A capitalist class emerges in Burma

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By William Barnes (a veteran Bangkok-based journalist.)

BANGKOK - Myanmar has a widely underestimated array of home-grown business families who are likely to provide the foundation of the country's future capitalist class - and a bulwark against any attack on the core privileges of the military-linked elite.

In the excitement over the opening of the "biggest emerging market opportunity since China", commentaries have portrayed Myanmar in words and images akin to those used in describing America's 19th century Wild West.

The Economist Intelligence Unit recently espied "vast untapped natural resources and land". The International Monetary Fund says the country could be "the next economic frontier in Asia". Local pundits agree: "Myanmar is the last resourceful investment destination in the Southeast Asian region," said Thinn Htut Thidar, a Yangon-based consultant.

There is undoubtedly truth in these words but they overlook the local tycoons, often disparaged as cronies of the regime, as well as myriad lesser entrepreneurs, whose businesses fill out the space left by the military's own large economic presence.

Considering these well-established homegrown commercial interests, the "untrodden fields" talk is in many ways overdone and misleading. An Asia Society "Task Force" that advised Washington in 2009 on who to deal with if Myanmar opened up, for example, did not mention the indigenous business sector.

Myanmar's official statistics place its per capita economy on a level with a sub-Saharan basket case. Yet anyone who has been stuck in the traffic jams of shiny four-wheel drives in the commercial center of Yangon knows there is something amiss in this statistic, which largely fails to measure the country's huge informal and illicit economies.

"Most business families have tried to keep a low profile and to hide their wealth for obvious reasons. The clever ones made money even in the [eccentric late strongman] Ne Win era. Ultimately even the military knew it has to keep the economy ticking over somehow. These families - big and small - they will all now try to emerge strongly," argued one European banker.

"I would put down money that the families who were able to cope with the generals are going to be the best at managing the coming boom. The result might not be pretty but it will be effective," he said.

Some, perhaps many, of these tycoons will stumble and fall, and many newcomers and returnees will also likely emerge. But in the years it takes Myanmar to reach its version of democracy there will be time for the owner class to consolidate its gains and arrange political protection.

An important test will come in 2015 when a general election is due, although the military will still have a guaranteed 25% appointed representation in parliament.

Thomas Carothers of the Carnegie Endowment for International Peace think-tank recently pointed out that Brazil's emergence from a much shorter period of authoritarian rule took two "long and turgid" decades.
"More than 10 years elapsed from the opening of political reform in 1974 until a civilian president took power through credible elections," Carothers noted. "It was almost another 10 years after that until the system really worked through many of the toxic legacies of previous authoritarianism."

Myanmar’s reformist President Thein Sein has talked about re-examining certain "crony" contracts, but this isn’t expected to tilt the commercial balance any time soon away from military-linked enterprises. Investment vehicles like Myanmar Economic Holdings, which owns three dozen businesses and several joint ventures with foreign firms, is believed to be 70% owned by serving and retired military officers.

Five years ago, one of the leaked American diplomatic cables argued that true reform would only come when the entire economy was turned over.

"The generals’ economic power cannot be separated from their political power. Over the last forty-five years, the regime has built an elaborate system of patronage where the generals and their military-owned enterprises dominate every profitable natural resource industry and profit-making enterprise."

The cable added that "True economic reform would require the dismantlement of this elaborate structure, threatening their powerbase."

The International Crisis Group (ICG), a non-governmental organization that has advocated for the removal of Western economic sanctions against Myanmar, reported recently that popular expectations are running high and that "in order to bolster the broader reform effort, it is vital to provide quick wins to the population" especially in the most deprived areas.

At the same time, the government is already close to being overwhelmed by the foreign in-rush: "So many offers of assistance are coming, we have no time and capacity to handle them. The risk of burn-out is real, and in some ways, things are moving too fast," said one official quoted by ICG.

Military-entrepreneur complex

So who is going to supply the "quick wins"? A certain mystery still hovers over the decision of the military establishment to risk easing its repressive hold on the country when it was neither broke nor under dire internal political pressure. Indeed, there were a number of countries edging closer diplomatically without promises of sweeping reforms.

Part of the answer may be found in the military-entrepreneur complex. It has been obvious to all but the dimmest general that vastly greater profits were to be had if the economy was permitted to engage more with the global marketplace. The ensuing growth would also enable a revamped military-entrepreneur class to nail down a long-term existence behind the screen of economic progress and political transformation.

This was actually been tried before in Myanmar, albeit in a limited way, something that has been overlooked in most recent commentaries on the country’s unprecedented opening.

Myanmar actually "opened" its markets 20 years ago, when it also set up grandiose vehicles like Myanmar Economic Holdings. Then, the idea was to move away from the decades of eccentric pseudo-socialism under former dictator Ne Win.

That early attempt to take a "modern" authoritarian growth path prompted a host of mostly Asian corporations to scramble for opportunities in the 1990s. The initiative largely fizzled
away because of the military's suffocating grip and the lack of both international institutional lending and proper legal security for investments.

Some cynics think the recent political theater is merely the military's recalibrated attempt to create a business boom without inviting social unrest. If a military-entrepreneur complex were able to prosper, then even a lively democratic facade would be acceptable to the military, in this view.

"The generals own the country and have survived in spite of sanctions and [international] condemnations. What they crave is what they cannot buy or be gained by oppression - legitimacy," said a former Western diplomat in Yangon and keen observer of the Myanmar military.

"I liken all of this to a Mafioso who wants to become a legitimate businessman by laundering his money, sending his kids to Ivy League schools and so on, and letting others do the dirty work so he can make claims of plausible deniability while he continues to reap the profits," he said.

Myanmar’s uniformed rulers have frequently proven abrasive patrons, even of their favored quasi-capitalists. Yet the linkages of profit, protection, friendship and family are myriad, if not always transparently obvious.

So the most likely replacement for President Thein Sein, if he retires in 2015, is the speaker of the lower house, Shwe Mann, who has been linked to the showiest of the regime’s entrepreneur favorites, Tay Za. Shwe Mann’s three sons are also reportedly heavily involved in crony enterprises.

Critics have frequently railed about "toadies" vying for privilege in the debilitating Myanmar version of India’s "License Raj". Yet this maneuvering is in line with the defining characteristic of so many successful Southeast Asian business families: the ability to connect the ruling elite with economic opportunity.

Leading businessmen have complained bitterly behind closed doors about the bottomless incompetence of Myanmar’s military leaders, even as they paid kickbacks and sought to ingratiate themselves with them.

One prominent Western academic has long contended privately that the arrival of opposition icon Aung San Suu Kyi on the political scene in 1988 froze the "natural" emergence of political factions backed by various military and corporate cliques, such as seen historically elsewhere in the region.

Suu Kyi’s National League for Democracy still enjoys massive popularity but has been, in difficult circumstances, notoriously lacking in aggressive energy. It would be remarkable if, like the bureaucracy, it were not overwhelmed by the upcoming challenges caused by rapid political and economic opening.

Jennifer Quigley, advocacy director of the US Campaign for Burma (as the country is still referred to in some quarters), recently told Inter Press Service that she feared the current eagerness by investors to exploit Myanmar’s riches risks letting the regime renege on moves towards democracy.

"If we go in and allow foreign investment, there won’t be any motivation for the government towards political resolution," Quigley said.
The reality, however, is likely to be that business becomes politics in a way seen across developing Asia. And the military appears to be gearing up for this scenario.

About two years ago, the outgoing military regime sold off a swathe of state assets - from colonial-era buildings, to ports and cinemas - in sales that seemed designed to favor itself and its cronies just before the big political opening. Reports of military-linked land grabbing have also become more frequent with economic opening.

When the International Monetary Fund visited five years ago, one disgruntled local businessman told them that if they really wanted to catch the attention of the notoriously superstitious generals they should bring an astrologer along next time. The IMF can save its money, for military leaders are now firmly focused on the economy and multilateral lender advice on how to spark growth - and in the process enrich themselves and their crony capitalists.

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