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AN ASSESSMENT OF THE IMPACT OF THE GLOBAL FINANCIAL CRISIS ON SUSTAINABLE ALTERNATIVE DEVELOPMENT

*Key Determinant Factors for Opium Poppy
Re-cultivation in Southeast Asia*

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**AN ASSESSMENT OF THE IMPACT OF THE
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**Key Determinant Factors for Opium Poppy
Re-cultivation in Southeast Asia**

May 2010

prepared for:

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Foreword

Southeast Asia achieved significant reductions in illicit opium poppy cultivation in the ten years leading up to 2006, with an estimated 87% reduction from 202,100 ha to 24,200 ha. However, in 2009 UNODC opium surveys indicated a worrisome 40% increase in cultivated area to 33,819 ha. The impact of the global economic crisis, compounded by certain geopolitical situations and the fact that alternative development assistance received was not sufficient to address the magnitude of the problem are some of the reasons for this resurgence.

In the Lao PDR only an estimated 10% of the 1,100 villages prioritized in the national programme strategy to sustain opium elimination (2006-2009) had access to alternative development assistance in 2009. Opium survey maps underline the fact that opium resurgence occurs mainly in areas that have not received alternative development. In the preceding year there has been a significant increase in seizures of methamphetamine and heroin in the region. The massive profits that are being generated contribute to increasing corruption, money laundering, drug abuse and other negative social phenomena that could seriously undermine national security and socio-economic development in the region.

This study by Tom Kramer is timely and not only looks at the impact of the global economic crisis on alternative development initiatives in the Golden Triangle region but also identifies the key determinants of opium poppy re-cultivation as well as possible solutions. Governments in the region have adopted national policies and strategies to counter the problem, however long-term political and financial commitment together with increased international support will be required to address the serious and growing threat posed by drugs to this region.

I would like to this opportunity to express my appreciation to Dr. Sanong Chinnanon for initiating this study and to the German Government for providing the funding support.

Leik Boonwaat

Representative

UNODC Lao PDR

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I. Background

Between 1998 and 2006, Opium production in Southeast Asia declined from an estimated 1,437 to 335 tons. Over the same period, opium cultivation decreased from an estimated 158,230 to 24,000 hectares¹. In this time a number of countries have been declared opium free, Vietnam in the year 2000, Thailand in 2003, and Laos in 2006. The last decade has also seen a steady decline in opium cultivation in Myanmar.

However, in recent years there has been resurgence in opium cultivation in South East Asia, estimated to be 30,388 hectares, producing 424 tons. The 2008 Southeast Asia Opium Survey stated that whilst some ex-poppy farmers had returned to opium cultivation, other communities were engaging in opium cultivation for the first time. Between 2007 and 2008 there was a 26% increase in opium poppy cultivation in the region.

As a result of the global financial crisis, the market price and demand for products produced or collected from the forest by ex-poppy farmers has dropped. At the same time the cost of basic household items has increased. There has also been a sharp increase in the value of opium driven by the reduced level of production. Each of these factors has provided renewed incentive for farmers to resume or begin opium cultivation, compromising the efforts made to reduce production over the last decade.

The situation outlined is further compounded by a lack of viable alternative sources of income for (ex) poppy farmers. Although the decline in opium cultivation in the region has in part been due to policy intervention by local authorities, these campaigns have failed to address the poverty that drives communities in the region to grow opium. Current interventions that aim to provide farmers with sustainable alternative livelihood options are insufficient. They represent an emergency response that is necessary to prevent a humanitarian crisis, and further interventions are needed to sustain the socio-economic development and livelihoods of the former opium farmers. These factors, combined with additional geopolitical and regional changes, have contributed to the increasing trend of opium cultivation in the region. If these factors are not addressed in a timely and proper way, opium cultivation in Southeast Asia is likely to further increase in the coming years.

1 UNODC Opium Poppy Cultivation in Southeast Asia, 2008.

This study will assess the impact of the current global financial crisis on sustainable livelihoods and alternative development efforts in the Golden Triangle region², with specific reference to the key determinant factors that lead to opium poppy re-cultivation. It will recommend coping strategies and related policies as well as future interventions that address this emerging situation. The study will take into account the new Political Declaration and Action Plan on International Cooperation towards an Integrated and Balanced Strategy to Counter the World Drug Problem, which was adopted at the 2009 session of the Commission on Narcotic Drugs (CND) in Vienna.



Plate 1: Map of affected regions

2 Data was collected during July and August of 2009

II. Alternative Development

Why do people grow opium?

Laos and Myanmar are poor countries, both rank at the lower end of the Human Development Index.³ The northern regions of both countries, where most opium is traditionally cultivated, are isolated and mountainous, inhabited by diverse ethnic minority groups. These communities tend to be the poorest and most marginalised groups in their respective countries, usually subsistence farmers from groups such as the Wa, Akha, Lahu, Palaung, Pao, Shan, Kayah, Kayan and Kachin in Myanmar; the Yao, Hmong and Kor (Akha) in Laos; and Hmong, Lahu and Akha in Thailand.

They grow upland rice for their own consumption using shifting cultivation and many households face rice shortages over two to six months of the year. Opium is grown as a cash crop and is popular due to its high value to weight ratio, which makes it easy to transport to the market. This means that, unlike other crops, traders are willing to travel to remote villages to purchase opium. The income that such sales generates is used to buy food, clothes, medicines, and improves access to education.

Opium plays multiple roles within remote communities in addition to that of a cash crop. Raw opium is used as a form of cash and as savings. It is often cultivated for personal use and in areas where access to health care and essential medicine is low, is used to treat various ailments. In the past it was offered to visiting guests and used at ceremonies such as weddings and funerals. It is widely connected with spirit worship.

Subsistence based communities have few coping mechanisms to deal with shocks and stressors, making them vulnerable to the increasingly frequent changes in their environment and economy. Whilst opium cultivation provides them with a degree of resilience to change and integration into the cash economy, efforts to find an alternative source of income to sustain their livelihoods in the absence of opium have thus far been difficult. As such, poverty remains the key factor driving opium cultivation in Laos and Myanmar. Indeed, a representative of the government of Lao PDR stated that opium production is driven by '*poverty*

³ The HDI for Lao People's Democratic Republic is 0.601, which gives the country a rank of 130th out of 177 countries with data. The HDI for Myanmar is 0.583, which gives the country a rank of 132nd out of 177 countries with data.

and the lack of access to markets, medicines and other social services'.⁴ The global thematic evaluation of alternative development, commissioned by UNODC concluded: *'In both the Andean region and South-East Asia, poverty and illicit crops were found to overlap.'*⁵

What is poverty?

It is important to realise that poverty is not a function of income, but driven by a range of socio-economic and security related factors that determine people's capacity to live with dignity. UN agencies and the World Bank commonly use such definitions. According to the Office of the UN High Commissioner for Human Rights (UNHCHR):

*'Economic deprivation – lack of income – is a standard feature of most definitions of poverty. But this in itself does not account for the myriad of social, cultural and political aspects of the phenomenon. Poverty is not only deprivation of economic or material resources but a violation of human dignity too.'*⁶

Similarly, the United Nations Committee on Economic, Social and Cultural Rights has defined poverty as:

*'A human condition characterized by the sustained or chronic deprivation of the resources, capabilities, choices, security and power necessary for the enjoyment of an adequate standard of living and other civil, cultural, economic, political and social rights.'*⁷

A recent document by the European Union addressing Alternative Development also takes a holistic approach:

'Illicit drug crop cultivation is concentrated in areas where conflict, insecurity and vulnerability prevail. Poor health, illiteracy and limited social and physical infrastructure reflect the low level of

4 Lao PDR's Experience of Sustainable Alternative Development and Opium Reduction, Presented by Mr. Kou Chansina, Acting Vice Chairman of the Lao National Commission for Drug Control and Supervision and National Programme Director of the Programme Facilitation Unit (PFU), in: Sustaining Opium Reduction in Southeast Asia: Sharing Experiences on Alternative Development and Beyond, Regional Seminar: Global Partnership on Alternative Development (GLO/144), 15-17 December 2008, Chiangmai, Thailand.

5 Alternative Development Thematic Evaluation p.v.

6 Office of the United Nations High Commissioner for Human Rights, What is Poverty? Human Rights in Development, <http://www.unhchr.ch/development/poverty-02.html>

7 United Nations Committee on Economic, Social and Cultural Rights (2001). Poverty and the International Covenant on Economic, Social and Cultural Rights, 10/05/2001, 10 May 2001, E/C.12/2001/10.

human development experienced by the population in these areas. These conditions constrain the implementation of programmes designed to reduce illicit drug crop cultivation and improve the lives and livelihoods of farmers.⁸

The government of the Lao PDR has made a strong link between poverty eradication, ending shifting cultivation and the eradication of opium cultivation. They have stated that: *'Solutions to poverty must be closely linked to the strengthening of political grassroots and integrated rural development, the stabilisation of shifting cultivation and eradication of opium.'*⁹

What is Alternative Development?

Alternative Development is an integrated, long-term approach, involving all stakeholders, which aims to address the causes and consequences of poverty in the broad sense.

Alternative Development has been defined as: *'Rural Development in a Drug Environment (RDE).'*¹⁰

*'Poverty, crises and conflicts, and a lack of alternative ways to secure their livelihoods often force rural families to illicitly cultivate drug plants. Many cultivation areas are remote, and have inadequate social and economic infrastructure. The concept of Alternative Development (AD) pursues a multi-sectoral approach to rural development and drug control in drug producing areas, particularly where coca and opium poppy are grown. It merges the complex and politically sensitive problem of illicit drugs with sustainable rural development and seeks to address the underlying development problems that are the cause of illicit drug crop cultivation.'*¹¹

Alternative Development is a comprehensive approach to improving community livelihood options; it is not limited to the reduction of illicit crop production. Over the last decade, progress has been made

8 EU Presidency Paper, Key points identified by EU experts to be included in the conclusion of the open-ended intergovernmental expert working group on international cooperation on the eradication of illicit drug and on alternative development.

9 Lao People's Democratic Republic, Prime Minister's Office, Instructions of the Prime Minister on the Development of Poverty Eradication Programs, No.101/PM, Vientiane 25 June 2001, For the Government, Prime Minister of Lao PDR, Bounyang Vorachit.

10 Synthesis Report International Workshop 'Development in a Drugs Environment: Beyond Alternative Development?', 29th May - 1st June, 2006 in Berlin, Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH, Development-oriented Drug Control Programme (DDC), Eschborn 2006.

11 Ibid.

understanding the impact of Alternative Development in opium poppy and coca growing areas. Research has shown that Alternative Development can address the needs of rural communities and contribute to a reduction in illicit crops.

Why is Alternative Development important?

Alternative Development is important because it is an integrated approach to improving community livelihood options that addresses all the key factors that drive opium and coca cultivation.

According to the Thematic Evaluation of Alternative Development by UNODC:

*'Alternative development had clearly helped to reduce and contain the spread of illicit drug crops'. The report states that the factors that drive illicit drug cultivation are complex and interacting, which make it difficult to assess the exact contribution of Alternative Development. However, whilst 'it was known that farmers of illicit crops receiving alternative development had been few: 23% in the Andes, 5% in Asia. These few represented numerous successes, which suggest an unrealized potential.'*¹²

A policy statement on Alternative Development by the EU concludes that:

*'[...] it is also recognised that Alternative Development is at a crossroads. AD has too often been viewed as short-term rural development projects focusing on alternative crops. There is a broad agreement that AD can meet the needs of targeted communities growing opium poppy and coca leaves in parts of Asia and Latin America, as well as contribute to reduction in level of illicit drug crop production within project areas.'*¹³

An Alternative Development approach to reducing opium cultivation contributes to achieving the Millennium Development Goals (MDGs) and is in line with general poverty elimination programmes worldwide, promoting an integrated approach that involves all actors. The approach also closely correlates with the Government of Lao's goal to eliminate poverty and eradicate opium cultivation.

12 Alternative Development Thematic Evaluation p.vi.

13 EU Presidency Paper *ibid.*

Lessons learned from Alternative Development

Over the last decade considerable progress has been made in understanding the impact that rural development initiatives can have in opium poppy and coca growing areas. Key reports have been:

- ‘*Alternative Development: A Global Thematic Evaluation*’ (2005) prepared in accordance with CND resolution 45/14
- The Thematic Evaluation of UNODC’s Alternative Development Initiatives (2006).
- The consultative process undertaken under the auspices of the EC/FAO/GTZ Project ‘*Development in A Drugs Environment: A Strategic Approach to Alternative Development*’



Plate 2: Traditional Cotton Weaving - Lao PDR

Some major conclusions of this work are that:

- Alternative development supported the sustainable reduction of drug crops by improving livelihood options. So policy must treat drug control as a development issue.
- Alternative development is more effective and more sustainable as part of a wider development scheme that aims to improve the livelihoods of marginal rural populations.¹⁴

14 Alternative Development Thematic Evaluation p.vi.

The reports make three important recommendations:

1. A firm political commitment needs to be made to pursue alternative development in coordination with all stakeholders so that it is sustainable and has human development as the ultimate aim.
2. A global partnership should be established between development entities and national groups to make reducing the cultivation of illicit crops a crosscutting issue, thus maximizing the impact of efforts.
3. The elimination of illicit crops should be conditional on improvements in the lives and livelihoods of households. It should not be a prerequisite for development assistance.¹⁵

Other important lessons include:

Alternative development is a long-term process, which needs a long-term commitment from all actors involved. The process required 30 years to be successful in Thailand.

There is a strong need for an integrated approach. All actors involved in rural development, including government, development agencies and civil society organisations, should take into account the causes of coca and opium cultivation in their development strategies and plans. It is important that Alternative Development is not limited to a project approach, but guides national and local development programme design and implementation.

There is a need for community-based and participatory approaches. Local communities need to be involved in identifying their problems, and in the decision-making process regarding the design, implementation and monitoring of the activities.

The cultivation of opium poppy and coca often takes place in areas plagued by conflict, insecurity and vulnerability. Interventions should comply with the aims of human rights protection, conflict resolution, poverty alleviation and human security. They should also respect traditional culture and values.

Environmental sustainability is another key consideration essential for successful interventions.¹⁶

15 Alternative Development Thematic Evaluation p.vi.

16 UNODC, Brief Report on Alternative Development Seminar and Field Study Visit, Global Partnership on Alternative Development (GLÓ/144), Chiangmai, Thailand, 15-23 December 2008; and TNI, *Withdrawal Symptoms*, 2009.

III. Implications of the global financial crisis on opium cultivation

Initially many observers predicted that the impact of the global financial crisis on Laos and Myanmar would be limited in scale, largely because both countries are relatively poorly integrated into the global economy and the international financial system.¹⁷

It is now clear however, that the global financial crisis has had serious repercussions for both Laos and Myanmar. In June 2009, the Government of Lao PDR warned that the impact of the financial crisis was spreading and becoming more serious, particularly in the export sectors of various provinces. The government has stated that the associated reduction in tax revenues has negatively affected its ability to carry out development projects.¹⁸ In the future this will affect the poverty reduction program, particularly in the remote highland areas where opium poppy cultivation was once prevalent.

In Myanmar, the global financial crisis is predicted to reduce global demand for its main exports: oil, natural gas, and garments. The crisis could also negatively affect remittances from abroad by migrant workers, an important coping mechanism for many of the poor in the centre of the country. According to local businessmen, the global financial crisis has been most damaging to exporters, particularly those of marine products who claim to have experienced a 30% reduction in earnings. Local sources report that this loss of income is now affecting members of the working class and the general public. The financial sector is said to have remained strong through this period as it deals only with the local currency. The price of some consumer goods, particularly electronic items, has decreased.¹⁹

Impact at the community level

In addition to the broad negative impact on the national economies of the two countries, the global financial crisis is also affecting the sustainability of livelihoods and alternative development efforts.

17 Recent Financial Turmoil and its Impact on the Lao PDR, Powerpoint presentation by Somneuk Davading Vientiane, November 19, 2008.

18 Wider Impact of Global Financial Crisis on Laos, By Songrit Pongern, Bangkok, Thailand, VOA 05/06/2009.

19 Communication with Myanmar businessman, 09-08-09.

The impact of the crisis on the agricultural sector on which (ex) opium farmers depend for their livelihoods has been difficult to assess. There is insufficient data to effectively analyse prevailing trends, but it is important to note that the effect on agricultural prices has not been uniform, varying between regions and products. For example the economies of northern Laos and Myanmar that have strong ties with China have been less affected, as the Chinese market for key exports such as cash crops and Non Timber Forest Products has remained buoyant.

The limited scope of this study prevents it from providing a definitive outline of the impact of the global financial crisis on (ex) poppy growing communities in Laos and Myanmar. Rather, it aims to provide some initial observations and conclusions regarding the issue. The study's findings point to an increase in the cost of essential household goods and a decrease in the value of some key cash crops. However, the extent to which these trends have been directly caused by the global financial crisis remains unclear.

Laos

At the end of 2008, the World Bank stated that all of Lao's key exports (copper, gold, wood products, garments, electricity and agricultural products) would all be affected negatively by the crisis.²⁰ Warning was given that a decline in demand for agricultural products from China and Thailand coupled with falling agricultural commodity prices globally, would have a large impact on the livelihoods of rural cash crops farmers.

Indeed, this study found some evidence that in Laos the financial crisis has had significant impact on commodity prices, on the cost of food and on the value of exports. Exports of coffee and garment products dropped by more than 20%, and value and demand of agricultural products reduced significantly. This has had a strong impact on corn producing farmers in northern Laos, who have been unable to sell their product. Cassava exports however have continued, thanks to stable demand from China.²¹

20 Recent Financial Turmoil and its Impact on the Lao PDR, Powerpoint presentation by Somneuk Davading Vientiane, November 19, 2008.

21 Wider Impact of Global Financial Crisis on Laos, By Songrit Pongern, Bangkok, Thailand, VOA 05/06/2009.

Farmers and government officials, interviewed for this study and associated with (ex) opium cultivating villages in northern Laos, reported an increase in the cost of essential commodities such as salt and cooking oil, this is shown in Figure 1. They reported a decrease in the value of some important cash crops, particularly corn, soybean and galangal. The cost of rice and meat were reported to have increased year by year.

Interviews in the capital of Oudomxai province suggested that the global financial crisis had small direct impact. Respondents suggested that the export of corn has decreased since 2007 and that the price of corn seed has risen. The cost of fuel has risen, increasing transportation costs. The cost of clothing from Thailand and Vietnam has also risen.



Plate 3: Rice production - Lao PDR

Figure 2 shows that former opium growing farmers in Mong Khoua district in Phongsaly province reported that prices of household goods rose, while at the same time prices of cash crops fell. The falling corn prices forced people to shift to other crops such as cardamon, but harvest results and farm-gate prices for 2009 are unknown.

Government officials in Houn district, Oudomxai province stated that the impact of the global economic crisis was '*not that big*'. However, the value of key cash crops in Houn district dropped the last year. The officials reported that the main problem for farmers in Houn district was a shortage of rice following crop failure the previous season due rat infestation, drought and subsequent flooding. Some farmers had been able to negotiate the rice shortage by selling corn and buying rice, but

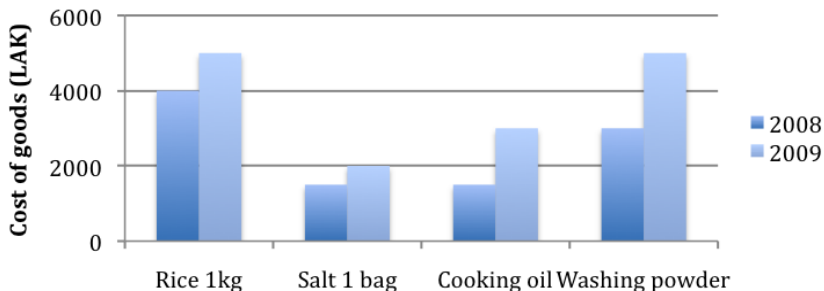


Figure 1: Rising prices of essential household items in shop in Ban Pak Kou, Mong La District, Oudomxai Province

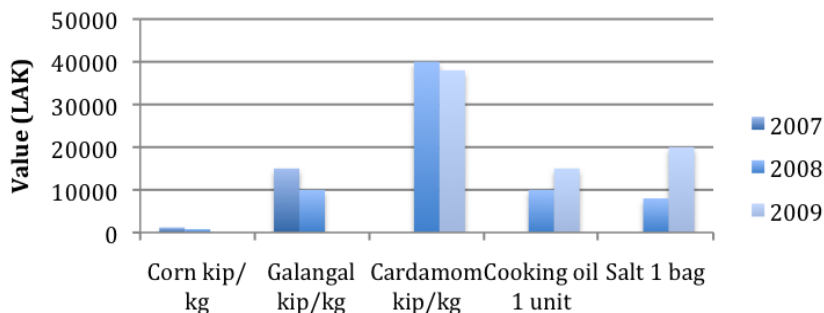


Figure 2: Decreasing prices of cash crops and rising prices of essential household items in Mong Khoua District, Phongsaly Province

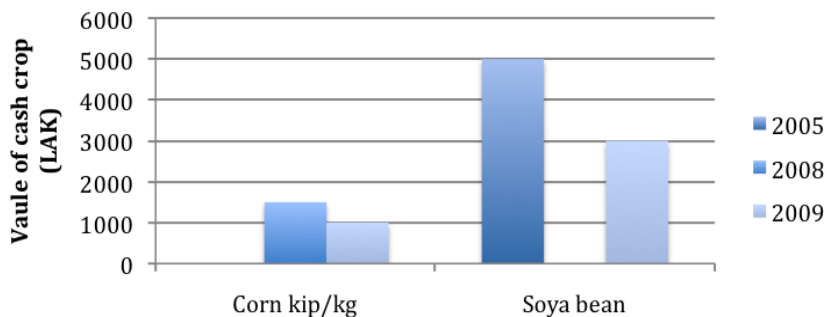


Figure 3: Decreasing prices of cash crops in Houn District, Oudomxai Province

corn prices also dropped due to the excessive rain, which reduced the quality of the crop, this is shown in Figure 3. The market for corn is now limited to China and access to this market is restricted by the requirement for technology and facilities to dry the corn, an essential requirement of export.

Myanmar

The impact of the financial crisis in Myanmar appears, as in Laos, to vary between situations and regions. Some foreign observers in the Wa region have noted that the financial crisis has had limited impact on alternative development due to the absence of cash crops and outside investment (excluding rubber plantations). The cost of household goods is reported to have remained unchanged, however, the ban on opium cultivation forced households to reduce their spending significantly. The cost of non-consumable goods has also increased as fewer imports from China are now available on the local market.²²

According to some local sources the global financial crisis had a significant impact on foreign investment and demand for tea, maize, sugarcane, rubber and NTFPs, particularly in the Kokang and Wa regions. This has reduced demand for casual labour and consequently income and food security for ex-poppy farmers in these impoverished regions.

Chinese businesses have been investing heavily in tea and sugarcane in the major ex-poppy growing area of the Kokang region where an opium ban was implemented in 2003. Investment in these sectors has reportedly remained strong since 2007. However, Figure 4 shows that although the price of tea increased steadily between 2003 and 2007 it dropped sharply 2008 and remained low in 2009.

About 80% of the tea produced in the Kokang region is exported to China.²³ So the fall in the value of tea cannot be directly linked to the global financial crisis as China has relatively been unaffected by it. However, the drop in tea prices has reduced the already limited alternative sources of income of ex-poppy farmers in the Kokang region.

22 Communication with representative of international NGO in the Wa region, 10-08-09.

23 Confidential communications with source familiar with the situation in the Kokang region, 04-08-09.

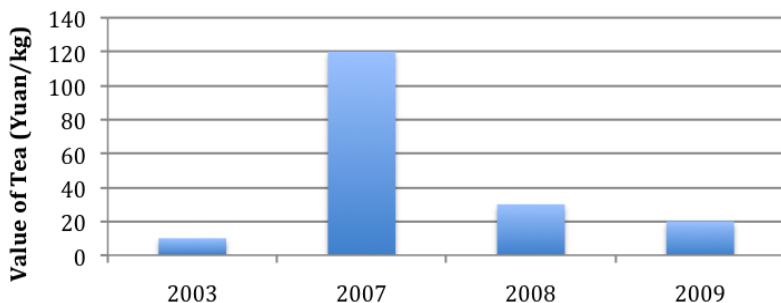


Figure 4: Tea prices in Kokang Region, Myanmar

A recent study suggests that the global financial crisis is likely to further reduce China's demand for rubber, sugarcane and tea from northern Myanmar. The study warns that this may:

*'Negatively impact community's employment opportunities and their ability to earn income from their own alternative crops. The economic downturn may increase reliance on Chinese companies for the profitable extraction of natural resources, mostly timber and NTFPs.'*²⁴

Impact on donors

International agencies worry that the global financial crisis will have an impact on the availability of development funds in the near future. The Lao government has called on donors to *'sustain and expand their assistance to the Developing and Least Developed Countries'*²⁵. International aid to Myanmar is already limited for political reasons and there is a fear that the financial crisis may further exacerbate the situation.

The success of the opium decline in Southeast Asia may also reduce the imperative for donors to continue to fund alternative development projects. This study found clear evidence that continued support is essential to maintain the reduction in cultivation that has been achieved. Many (ex) poppy farmers have not been able to find alternative sustainable livelihoods and are vulnerable to various threats, some of

24 From Golden Triangle to Rubber Belt?

25 'Global Financial Crisis, Export-Led Growth and Aid for Trade: Focus on the ASEAN Experience', Regional Meeting on Aid for Trade for Asia and the Pacific, Co-hosted by the Government of Kingdom of Cambodia, the Asian Development Bank (ADB) and the World Trade Organization (WTO), 28–29 May 2009, Siem Reap, Cambodia, Session 2: The Way Forward and Messages for the Global Review, Remarks by Minister Nam Viyaketh, Minister of Industry and Commerce, Lao People's Democratic Republic.

which are closely related to the decline in opium cultivation in the region. These include new, more harmful trends in drug use and unsustainable foreign investment that is locally promoted as a route out of poverty and opium cultivation. These issues are examined in the next chapter.



Plate 4: Tea Plantation - Myanmar

IV. Other key factors causing an increase in opium cultivation

The recent increase in opium cultivation, which has been particularly significant in Myanmar and to a lesser extent in Laos, has been attributed to various different factors. As mentioned in the previous chapter, the global financial crisis has reduced opportunities for (ex) opium farmers to find legitimate livelihood strategies, contributing to an increase in cultivation. However, there are several other important factors that have contributed to the recent increase that will now be discussed.

In Laos, opium cultivation now takes place in isolated and remote areas in the northern part of the country. The UNODC 2008 Opium survey reported that increasingly opium fields are located far away from any villages or access roads. The report states that 20% of former opium growing communities in Phongsaly province in northern Laos – traditionally one of the main opium growing regions in the country – resumed poppy cultivation to generate income and for personal consumption. In Myanmar, some poppy farmers moved out of the Wa and Kokang regions, where local authorities have implemented opium bans, to areas nearby where they continue to cultivate opium. The main increase in cultivation in Myanmar has been in southern Shan state, an area characterised by multiple conflict actors.

The situation in northern Laos and Myanmar is complex, the reality on the ground is not uniform and the issues that influence opium cultivation, vary between provinces, villages, and even within households in a single village. These areas also have a great ethnic diversity with poverty varying between groups. Generally speaking, ethnic minority groups in both countries are less well off than lowland majority ethnic groups. The minorities tend to have less access to food, education, healthcare, land, capital, and technology. The marginalised nature of these groups means they profit less from the commercial investment, opportunities and interventions that are made available to them.

In both northern Laos and Myanmar ex-poppy farmers have come to rely on collecting NTFPs, selling to Chinese and other traders to provide a source of cash income. In Myanmar, coping mechanisms also include some limited casual labour opportunities, within commercial plantations. However, in Laos people interviewed suggested there are few opportunities for casual labour for (ex) poppy farmers.

Farmers in both Laos and Myanmar tried to increase food production (mainly upland rice) and grow alternative crops, with limited success. According to a socio-economic survey by UNODC, in Laos in 2007, 59% of former opium growing households became rice sufficient compared to 56% of them in 2005. According to the same report, average rice production of former poppy growing households increased slightly by 7%. In the Wa and Kokang regions in Myanmar some ex-poppy farmers have received emergency food rations to overcome their food shortage.

There are still obstacles preventing (ex) poppy farmers from finding alternative sources of income. The following section lists the most important factors contributing to the continuation and recent increase in opium cultivation in Laos and Myanmar.

Lack of food security

Growing opium reduces farmer's food insecurity. A large number of (ex) poppy farmers can only grow enough rice to feed their families for 6-8 months of the year so need the money they earn selling opium to buy rice and other food.

According to the 2008 UNODC opium survey, only 41% of former poppy growing households in Laos had sufficient assets to cope with ending opium cultivation. 59% of these households:

'had livelihood resources sufficient to preserve a minimum standard of living but not enough to cope with shocks, unexpected hardships and/or to invest in new alternative development activities'

Of the 59%, 15% had a very poor living standard and were considered to be at risk of quickly reverting to poppy cultivation. While the total area of poppy cultivation has decreased, there has been an increase in the number of households cultivating poppy.²⁶

In Myanmar, ex-poppy farmers in the Wa and Kokang regions have not been able to find alternative livelihood strategies. In these regions, the opium ban has driven communities into chronic poverty and adversely affected food security. Many families have been forced to reduce both their quantity and quality of food intake. They now rely on fewer meals a day, consisting of smaller amounts of rice, mixed with vegetables, roots and other products that they gather from the forest.

A 2009 study regarding ex-poppy growing regions in northern Myanmar found that the most vulnerable households were those:

‘Without access to land and those who could no longer find employment in the absence of the labour-intensive poppy crop; or households in villages without access roads or in isolated areas, and consequently with a prior high reliance on opium cultivation for household income to secure food.’²⁷

Lack of alternative sources of cash income

Few ex-poppy farmers have been able to find alternative cash crops or alternative sources of income to deal with the food shortages and drop in household income that has occurred as a result of the opium ban. According to local leaders of the Wa region in Myanmar:

‘In the past opium was their only income, providing money to buy essential items like salt and clothing. Without it their life is difficult. We estimate the loss of income to be about 45 %. In 2004 the average income was approximately 800 Yuan per capita, it is now approximately 400-500 Yuan.’²⁸

District officials in Mai district in Phongsaly province said that following the opium ban, the main reason farmers continued opium cultivation was that they did not know what else to do. A recent report on the situation in Myanmar concludes:

‘The large majority of ex-poppy farmers have not been able to find alternative sources of income. It has been extremely difficult for them to cultivate more food, grow alternative cash crops or find casual labour to solve their food gap.’²⁹

A 2008 socio-economic survey in six of the most vulnerable former opium growing districts in northern Laos revealed that the daily cash income per capita, increased from 0,39 (PPP US\$) to 0,91 (PPP US\$). This remains less than half the PPP US\$2 per capita per day set as a poverty line in the MDG1, it is a strong indicator that former opium farmers still live in abject poverty.³⁰

27 From Golden Triangle to Rubber Belt

28 Ibid

29 Ibid

30 UNODC Opium Poppy Cultivation in Southeast Asia 2008

Collection of NTFPs

Ex-poppy farmers in Khoua district in Phongsaly province in Laos and the Wa region in Myanmar reported that they had been relying on the collection of NTFPs following the ban of opium cultivation. However, the demand for income and hence NTFPs made such products increasingly rare and difficult to find. There is concern that this unsustainable extraction of NTFPs will have negative consequences for the forest environment and for sustainable agriculture in the regions.

In Laos some ex-poppy farmers who had first collected NTFPs such as cardamom from the forest, have now started to cultivate the same products as they became too scarce to find in their natural environment. In Laos, people also collect broom grass, mulberry bark, bamboo shoot, dried bamboo, and galangal.



Plate 5: Forest in Laos

Lack of casual labour

Following the opium ban, some ex-poppy farmers in the Wa and Kokang regions tried to generate income through casual labour. Occasionally people found work at rubber plantations, but broadly, daily labour was hard to find as the economy of the whole region was affected by the poppy ban. This study has found that casual labour opportunities in northern Laos were almost entirely absent.

A local source in Oudomxai province stated: *'I do not see many people coming from the mountains looking for work. Construction companies bring labour from China and Vietnam. Lao labour costs are higher than Chinese and Vietnamese.'* Another Lao source says there is little demand for labour and the demand that does exist is for skilled labour, which (ex) poppy growing farmers do not possess.

Lack of credit

Alternative crops grown in the Wa and Kokang regions such as rubber, tea and sugarcane require high levels of capital investment. Furthermore, rubber and tea only become profitable following several years of cultivation. As such most farmers are forced to work as daily labourers on these plantations as they lack access to the credit needed to benefit from these alternative crops themselves.

Similarly in Laos, where corn has become a common crop, farmers tend to only benefit if they can afford to work independently. Most farmers however, are forced to rely on traders and businessmen – often, but not always Chinese – who provide credit and seed. These arrangements typically stipulate that the farmer must sell the crop to the investor at a rate lower than the market dictates, allowing the investor to make a profit and perpetuating the farmer's poverty. In addition, whilst this form of foreign investment in contract farming and plantations may initially seem beneficial, it creates a dependency in the long term.

In the Wa and Kokang regions in Myanmar, access to credit also decreased significantly following the opium ban. In most cases farmers are now unable to borrow money, as traders believe that a loan would not be repaid. Nonetheless, many households in the regions suffer from a high level of indebtedness, incurred to cope with food shortages, medical fees and opium addiction.

Lack of technology

Communities tend to lack the knowledge and skills required to grow new crops or improve the yield of their existing crops. In northern Laos, corn growing (ex) poppy farmers must dry their harvest to achieve a good price from traders. This is problematic as there are currently insufficient drying machines available in the province.

Lack of access to markets

The traditional opium cultivating regions of Laos and Myanmar are remote, isolated and mountainous. Infrastructure tends to be limited and in poor condition, many villages do not have road access and communication facilities are almost non-existent. Most traditional crops are heavy and difficult to transport to market in comparison to opium, which has a high price to weight ratio. Ex-poppy growers in Laos have complained that it is difficult to sell NTFPs due to their location, far from the market. Raising livestock for sale is also unprofitable due to the expensive transport required to take an animal to market. An ex-poppy farmer from Phongsaly province stated: *'When we produce things in isolated areas, after harvest there is no road for export.'*

Communities also have little or no knowledge of the on-going market price and demand for their products. In Phongsaly province for instance it was found that while there was a relatively high demand for peanuts and soy, farmers were unaware of this and continued to cultivate maize, which had seen a significant drop in prices.³¹

According to one recent study, 50% of the villages in Phongsaly province, traditionally a major opium producing area, have no access to market due to their remote location.³² Traders from China and Vietnam visit markets at the districts capitals in the provinces and visit those villages with access roads to purchase NTFPs and cash crops directly. However, even in these cases the profit the villagers make was reported to be *'marginal at best'*.³³

Market access is also limited by lack of national demand and by reliance on demand from neighboring countries, especially China and to a lesser extent Vietnam and Thailand. China imposes a quota system, which limits the import of certain products to protect its own market. This lack of competition also has negative impact on the market value of products.

Lack of access to land

In both countries local authorities have relocated (ex) poppy growing communities from their homes in the mountains to lower lying areas. Lao government officials link environmental degradation to minority groups' traditional practice of slash-and-burn and opium cultivation. The

31 Ibid.

32 UNODC, Alternative Income Generation in Lao's North: A View from the Ground.

33 Ibid

government believe that the resettlement of minority groups from the mountains to lower altitudes and along roads, often under the pretext that the local authorities can better assist them there, will solve the problem. This practice also brings minority groups under stricter control of local authorities. A Lao district official in Oudomxai province reported that:

'We help with the resettlement of people from the highlands to the lowland, but many villagers remain due to the lack of land at the new locations. For those who stay, we help them resettle into one big village. But we have limited funds from the district to help them.'

The Lao government's policy is to merge several smaller villages into cluster villages as explained by the same Lao district official:

'It is easier to develop villages if they live in a cluster, to provide a water supply and latrine. We also look at access and move them to a place where we can build a road.'

A study by GTZ in 2009 that examined Luang Namtha (traditionally also a major poppy growing region) and Sayaboury provinces in northern Laos, found that shortage of land was '*surprisingly common*'.³⁴ The study also found that there had been high levels of migration from these areas in the last decade. Those households who had been forced to migrate recently were found to be more lacking in basic needs.³⁵

Lack of development assistance

The amount of assistance given to (ex) poppy farmers in Laos and Myanmar has until now been very limited and is best categorised as emergency assistance. In Laos, various district officials acknowledge that while they have been able to convince many farmers to stop opium cultivation in their area, they have been unable to offer them alternatives. A government representative in Oudomxai province stated:

'We do explain to them that opium smoking and cultivation is not good, but we have no funds to help them. There are no activities there, so people are waiting for alternatives, when alternatives don't come they will start growing opium again.'

Similarly, a Lao district official in Phongsaly province stated:

34 GTZ 2009.

35 Ibid.

'Between 2002 and 2005 we tried to control opium cultivation, we worked very hard to eliminate opium and succeeded, but we had no budget to help the people. That is why they reverted back to opium cultivation. So Alternative Development is very important.'

UNODC has an alternative development project covering 20 villages in two districts of Oudomxai. In the past, 268 villages grew opium in the province. This year, the number has been reduced to 29. A recent GTZ report on Luang Namtha and Sayaboury provinces in northern Laos found that only around 10% of villages that were surveyed had received any support from the government in recent years.³⁶

In order to prevent a humanitarian crisis in northern Myanmar, WFP provided emergency food rations to the Wa and Kokang regions. China also provided rice to the Kokang and Wa authorities to reduce the impact of the food shortage. However, a recent study regarding the impact and sustainability of the opium ban in the Wa and Kokang regions in northern Myanmar suggested:

*'The international reaction to the post-opium-ban crisis in northern Myanmar can best be described as an emergency response. Many vulnerable households have not benefited sufficiently or at all from efforts to increase and diversify crops.'*³⁷

Local sources also say that there remain areas where the emergency food aid has not reached the population.

Unsustainable foreign investment in commercial plantations

For local authorities in both northern Laos and Myanmar, Chinese private investment in commercial plantations, especially rubber, has been perceived as a means by which poverty and opium cultivation can be reduced. Chinese companies have also invested in corn, watermelon and other fruit in Laos and sugarcane and tea in Myanmar. These investments have provided some (ex) opium farmers with alternative sources of income. However, there have been adverse impacts on the livelihoods of local communities and thus efforts to find alternative sources of income for farmers.

36 Ibid.

37 From Golden Triangle to Rubber Belt?

In Laos, rubber cultivation started in Luang Namtha province in 1994 and brisk expansion of plantations began in the year 2000. Now rubber cultivation is rapidly spreading to other provinces such as Oudomxai and Phongsaly, as a consequence of promotion by local authorities. In northern Myanmar local authorities have also aggressively promoted rubber and now whole mountain ranges are covered with the crop.

Lessons can be learnt from Yunnan province in China, where rubber cultivation began in the 1950s, as well as from the Shan State in northern Myanmar, where rubber cultivation rapidly expanded in the last decade. Large-scale rubber and other mono-crop plantations have potential to cause significant, irreversible damage to the natural environment. Chinese experts warn that the problem is not intrinsic to the rubber tree, but to the scale on which monoculture cultivation is undertaken. This can have a negative impact on local micro climates, and contribute to deforestation and water management problems. The expansion of plantations has a negative impact on the food security of households not involved with the rubber, particularly those who depend on the collection of NTFPs, raising livestock, and those who need the land for food production.³⁸

The Chinese government is promoting such investment by providing soft loans to Chinese companies under the name of '*alternative development*'. However, these are commercial investments by private companies seeking to make large profit. There have been various conflicts over contracts and wages, which in some cases have led to violent protests, particularly in Yunnan province in China.

Contracts are often unclear and made on a verbal basis. The Lao government officially stipulates a 2+3 system, whereby the local communities provide the land and the labour, and the Chinese investors provide the capital, technique and market access. However, one study concluded that in practice arrangements are often 1+4, where the villagers only provide the land, and thus receive less money. Profit sharing agreements vary, from 50-70% for the villagers and 30-50% for the investors. Farmers often lack knowledge of the market and prices, and are therefore easily exploited by Chinese investors.³⁹

38 See TNI 2009 Withdrawal Symptoms.

39 GTZ Rubber Boom in Luang Namtha, 2008.

A recent study in Phongsaly province, Laos, reported a Chinese company helped upland rice farmers convert to rubber plantations, which ultimately caused food shortages in the area. This is attributed in part by companies' strategy to discouraged farmers from inter cropping rubber with food crops, which makes farmers *'highly dependent on constant rubber prices, as well as sufficient supplies of rice available on the local market.'*⁴⁰ Rubber only produces a marketable product after seven years of growth. Most farmers do not have access to the credit required to invest in this, nor can they afford to wait for seven years for the trees to produce. They can only intercrop food products with the rubber trees in the first few years before the canopy becomes too dense to let though sufficient light.



Plate 6: Rubber plantation - Lao PDR

In Phongsaly province for instance, rubber has only recently been introduced, a district official stated:

'In theory they will be able to harvest for 30-50 years, but we will have to wait and see. In these first 7-8 years there is no income at all for the farmers. So they grow other crops, and collect NTFPs. During the first years of planting rubber, they can still grow rice when the rubber trees are small.'

40 UNODC, *Alternative Income Generation in Lao's North: A View from the Ground*.

Chinese investment is mainly in areas where there is well-established infrastructure and as such is not beneficial to (ex) poppy farmers. Nonetheless, the large-scale Chinese investments make both regions dependent on demand from China and very vulnerable to demand and prices shocks. This year some Chinese investors failed to buy a significant proportion of the sugarcane crop in northern Myanmar and corn in Laos due to the low prices for these commodities on the international market.

Conflict

In Myanmar, this year marks the twentieth anniversary of the first cease-fire agreements, which ended decades of fighting between the military government and the majority ethnic armed opposition groups. These groups had taken up arms against the government in search of more autonomy and ethnic rights. However, the military government has so far failed to address the main grievances and aspirations of the cease-fire groups. The regime now wants them to disarm or become Border Guard Forces. They are unlikely to do so unless some of their basic demands are met. This raises many serious questions about the future of the cease-fire. The uncertainty of the situation and the continuing conflict in the country is thought to drive opium cultivation.

There is a clear relationship between the cultivation of illegal drugs and conflict as seen in Myanmar; as all conflict parties rely on income from the drugs trade to finance their operations.

Opium consumption

A number of households in Laos, and to a lesser extent in Myanmar, reported that the poppy ban had improved their life. This was largely attributed to the end of opium consumption by a previously addicted household member. In both countries, opium is now scarce and is becoming expensive. As such, opium addicts cannot afford to purchase the drug so often resume opium cultivation to supply their own consumption. UNODC figures suggest that addiction levels in Laos are relatively high. In 2008 there were an estimated 12,680 opium addicts in the country, all from the northern provinces, especially Luang Namtha, Phongsaly and Houaphanh, where opium cultivation traditionally took place.

Rising opium prices

As a result of the opium decline in the region, farm gate prices for raw opium have increased significantly in recent years. Price varies significantly throughout the region, reflecting a dynamic market, differences in supply and demand, and to some extent the influence of law enforcement. Changing drug patterns are also thought to influence prices.

The market value of raw opium differs from year to year, partly depending on the quantity and quality of the harvest. Value also varies within the year, increasing before the harvest when supply is poor and decreasing after harvest when supply is good. Furthermore, '*wet opium*' which has just been harvested fetches lower prices than '*dry opium*', which is older (one to two years). Raw opium can be stored for between two and three years, after which the quality and value decreases.

Opium production in Laos, unlike Myanmar, is largely locally consumed.



Plate 7: Flowering Poppy

Figure 5 shows that opium prices in Laos have more than doubled since 2005. Prices in Myanmar were lower than Laos, reflecting the higher output and a lower percentage used to meet local demand. However, prices for high quality dry opium in Kachin State in northern Myanmar were reported to be as high as 1,400 – 1,600 US\$/kg. In southern Shan State, which has seen an increase in production recent years, opium prices were significantly lower at 200 – 300 \$/kg.⁴¹

41 TNI Withdrawal Symptoms 2009, p.45.

The rising value of opium has provided incentive for farmers to return to cultivation to meet their growing cash shortages. A government official from La district in Oudomxai province stated:

'Opium cultivation has increased because the price of opium has increased, at the same time the price of other cash crops that people can find in the natural environment [NTFPs] has decreased. Opium cultivation will continue to increase because of this.'

This is shown in Figure 6.

Global drug market

It is clear that opium cultivation in Southeast Asia is not isolated from the global market. The region is producing to supply global demand for opium and specifically heroin. As long as this demand exists and without adequate and sustained demand reduction programmes in consumer countries, it is hard to envisage the elimination of opium cultivation in the region.

The EU has accepted this premise and has stressed that the European approach to Alternative Development:

*'Is part of an approach that covers, in application of the principle of shared responsibility, a number of simultaneous efforts in other areas of counter-narcotics work including, first and foremost, demand reduction in consuming countries.'*⁴²

Similarly, the International Narcotics Control Board (INCB) has made clear statements on the relationship between supply and demand:

*'The supply of and demand for illicit drugs are inextricably linked to form a continuum and should be treated as such. Sustained successful supply reduction programmes depend on demand reduction programmes in those countries which are major consumers of illicit drugs.'*⁴³

42 TNI Withdrawal Symptoms 2009.

43 INCB report 2004, E/INCB/2004/1.

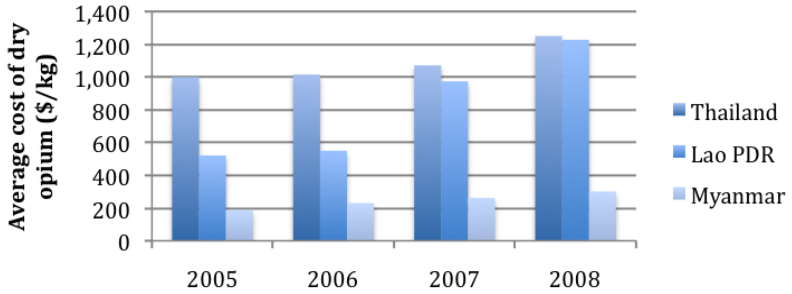


Figure 5: Rising average prices of dry opium in Thailand, Lao PDR and Myanmar

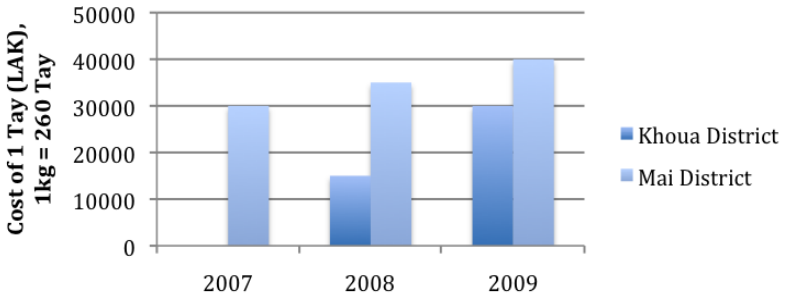


Figure 6: Rising opium prices, Oudomxai Province

V. Conclusions & Recommendations

Conclusions

Opium cultivation is increasing in Laos and Myanmar after a decade of steady reductions. The drivers behind opium cultivation are all linked to poverty; the crop is grown by poor communities to raise money to acquire food, clothes, healthcare and education. Opium is also used as a medicine, for personal consumption and is used as form of cash and savings. The continuing conflict in Myanmar also contributes to the increase in opium cultivation.

Alternative Development is a comprehensive and integrated development approach that addresses the key factors causing opium and coca cultivation. An Alternative Development approach to reducing opium cultivation contributes to achieving the Millennium Development Goals (MDGs). It is also in line with general poverty elimination programmes worldwide. It is important for sustaining opium reduction as it provides alternative livelihoods for the farmers. Alternative Development is a long term approach that requires committed, humane, well sequenced policies and programs. Such policies and programs need to actively involve those targeted from the outset to guarantee sustainability.

The financial crisis has directly threatened the livelihoods of former and potential poppy growers, and has further limited the already inadequate efforts made by local authorities, national governments, and the international donor community to maintain livelihood options for rural, isolated communities. Current responses are insufficient to meet the challenges that the crisis has posed and many can be termed emergency aid, as they do not provide (ex) poppy growers with sustainable alternative livelihoods. If the challenges associated with achieving viable legal livelihoods in Laos and Myanmar are not rapidly addressed, the reduction in opium cultivation experienced over the last decade is unlikely to be maintained.

Recommendations

Counter-narcotics and Alternative Development approaches should be mainstreamed into the broader development agenda. The development community – in particular the international financial institutions – must

incorporate counter-narcotics approaches into their wider development agendas. In addition, the counter-narcotics community must include development approaches in their plans and strategies.

An approach integrating all rural development actors is required; including government, development agencies and civil society organisations. All need to account for the causes of opium cultivation in their development strategies and plans. It is important that Alternative Development is not limited to a project approach, but guides national and local development programme design and implementation.

All local and international actors should make a long-term commitment to Alternative Development projects in (ex) opium cultivation regions. Such efforts will need strong political commitment and should be carried out in coordination with all stakeholders to ensure sustainable human development is the core aim.



Plate 8: Rice Production - Myanmar

Eradication of illicit crops should not be undertaken until small farmer households have viable and sustainable alternative livelihoods and such interventions must be properly sequenced. Development assistance should not be made conditional on the reduction of illicit drug crop cultivation.

Alternative Development should be guided by a community-based, participatory approach. Local communities need to be involved in identifying their problems and in the decision making process regarding

the design, implementation and monitoring of activities. The values, traditions and customs of local communities and civil society should be reflected in national policies and laws. Environmental sustainability is another key aspect for successful interventions.

National governments, the international community and international development agencies should engage with China regarding the role of private foreign investment in (ex) opium cultivating regions. Such investment should be beneficial to local communities, developing viable and sustainable livelihoods and should be guided by community-based participation in planning, implementation and monitoring. Projects should adhere to internationally accepted environmental standards.

Coalition building with all national and international development actors in the region should be strengthened to address the many challenges causing opium (re-) cultivation.

Opportunities for national and international advocacy on issues that can stimulate opium cultivation or inhibit sustainable and community-based development effort and opportunities should be identified.

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This study by Tom Kramer is timely and not only looks at the impact of the global economic crisis on alternative development initiatives in the Golden Triangle region, but also identifies the key determinants of opium poppy re-cultivation as well as possible solutions.

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