Myanmar’s old guard runs a jade empire

Intensively mined jade is one of Myanmar’s most lucrative industries. The military, its crony tycoons and China, where most of it ends up, benefit the most.

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MYANMAR JADE BENEFITS CHINA

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Tin Tun picked all night through teetering heaps of rubble to find the palm-sized lump of jade he now holds in his hand. He hopes it will make him a fortune. It’s happened before.

“Last year I found a stone worth 50 million kyat,” he said, trekking past the craters and slag heaps of this notorious jade-mining region in northwest Myanmar. That’s about $50,000 – and it was more than enough money for Tin Tun, 38, to buy land and build a house in his home village.

But rare finds by small-time prospectors like Tin Tun pale next to the staggering wealth extracted on an industrial scale by Myanmar’s military, the tycoons it helped enrich, and companies linked to the country where most jade ends up: China.

Almost half of all jade sales are “unofficial” – that is, spirited over the border into China with little or no formal taxation. This represents billions of dollars in lost revenues that could be spent on rebuilding a nation shattered by nearly half a century of military dictatorship.

Official statistics confirm these missing billions. Myanmar produced more than 43 million kg of jade in fiscal year 2011/12 (April/March). Even valued at a conservative $100 per kg, it was worth $4.3 billion. But official exports of jade that year stood at only $34 million.

Official Chinese statistics only deepen the mystery. China doesn’t publicly report how much jade it imports from Myanmar. But jade is included in official imports of precious stones and metals, which in 2012 were worth $293 million – a figure still too small to explain where billions of dollars of Myanmar jade has gone.

Such squandered wealth symbolizes a wider challenge in Myanmar, an impoverished country whose natural resources – including oil, timber and precious metals – have long fueled armed conflicts while enriching only powerful individuals or groups. In a rare visit to the heart of Myanmar’s secretive jade-mining industry in Hpakant, Reuters found an anarchic region where soldiers and ethnic rebels clash, and where mainland Chinese traders rub shoulders with heroin-fueled “handpickers” who are routinely buried alive while scavenging for stones.

Myint Aung, Myanmar’s Minister of Mines, did not reply to written questions from Reuters about the jade industry’s missing millions and social costs.

Since a reformist government took office in March 2011, Myanmar has pinned its economic hopes on the resumption of foreign aid and investment. Some economists argue, however, that Myanmar’s prosperity and unity may depend upon claiming more revenue from raw materials.

There are few reliable estimates on total jade sales that include unofficial exports. The Harvard Ash Center, which advises Myanmar’s quasi-civilian government, has possibly the best numbers available.

After sending researchers to the area this year, the Harvard Ash Center published a report in July that put sales of Burmese jade at about $8 billion in 2011. That’s more than double the country’s revenue from natural gas and nearly a sixth of its 2011 GDP.

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HIDING STONES

Chinese have prized jade for its beauty and symbolism for millennia. Many believe wearing jade jewelry brings good fortune,
prosperity and longevity. It is also viewed as an investment, a major factor driving China’s appetite for Burmese jade. “Gold is valuable, but jade is priceless,” runs an old Chinese saying.

Jade is not only high value but easy to transport. “Only the stones they cannot hide go to the emporiums,” said Tin Soe, 53, a jade trader in Hpakan, referring to the official auctions held in Myanmar’s capital of Naypyitaw.

The rest is smuggled by truck to China by so-called “jockeys” through territory belonging to either the Burmese military or the Kachin Independence Army (KIA), both of whom extract tolls. The All China Jade Trade Association, a state-linked industry group based in Beijing, declined repeated requests for an interview.

Hpakan lies in Kachin State, a rugged region sandwiched strategically between China and India. Nowhere on Earth does jade exist in such quantity and quality. “Open the ground, let the country abound,” reads the sign outside the Hpakan offices of the Ministry of Mines.

In fact, few places better symbolize how little Myanmar benefits from its fabulous natural wealth. The road to Hpakan has potholes bigger than the four-wheel-drive cars that negotiate it. During the rainy season, it can take nine hours to reach from Myitkyina, the Kachin state capital 110 km (68 miles) away.

Non-Burmese are rarely granted official access to Hpakan, but taxi-drivers routinely take Chinese traders there for exorbitant fees, part of which goes to dispensing bribes at police and military checkpoints. The official reason for restricting access to Hpakan is security: the Burmese military and the Kachin Independence Army (KIA) have long vied for control of the road, which is said to be flanked with land-mines. But the restrictions also serve to reduce scrutiny of the industry’s biggest players and its horrific social costs: the mass deaths of workers and some of the highest heroin addiction and HIV infection rates in Myanmar.

There are also “obvious” links between jade and conflict in Kachin State, said analyst Richard Horsey, a former United Nations senior official in Myanmar. A 17-year ceasefire between the military and the KIA ended when fighting erupted in June 2011. It has since displaced at least 100,000 people.

“Such vast revenues - in the hands of both sides - have certainly fed into the conflict, helped fund insurgency, and will be a hugely complicating factor in building a sustainable peace economy,” Horsey said.

The United States banned imports of jade, rubies and other Burmese gemstones in 2008 in a bid to cut off revenue to the military junta which then ruled Myanmar, also known as Burma. But soaring demand from neighboring China meant the ban had little effect. After Myanmar’s reformist government took power, the United States scrapped or suspended almost all economic and political sanctions - but not the ban on jade and rubies. It was renewed by the White House on Aug. 7 in a sign that Myanmar’s anarchic jade industry remains a throwback to an era of dictatorship. The U.S. Department of the Treasury included the industry in activities that “contribute to human rights abuses or undermine Burma’s democratic reform process.”

Foreign companies are not permitted to extract jade. But mining is capital intensive, and it is an open secret that most of the 20 or so largest operations in Hpakan are owned by Chinese companies or their proxies, say gem traders and other industry insiders in Kachin State. “Of course, some (profit) goes to the government,” said Yup Zaw Hkawng, chairman of Jadeland Myanmar, the most prominent Kachin mining company in Hpakan. “But mostly
it goes into the pockets of Chinese families and the families of the former (Burmese) government."

Other players include the Union of Myanmar Economic Holdings Ltd (UMEHL), the investment arm of the country’s much-feared military, and Burmese tycoons such as Zaw Zaw, chairman of Max Myanmar, who made their fortunes collaborating with the former junta.

THE CHINA CONNECTION
Soldiers guard the big mining companies and sometimes shoot in the air to scare off small-time prospectors. “We run like crazy when we see them,” said Tin Tun, the handpicker.

UMEHL is notoriously tight-lipped about its operations. “Stop bothering us,” Major Myint Oo, chief of human resources at UMEHL’s head office in downtown Yangon, told Reuters. “You can’t just come in here and meet our superiors. This is a military company. Some matters must be kept secret.”

This arrangement, whereby Chinese companies exploit natural resources with military help, is both familiar and deeply controversial in Myanmar.

Last year, protests outside the Letpadaung copper mine in northwest Myanmar triggered a violent police crackdown. The mine’s two operators - UMEHL and Myanmar Wanbao, a unit of Chinese weapons manufacturer China North Industries Corp - shared most of the profits, leaving the government with just 4 percent. That contract was revised in July in an apparent attempt to appease public anger. The government now gets 51 percent of the profits, while Myanmar Wanbao and UMEHL get 30 and 19 percent respectively.

China’s domination of the jade trade could feed into a wider resentment over its exploitation of Myanmar’s natural wealth. A Chinese-led plan to build a $3.6 million dam at the Irrawaddy River’s source in Kachin State - and send most of the power it generated to Yunnan Province - was suspended in 2011 by President Thein Sein amid popular outrage.

The national and local governments should also get a greater share of Kachin State’s natural wealth, say analysts and activists. That includes gold, timber and hydropower, but especially jade.

A two-week auction held in the capital Naypyitaw in June sold a record-breaking $2.6 billion in jade and gems. But jade tax revenue in 2011 amounted to only 20 percent of the official sales. Add in all the “unofficial” sales outside of the emporium, and Harvard calculates an effective tax rate of about 7 percent on all Burmese jade.

It is, on the other hand, highly lucrative for the mining companies, whose estimated cost of production is $400 a ton, compared with an official sales figure of $126,000 a ton, the report said.

“Kachin, and by extension Myanmar, cannot be peaceful and politically stable without some equitable sharing of resource revenues with the local people,” said analyst Horsey.

THE PECKING ORDER
At the top of the pecking order in Hpakant are cashed-up traders from China, who buy stones displayed on so-called “jade tables” in Hpakant tea-shops. The tables are run by middleman called laoban (“boss” in Chinese), who are often ethnic Chinese.
HANDPICKERS: Small-time prospectors (above) search for jade in the rubble dumped by mining companies in Hpakant township. Handpickers and traders smoke opium, shoot heroin and take “yaba” or methamphetamines at a home in Hpakant. Kyaw Myo Aung, 17, rests in his tent at a jade mine. Handpickers sleep during the day after working through the night. REUTERS/MINZAYAR
They buy jade from, and sometimes employ, handpickers like Tin Tun.

The handpickers are at the bottom of the heap - literally. They swarm in their hundreds across mountains of rubble dumped by the mining companies. It is perilous work, especially when banks and slag heaps are destabilized by monsoon rain. Landslides routinely swallow 10 or 20 men at a time, said Too Aung, 30, a handpicker from the Kachin town of Bhamo.

“Sometimes we can't even dig out their bodies,” he said. “We don’t know where to look.”

In 2002, at least a thousand people were killed when flood waters inundated a mine, Jadeland Myanmar chairman Yup Zaw Hkawng told Reuters. Deaths are common but routinely concealed by companies eager to avoid suspending operations, he said.

The boom in Hpakant’s population coincided with an exponential rise in opium production in Myanmar, the world’s second-largest producer after Afghanistan. Its derivative, heroin, is cheap and widely available in Kachin State, and Hpakant’s workforce seems to run on it.

About half the handpickers use heroin, while others rely on opium or alcohol, said Tin Soe, 53, a jade trader and a local leader of the opposition National League for Democracy party. “It’s very rare to find someone who doesn’t do any of these,” he said.

Official figures on heroin use in Hpakant are hard to get. The few foreign aid workers operating in the area, mostly working with drug users, declined comment for fear of upsetting relations with the Myanmar government. But health workers say privately about 40 percent of injecting drug users in Hpakant are HIV positive - twice the national average.

Drug use is so intrinsic to jade mining that “shooting galleries” operate openly in Hpakant, with workers often exchanging lumps of jade for hits of heroin.

Soe Moe, 39, came to Hpakant in 1992. Three years later, he was sniffing heroin, then injecting it. His habit now devours his earnings as a handpicker. “When I’m on (heroin), I feel happier and more energetic. I work better,” he said. The shooting gallery he frequents accommodates hundreds of users. “The place is so busy it’s like a festival,” he said. Soe Moe said he didn't fear arrest, because the gallery owners paid off the police.

MOVING MOUNTAINS

Twenty years ago, Hpakant was controlled by KIA insurgents who for a modest fee granted access to small prospectors. Four people with iron picks could live off the jade harvested from a small plot of land, said Yitnang Ze Lum of the Myanmar Gems and Jewellery Entrepreneurs Association (MGJEA) in Myitkyina.

A 1994 ceasefire brought most of Hpakant back under government control, and large-scale extraction began, with hundreds of backhoes, earthmovers and trucks working around the clock. “Now even a mountain lasts only three months,” said Yitnang Ze Lum.

Many Kachin businessmen, unable to compete in terms of capital or technology, were shut out of the industry. Non-Kachin workers poured in from across Myanmar, looking for jobs and hoping to strike it rich.

The mines were closed in mid-2012 when the conflict flared up again. Myanmar’s
military shelled suspected KIA positions; the rebels retaliated with ambushes along the Hpakant road. Thousands of people were displaced. Jade production plunged to just 19.08 million kg in the 2012/13 fiscal year from 43.1 million kg the previous year. But the government forged a preliminary cease-fire with the Kachin rebels in May, and some traders predict Hpakant’s mines will re-open when the monsoon ends in October.

When operations are in full swing, the road to Hpakant is clogged with vehicles bringing fuel in and jade out. Such is the scale and speed of modern extraction, said Yitnang Ze Lum, Hpakant’s jade could be gone within 10 years.

“Every Kachin feels passionately that their state’s resources are being taken away,” a leading Myitkyina gem trader told Reuters on condition of anonymity. “But we’re powerless to stop them.”

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