tackling the illegal drug trade will require going after the main players who currently act with impunity, and targeting the corrupt payments to officials that facilitate their activities. The president should direct the Anti-Corruption Commission to prioritise these issues.

The commission does not have the authority to investigate the Myanmar military.<sup>78</sup> It thus falls on Commander-in-Chief Min Aung Hlaing to take steps to investigate and take action to end drug-related corruption within the military, focusing on senior officers who facilitate or turn a blind eye to the trade.

Governments in neighbouring countries need to play their part too. As has been widely noted by drug control agencies and policy groups, the drugs trade would not be possible without high-level corruption in those countries – including China, Laos and Thailand, through which large consignments of drugs or their precursors are smuggled. China has a particular responsibility to prevent precursor smuggling; it is the main source of these chemicals, but has almost never intercepted shipments crossing its border with Myanmar.<sup>79</sup> China should also exert its considerable influ-

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<sup>76</sup> For discussion, see Crisis Group Asia Briefing N°151, *Myanmar's Stalled Transition*, 28 August 2018, Section II.B; and Asia Report N°287, *Building Critical Mass for Peace in Myanmar*, 29 June 2017.

<sup>77</sup> For details, see Crisis Group Briefing, *Myanmar's Stalled Transition*, op. cit., Section III.

<sup>78</sup> Under the 2008 constitution, the military rather than any civilian court has ultimate authority over military justice and courts martial. See "Department units to ramp up president's anti-corruption drive", *Frontier Myanmar*, 7 December 2018.

<sup>79</sup> Crisis Group interviews, experts on regional narcotics issues, Yangon and Bangkok, May, August and November 2018; INCS Report, 2018, p. 65; "Bouncing back: Relapse in the Golden Triangle", Transnational Institute, June 2014; and "Myanmar hosts talks on Asia Pacific strategy to control drug making chemicals", UNODC Press Release, 7 November 2018.

ence over the Wa and Mongla armed groups to press them to end their involvement in the drug trade and other criminal activities in their enclaves.

#### **D. Harm Reduction**

Since the early-2000s, *yaba* use has surged in Myanmar, tracking increased local manufacture of the drug – which was initially produced for export, but for which after some time a local market also developed and grew. *Yaba* has become steadily cheaper and more readily available, despite significant increases in large and small seizures, and arrests of users and small-time dealers. As the new National Drug Control Policy recognises, law enforcement alone will not reduce the availability of or demand for the drug.<sup>80</sup>

Crystal meth is likely to follow the same trajectory. It is becoming increasingly popular in the region, and while retail supply and demand in Myanmar at the present time is limited, this will undoubtedly change. Such a shift will have important public health implications given the potency of crystal meth compared with *yaba*, and because it is suitable for injection.<sup>81</sup>

Myanmar's government and donors should support surveys and research to improve their understanding of domestic drug markets and identify emerging trends in supply and use. This will give them the evidence base to scale up harm reduction services for amphetamines, particularly crystal meth, including by disseminating accurate information on health risks, promoting safer use practices (such as preventing users switching from inhalation to injection) and providing access to evidence-based treatments.

The government should prioritise education and harm reduction responses over punitive and stigmatising criminal justice approaches. This includes improving police training on how to deal with drug-related issues (searching people who have needles, managing violent users and prioritising the referral of users to harm reduction services rather than arresting them, for example). The government should grant greater access for international agencies, including those working in health and development, to remote and conflict-affected areas, so they can implement education, health and harm reduction programs. Access to prisons and labour camps is also important given the high proportion of drug users in these populations and the lack of harm reduction services available.

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<sup>80</sup> For more details, see “Amphetamine type stimulants and harm reduction”, Transnational Institute, October 2011; “Found in the dark’: The impact of drug law enforcement practices in Myanmar”; and “Methamphetamine use in Myanmar, Thailand and southern China: assessing practices, reducing harms”, Transnational Institute, forthcoming.

<sup>81</sup> Ibid.; Crisis Group interviews, drug policy experts, Yangon, November 2018.

## **VII. Conclusion**

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Myanmar's Shan State has been mired in conflict for decades and has long been a centre for illicit drug production – initially opium and heroin, then from the 1990s also *yaba*. Good infrastructure, proximity to precursor supplies from China and reliable security and impunity provided by pro-government militias and in rebel-held enclaves mean that it has now also become one of the main global centres of crystal meth production, exporting hundreds of thousands of kilos of the high-purity drug to regional markets each year. The scale of production and profit is now so vast that it likely dwarfs the formal sector of Shan State, and is at the centre of its political economy. This greatly complicates efforts to resolve the armed conflict and build a functional, licit economy in the state.

The government should redouble its anti-narcotics efforts as set out in its new national drug policy, focusing on the key players in the trade and the corruption that they rely on and fuel. At the same time, at community level it should focus more on education and harm reduction, with support from international agencies, rather than punitive and stigmatising criminal justice approaches. The Myanmar military should rethink its conflict management approaches and exercise greater control over – and ultimately disarm and disband – militias and other pro-government paramilitary forces.

**Brussels, 8 January 2019**

Appendix A: Map of Shan State



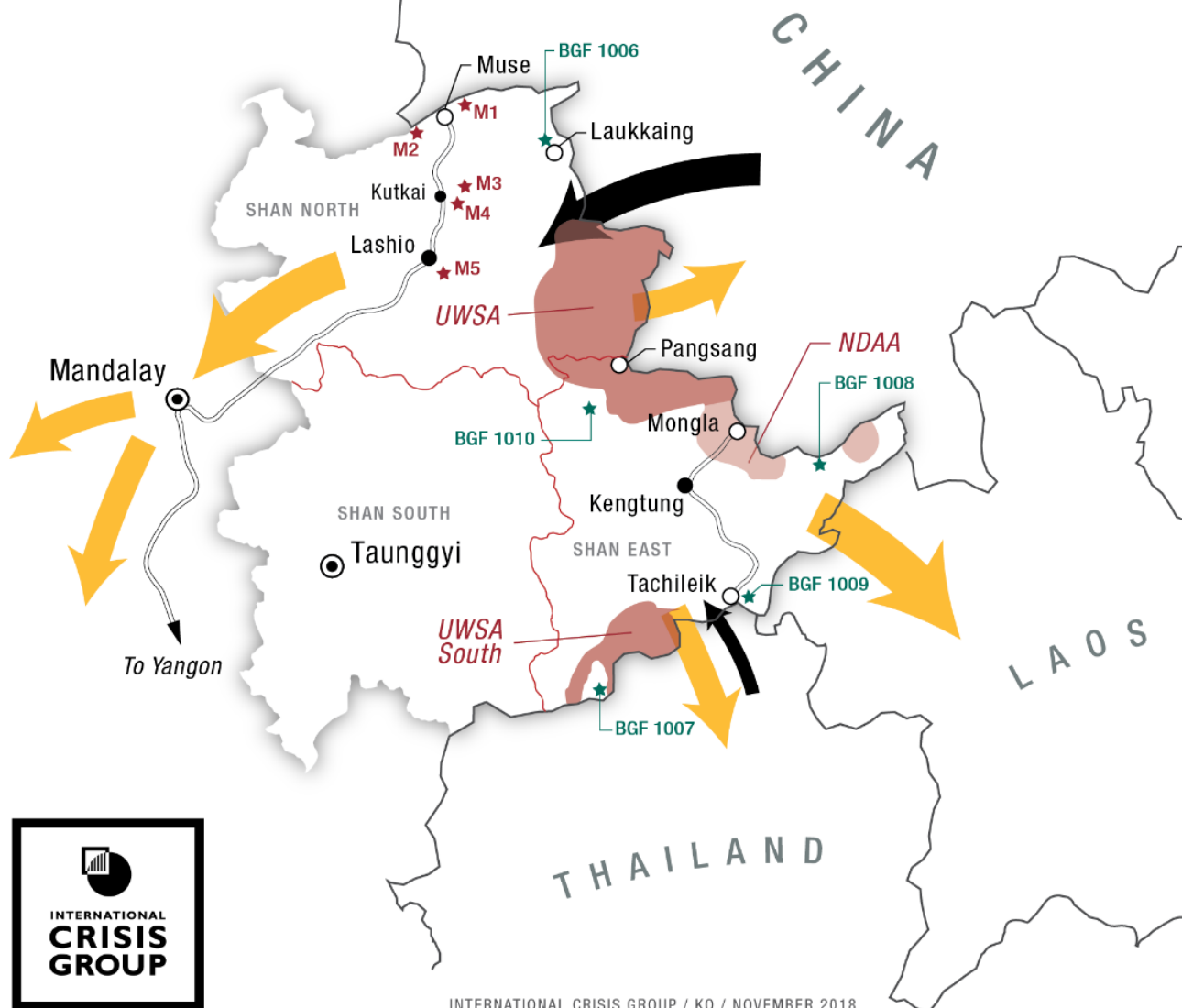
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## Appendix B: Key Locations and Trade Routes Mentioned in the Report

- M1** = Monekoe militia
- M2** = Pansay militia
- M3** = Tarmoenye militia
- M4** = Kawng Kha militia
- M5** = Manpang militia

Drug exports      Precursors

Cross border arrows represent country-to-country flows of drugs and precursors; they do not denote specific border crossing points. The presence or absence of a particular armed group on this map does not imply involvement or not in the drug trade.



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## Appendix C: Acronyms and Glossary

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### Acronyms

BGF	Border Guard Force
CMEC	China-Myanmar Economic Corridor
CPB	Communist Party of Burma
INCS	U.S. International Narcotics Control Strategy (annual report)
KIO	Kachin Independence Organisation
MNDAA	Myanmar National Democratic Alliance Army (a Kokang group)
MTA	Mong Tai Army
NDAA	National Democratic Alliance Army (also known as the “Mongla Group”, after the town where it has its headquarters)
PNLA	Pao National Liberation Army
PSLF	Palaung State Liberation Front
RCSS	Restoration Council of Shan State (political wing of SSA-South)
SSA-South	Shan State Army-South (armed wing of RCSS)
SSNPLO	Shan State Nationalities People's Liberation Organisation
SSPP	Shan State Progress Party
TNLA	Ta-ang National Liberation Army
UNODC	United Nations Office on Drugs and Crime
UWSA	United Wa State Army

### Glossary

ice	slang for the high-purity crystalline form of methamphetamine
<i>Ka Kwe Ye</i>	village defence units
meth	methamphetamine, which may be in tablet, powder or crystalline form, or the pure base chemical (“oil”)
P2P	phenylacetone (phenyl-2-propanone), a precursor for meth
<i>Pyithu Sit</i>	People's Militia force
Speed	methamphetamine, usually of low purity as a powder or in tablets
Tatmadaw	official name of the Myanmar Defence Services
<i>Yaba</i>	meth in tablet form, usually mixed with caffeine; the term means “crazy medicine” in Thai



## Appendix D: About the International Crisis Group

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The International Crisis Group (Crisis Group) is an independent, non-profit, non-governmental organisation, with some 120 staff members on five continents, working through field-based analysis and high-level advocacy to prevent and resolve deadly conflict.

Crisis Group's approach is grounded in field research. Teams of political analysts are located within or close by countries or regions at risk of outbreak, escalation or recurrence of violent conflict. Based on information and assessments from the field, it produces analytical reports containing practical recommendations targeted at key international, regional and national decision-takers. Crisis Group also publishes *CrisisWatch*, a monthly early-warning bulletin, providing a succinct regular update on the state of play in up to 70 situations of conflict or potential conflict around the world.

Crisis Group's reports are distributed widely by email and made available simultaneously on its website, [www.crisisgroup.org](http://www.crisisgroup.org). Crisis Group works closely with governments and those who influence them, including the media, to highlight its crisis analyses and to generate support for its policy prescriptions.

The Crisis Group Board of Trustees – which includes prominent figures from the fields of politics, diplomacy, business and the media – is directly involved in helping to bring the reports and recommendations to the attention of senior policymakers around the world. Crisis Group is chaired by former UN Deputy Secretary-General and Administrator of the United Nations Development Programme (UNDP), Lord (Mark) Malloch-Brown.

Crisis Group's President & CEO, Robert Malley, took up the post on 1 January 2018. Malley was formerly Crisis Group's Middle East and North Africa Program Director and most recently was a Special Assistant to former U.S. President Barack Obama as well as Senior Adviser to the President for the Counter-ISIL Campaign, and White House Coordinator for the Middle East, North Africa and the Gulf region. Previously, he served as President Bill Clinton's Special Assistant for Israeli-Palestinian Affairs.

Crisis Group's international headquarters is in Brussels, and the organisation has offices in seven other locations: Bogotá, Dakar, Istanbul, Nairobi, London, New York, and Washington, DC. It has presences in the following locations: Abuja, Algiers, Bangkok, Beirut, Caracas, Gaza City, Guatemala City, Hong Kong, Jerusalem, Johannesburg, Juba, Mexico City, New Delhi, Rabat, Tbilisi, Toronto, Tripoli, Tunis, and Yangon.

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*Myanmar's Stalled Transition*, Asia Briefing N°151, 28 August 2018 (also available in Burmese).

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