

The Political Economy of Myanmar's Transition

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ABSTRACT *Since holding elections in 2010, Myanmar has transitioned from a direct military dictatorship to a formally democratic system and has embarked on a period of rapid economic reform. After two decades of military rule, the pace of change has startled almost everyone and led to a great deal of cautious optimism. To make sense of the transition and assess the case for optimism, this article explores the political economy of Myanmar's dual transition from state socialism to capitalism and from dictatorship to democracy. It analyses changes within Myanmar society from a critical political economy perspective in order to both situate these developments within broader regional trends and to evaluate the country's current trajectory. In particular, the emergence of state-mediated capitalism and politico-business complexes in Myanmar's borderlands are emphasised. These dynamics, which have empowered a narrow oligarchy, are less likely to be undone by the reform process than to fundamentally shape the contours of reform. Consequently, Myanmar's future may not be unlike those of other Southeast Asian states that have experienced similar developmental trajectories.*

KEY WORDS: Myanmar, Burma, political economy, reform, democratisation, Murdoch School

In 2010, the first elections were held in Myanmar after 22 years of direct military rule. Most Western observers had decided in advance that the polls would be a travesty. The regime had been sanctioned and isolated following its refusal to transfer power to the winner of elections held in 1990, the National League for Democracy (NLD), led by Aung San Suu Kyi. Instead the regime had pursued its own, visibly flawed "roadmap to democracy." The 2008 constitution was largely designed by the military and was imposed through an implausible "referendum" – a 93.8% "yes" vote on a 98% turnout – in the middle of a major natural disaster, Cyclone Nargis. The NLD boycotted the 2010 elections, though smaller opposition parties did participate. Unsurprisingly, the military-backed Union Solidarity and Development Party (USDP) secured approximately 60% of the seats in both houses of parliament and captured all but one of the regional assemblies, while the military took 25% of the seats in both national-level assemblies and one-third in all the regional assemblies, as mandated by the constitution. Little change was expected from what appeared to be a purely superficial exercise.

Yet, one year later, major reform was underway. The NLD had triumphed in by-elections in April 2012, bringing Aung San Suu Kyi into parliament. Peace talks had

begun with ethnic-minority insurgents. Peaceful gatherings and trade unions had been legalised. Internet censorship eased. The IMF, World Bank and Asian Development Bank (ADB) were advising on a slew of economic reforms. Western observers now exhibit considerable optimism about the country's trajectory. Sanctions have been eased, and foreign politicians and businesspeople are flocking to influence the process and secure opportunities for themselves. The International Crisis Group (2012b) regards reform and democratisation as irreversible, and the ADB (2012) suggests that Myanmar may be Asia's next rising star and become a middle-income country by 2030.

How far is optimism justified? How do we make sense of this reform process? And what sort of state is Myanmar in the process of becoming? This article seeks to answer these questions by considering the political economy and social power relations that emerged under military rule and how these are conditioning the trajectory of reform. It also seeks to situate Myanmar's development within broader patterns of regional development, using a critical political economy approach that has been applied to other Southeast Asian states, and emphasises the dynamic changes within Myanmar over the last two decades. This is in contrast to much of the existing literature. Many otherwise excellent studies of Myanmar have little comparative sensibility, creating the impression of a *sui generis* case. The focus on Myanmar's unchanging military regime, with words like "timewarp" and "stasis" frequently used, also tends to occlude deeper transformations in state-society relations (Callahan 1998; Larkin 2012, 65).

The article is divided into four parts. The first indicates the analytical approach used here, drawing on the "Murdoch school" of critical political economy, which foregrounds social conflicts over power and resources in understanding the nature of state power in Southeast Asia and emphasises the legacy of state-led development in shaping the region's political trajectories. The second and third parts of the article explore transformations in Myanmar's political economy which provide the context for the current reform period. The second part considers the development of state-mediated capitalism in Myanmar, exploring the fostering of a state-linked business class and crony capitalism, and the emergent symbiosis between big business and the state. The third part considers the transformation of centre-periphery relations since 1988 with the signing of ceasefires with ethnic minority insurgents, the emergence of new politico-business complexes and struggles to centralise these networks to enhance central state power.¹ The fourth part draws out the legacy of these developments for the current transition. It presents, for heuristic purposes, an optimistic view that the power relations established over the last two decades are being dismantled by the reform process. It then critiques this view, showing how the managed nature of the transition and the state-business networks established under military rule place broad structural constraints upon, and are struggling to shape, the reform process. It also considers, in a more speculative vein, whether Myanmar's future may be similar to Cambodia's post-communist trajectory, arguing that there are reasons for both pessimism and optimism.

The Political Economy of Transition

This section describes the analytical approach taken in this article, drawing on the "Murdoch school" of critical political economy. This approach, based on a sophisticated branch of Marxist state theory, emphasises how social conflicts over power and control over resources shape the (trans)formation and exercise of state power. Whilst sensitive to

the ideologies and strategies of socio-political forces, it underscores the structural constraints on states emanating from political economy and social power relations. This approach provides a useful perspective on transitions from dictatorship to democracy and from socialism to capitalism, focusing on the struggles between key social groups over the direction and spoils of “reform.” This approach, which has been applied to most Southeast Asian states, also helps to situate analogous developments in Myanmar within broader patterns of regional development.

The “Murdoch school” refers to a group of scholars associated with the Asia Research Centre of Perth’s Murdoch University who have produced definitive surveys of the political economy of Southeast Asia (Rodan, Hewison, and Robison 2006b). Their work is grounded in a branch of Marxist state theory associated with the work of Poulantzas (1976) and Jessop (2008). This approach argues that states should be viewed not primarily as sets of institutions – though, of course, these do exist – but as an expression of social power relations. States are seen as being produced, transformed and constrained by conflicts between social forces, particularly classes and class fractions but also ethnic, religious and other groups, as they struggle for power and control over resources. Political outcomes do not simply express policy choices or institutional design, but are conditioned by the structural influence of powerful social forces which enjoy privileged access to state apparatuses and can mould their operation to suit their own interests. “A particular regime, therefore, cannot be understood separately from the structure of social power and conflict and specific class interests.” (Hewison, Robison, and Rodan 1993, 18).

This approach is useful for analysing transition and reform because it avoids an undue emphasis on policy or institutional factors and underscores how, despite changes in state institutions and policies, the transformation and operation of the state continues to be shaped by processes of social conflict (Sangman 2007). Reform will not simply succeed if the right policies or institutions are put in place, because even “good” institutions remain subject to broader social power relations. Democratic, economic and institutional reforms have been pursued in Southeast Asia for many years, and apparently without dramatically changing the principal beneficiaries of state power. The Murdoch school attributes this to the legacy of Cold War struggles and strategies which saw states foster the emergence of powerful business classes and state-dependent middle classes, whilst working-class and radical middle-class forces were violently suppressed and forcibly disorganised. Today, consequently, “one of the defining features of the political economy of Southeast Asia ... is the highly instrumental nature of capitalist control of state power,” often enabling politico-business elites to subvert or mould reform processes to suit their own interests (Rodan, Hewison, and Robison 2006a, 25).

This approach has been used to analyse democratic transition and economic reform elsewhere, offering important insights for understanding dynamics in Myanmar. In Indonesia’s *reformasi* era, for example, Robison and Hadiz (2004) carefully document how, following the Asian financial crisis and the fall of Suharto, the oligarchy established under the New Order used its structural power and influence to rescue their corporate empires and capture emergent democratic state apparatuses. The monolithic Suharto-centric patronage network gave way to a decentralised system of “money politics” in which the interests of dominant business elites are still systematically privileged. Hadiz (2010) further demonstrates how decentralisation reforms, which the World Bank promoted to enhance popular accountability by localising decision making, were conditioned

by social power relations. Despite reformers' best intentions, lower-tier New Order elites and emergent oligarchs were best placed in struggles to control the newly decentralised apparatuses and, having largely captured them, used them to benefit themselves and their corporate allies. Crucially, Robison and Hadiz (2004, 256) insist, Indonesia is not in "transition" to something else: given the balance of social forces, "the essential new patterns and dynamics of social, economic and political power have now been established." Indonesia has become an "oligarchic democracy."

The Philippines has been subjected to similar analysis. The Marcos dictatorship was toppled in 1986 by the mass action of workers, peasants and middle-class civil society activists. However, because the socio-economic power of old landed oligarchs and newer capitalist elites enabled them to capture Congress and shape the post-Marcos transition, this nonetheless produced "the restoration of elite democracy" (Hutchison 2006, 57). The new government's ostensible commitment to pro-poor reforms, especially land reform, produced few results as landholding elites thwarted the process. Although civil society organisations gained a formal constitutional role in local government to promote poverty alleviation, their fragmentation, and the broader weakness of the left in relation to dominant forces, left them advising on and implementing narrow policies which leave the structural causes of poverty untouched (Reid 2006). This constitutional innovation has proven to be one among many examples of technocratic forms of political "participation" that, rather than enabling proper state accountability to the masses, deliberately channel popular involvement in directions unthreatening to dominant interests (Rodan and Jayasuriya 2007).

The Murdoch school has also been useful in analysing transitions from socialism to capitalism, which is particularly helpful in analysing the Myanmar case. In her study of Cambodia, Hughes (2003) shows how the dismantling of the communist state from the mid-1980s involved privatising assets to politico-bureaucratic elites and allied business groups, which reorganised themselves into the Cambodian People's Party (CPP) to contest democratic elections overseen by the United Nations in 1993. Despite intense struggles with former Western-backed exiles and remnants of the Khmer Rouge, the CPP retained and enhanced its grip on state power thanks to its extensive patronage resources – rooted in its control of Cambodia's natural resources – and its close relationship to the military. A massive UN-led state-building intervention plus two decades of reform and "good governance" programmes from Western donors have not loosened CPP control. Opponents are systematically excluded from defining the reform process, allowing the CPP to channel it down safe lines (Hameiri 2010, ch. 7). Because Cambodia's trajectory is a particularly cautionary tale for Myanmar, we will return to this comparison later.

The Murdoch school thus provides a helpful lens for understanding the potentials and constraints of Myanmar's dual transition. It directs analytical attention to the distribution of socio-economic power at the point of transition as potentially imposing major constraints on the process of political and economic transformation. Despite substantial changes in formal institutions, dominant coalitions – even those faced with serious obstacles – can often reorganise themselves and steer reform processes in their own interests. The exact trajectory of "reform" is contingent on struggles between social forces as they struggle to control these processes. To understand the political economic context of Myanmar's reform era, the following two sections analyse the power relations established under military rule, focusing on the state-mediated transition to capitalism and the formation of politico-business complexes in the borderlands.

The Emergence of State-mediated Capitalism

One of the most important transformations in Myanmar since 1988 has been the constrained transition from state socialism to state-mediated capitalism. Much of the literature criticises the military regime's economic mismanagement, arguing that it produced only "stagnation" and "crisis" (see, for example, Turnell 2011). The usual interpretation is that the state has remained dominant in the economy, deliberately preventing "the emergence of a domestic commercial class of any significance" and "stifling change" (Taylor 2001, 13). By contrast, this section argues that there has been considerable change, albeit constrained by social factors and political strategies. The state has fostered a re-emergent business class and created a layer of "crony capitalists" in an increasingly symbiotic relationship with the state. Whilst this class did not yet wield direct political power, unlike some of its Southeast Asian counterparts, by 2010 it had been positioned to do so.

The context for Myanmar's state-mediated transition to capitalism was the collapse of the Burmese Socialist Programme Party (BSPP) regime in 1988. Burma had experienced communist and ethnic separatist insurgencies in its border regions virtually since independence. These mounting challenges prompted the military to seize power in 1960. To cultivate greater popular support for the Burmese state, the military regime – which later created a one-party "socialist" state under the military-dominated BSPP – pursued autarkic, state-led import-substitution industrialisation. For reasons common to many developing countries – falling commodity export revenues and rising capital import and debt servicing costs – this development model failed disastrously. By 1987, inflation and unemployment were rampant, the economy was stagnant, and the state virtually bankrupt. Faced with mass protests and demands for democratisation in 1988, in addition to ongoing insurgencies, the sclerotic regime swiftly collapsed, prompting the army to resume direct control as the State Law and Order Restoration Council (SLORC). SLORC rapidly adopted pro-market reforms to stave off total economic collapse, including opening Myanmar to foreign investment, liberalising agriculture, timber extraction and fisheries, and encouraging a shift to the private sector.

However, this shift was constrained by an important legacy of BSPP rule: the historic weakness of Myanmar's bourgeoisie. All internal trade was nationalised in 1963, prompting 300,000 South Asian business owners to emigrate and forcing the indigenous bourgeoisie into the black market. Although by 1985 there were still 31,239 private manufacturing firms compared with 1,763 State Economic Enterprises (SEEs) and the private sector still produced 55% of GDP, few private firms employed over 10 workers (Taylor 2009, 346). By contrast, hundreds of thousands of people were employed by the state and SEEs. Consequently, despite wishing to "wake up all the entrepreneurs," SLORC's minister of finance feared that their lack of capital and management experience would lead them simply to asset-strip SEEs, provoking further unrest among state employees. Since a "fluent, responsible middle class" was absent, it was necessary for the state to "build it up" (interview with D. Abel, former Minister of Finance and Planning, July 6, 2012, Yangon). Privatisation would thus be gradual and directed to create large-scale "national entrepreneurs" capable of taking on major industries.

The extent and pace of this process, however, was further shaped by struggles within the regime and state, and by the regime's political strategy. Conservative generals, ministers and officials, particularly those connected with SEE-operating ministries,

resisted rapid liberalisation, fearing a loss of revenues, rents and employment. Formal state monopolies were retained or re-imposed in many tradable sectors and conservatives channelled foreign investment towards rehabilitating or even establishing new SEEs. Conservatives became dominant within the regime after 1997 when SLORC was substantially reorganised into the State Peace and Development Council (SPDC) and the Trade Policy Council was established, imposing new restrictions on the private sector. The SPDC's political priority was to enhance the military's strength *vis-à-vis* its internal opponents and direct society in a managed transition to what the army called "discipline-flourishing democracy" (Mya Maung 1998).

This shaped the liberalisation process in two ways. First, the army exploited it to augment its own business holdings. It established two large conglomerates: Union of Myanmar Economic Holdings Limited, with interests in banking, trade, tourism and precious stones, and Myanmar Economic Corporation, with interests in heavy industry and commodities. Military-linked firms and SEEs also absorbed most foreign investment in the 1990s, and could obtain foreign exchange at the absurdly low official rate, rather than the black market rate. Secondly, the regime deliberately cultivated "national entrepreneurs" who would support its goals. These factors constrained the privatisation process and ensured that its principal beneficiaries would be those entrepreneurs who fostered close, corrupt relations with powerful officials in order to obtain trade licences, construction contracts, joint venture deals and other lucrative opportunities.

After 1988, therefore, we see the state-mediated re-emergence of Myanmar's bourgeoisie. During the initial liberalisation period, many businesspeople with the right connections made small fortunes exporting timber, agricultural commodities and marine products, giving them the capital to form construction firms to capitalise on a boom in real estate and government infrastructure spending (Kudo 2005, 15–16). Public assets, such as land and state hotels, were leased to private firms as the government promoted tourism, and almost all of Myanmar's largest firms today benefited from state construction contracts. The state's weak capacity to run SEEs also created further lucrative opportunities. Even after state monopolies were re-imposed in tradable sectors, joint ventures were signed with foreign and favoured domestic firms, which actually extracted natural resources, such as oil and gas (Alamgir 2008, 991–994). Other monopolistic SEEs were effectively subcontracted to private-sector management (interview with Khin Maung Nyo, economist and former official in the Prime Minister's Office, July 11, 2012, Yangon). The state-run Myanmar Timber Enterprise, for example, had to engage private firms to fell timber in remote areas, creating large profits and opportunities for illegal logging (interview with Barber Cho, Joint General-Secretary, Myanmar Timber Merchants Association, July 20, 2012, Yangon).

All this produced a significant shift in ownership and control towards the private sector. Although most remained small scale compared to SEEs, the number of private sector firms grew 50% from 1992–98. By 1998–99, the private sector accounted for 85% of manufacturing output and three-quarters of GDP, with marked growth in trade, mining, construction, finance and manufacturing (Myat Thein 2004, 125, 200–205, 251). Despite sluggish privatisation, from 1989–2003 the number of SEEs fell 53% while private businesses increased by 59%. By this time, despite heavy restrictions on trade licences and foreign exchange and the state's formal monopoly in tradable sectors, the private sector's share of exports exceeded the state's by 11% and its share of imports by 37% (Tin

Maung Maung Than 2005, 380, 389). By 2005–06 the state's share of GDP had declined to below 7% – down from 45% in 1985 (Taylor 2009, 455).

These headline figures occlude the concentration of benefits from this state-mediated transition to capitalism. Aside from the military – including both military-owned firms and individual officers and their family members who entered business, particularly highly corrupt regional commanders – the principal beneficiaries were entrepreneurs who secured the lion's share of lucrative deals via their close relations with leading generals. This term is applied widely, since virtually no significant enterprise could prosper without close links to the regime. However, a smaller subset of around fifteen favoured individuals – including Steven Law, Tay Za, Zaw Zaw, Kyaw Win, Thein Tun, Eike Htun, Htay Myint and Aung Ko Win – were selected as “national entrepreneurs.” They were systematically favoured by state patronage and now own Myanmar's largest conglomerates, with interests spanning banking, real estate, tourism, mining, timber, manufacturing, construction, transport and telecommunications (*Irrawaddy*, June–August 2000). Although no data exist on the scale of the “cronies” dominance, many political and business leaders interviewed suggested that they control a majority of the country's wealth despite comprising just 5% of businesses in absolute terms. The rest of the business class remains predominantly small scale (Tin Maung Maung Than 2005, 380).

A third leading beneficiary was the Union Solidarity and Development Association (USDA). Modelled on Golkar, the state party Suharto established in Indonesia, the USDA was a mass organisation formed by SLORC in 1993 to promote local development, supplement local governance and mobilise mass support for the regime. The USDA was given control of several national markets and, at the regional level, extensive interests in transportation, aquaculture, plantations, real estate and rice-milling (Steinberg 2001, 112). These businesses became an important local patronage resource. This drew in many, while others were coerced to join; by 2005, the USDA claimed 23 million members. In 2010, it was converted into the USDP, winning the 2010 elections.

The relationship between the new business class and the state was very complex. On the one hand, business elites clearly depended on state patronage, and the regime retained means to keep them in line. This is best understood as the creation and manipulation of a “limited access order,” whereby the economy is manipulated to create rents which are selectively dispersed to non-state actors to buy their loyalty and encourage co-operation (North et al. 2007).² The retention of monopolies, trade and investment licences and arbitrary regulations was not simply “mismanagement,” but a deliberate means to regulate businesses' access to resources. By manipulating access to permits or selectively enforcing the law, the regime could exercise political control. For example, the secretary-general of the Timber Merchants' Association states that his members never dared to criticise the regime in case their supplies of timber – a state monopoly – were severed (interview with Barber Cho, July 20, 2012). Selective prosecutions for corruption or money laundering were used to pick off certain individuals and keep others in line. Cronies were played off against one another to maintain their loyalty, whilst non-cronies faced barriers accessing permits and long delays in receiving payments owed by the government (US Embassy 2009b, 2009d). Ironically, international economic sanctions, by further constraining economic opportunities, enhanced this method of control by intensifying business's reliance on the state. The government also appointed the top officials of the Union of Myanmar Federated Chambers of Commerce and Industry (UMFCCI), curtailing its independence.

However, the state also became dependent on powerful business interests, meaning that the relationship was not entirely one-sided but rather symbiotic. This dependence reflected the state's persistent inability to raise and spend revenue effectively, itself rooted in the regime's widespread unpopularity, corruption and macroeconomic weaknesses. The state relied on businesspeople for services ranging from the petty – such as transporting merchants and merchandise to regional gems emporia – to the serious – such as busting the Western arms embargo or brokering ceasefires with insurgent groups (US Embassy 2009a, 2009c). Private businesses were required to perform activities SEEs could not, such as extracting timber or oil, winning them profit-sharing arrangements. Most visibly, crony capitalists were frequently tasked with constructing infrastructure, such as roads, dams and pipelines, and the new capital at Nay Pyi Taw. Major projects were often done at a loss because the state could not pay, offering only import licences in compensation (US Embassy 2008b). The regime's dependence on business was most marked in the wake of Cyclone Nargis in 2008 when the impoverished, paralysed state relied entirely on individual cronies and Myanmar Egress, an NGO formed by leading magnates, to supply aid and reconstruction assistance to the Irrawaddy delta, and to mediate with international donors and non-governmental organisations (NGOs) (US Embassy 2008a). Ahead of the 2010 elections, crony capitalists were also approached to run for parliament for (and probably fund) the USDP, while Myanmar Egress trained and bankrolled opposition parties willing to participate.

As Myanmar undergoes “democratic” transition, therefore, one cannot reasonably argue that there remains no business class of real significance. The BSPP state's dismantling – albeit highly constrained in many ways – has fostered a state-linked oligarchic elite which enjoys considerable economic dominance and close relations with military and state officials. As elsewhere in Southeast Asia, big business in Myanmar has been mediated by the state. Given its very late, constrained development, it never became sufficiently powerful to displace its military-bureaucratic patrons, as was the case in Indonesia, Thailand and Malaysia during the 1980s-90s. None the less, with the military's retreat from direct political power, Myanmar's crony capitalists are poised to exercise considerable influence over the trajectory of reform.

The Borderlands: Ceasefire Capitalism and Political Complexes

A second, related change since 1988 has been the transformation of relations between forces associated with the central state and Myanmar's ethnic-minority insurgent groups. Through a series of ceasefire agreements, the SLORC/SPDC gradually pacified the border regions and struck new compromises with local forces based on the pursuit of development and business opportunities. State power in the borderlands is now constituted by “emerging political complexes” between a range of social groups, including army commanders, state officials, militia leaders, religious figures and local and foreign investors. Struggles over the flows and proceeds of an increasingly rapacious “ceasefire capitalism” have, in some areas, favoured state-business nexuses at the national and international level, weakening minority elites' will and capacity to resist the central state.

By the 1960s, Myanmar was wracked by insurgencies as minority-ethnic groups resisted incorporation into a unitary state dominated by the Bamar ethnic majority, instead seeking autonomy or independence. Throughout the Cold War, virtually all of Myanmar's lengthy borders with China and Thailand were controlled by armed insurgents, backed by

neighbouring states, who financed their campaigns through smuggling and opium-trafficking. However, in 1988, just as Burma's cities revolted, a major insurgent alliance headed by the Communist Party of Burma collapsed after ethnic-minority forces under its leadership mutinied. SLORC seized this opportunity, successfully negotiating ceasefires with the war-weary splinter groups. This allowed the army to be concentrated against the remaining insurgents, prompting a second round of ceasefires. The process was assisted by Thailand and China, which shifted from supporting the insurgents to pushing them to stand down so as to enable the exploitation of natural resources located in the borderlands or the construction of trade and energy infrastructure. By the late 1990s, 17 ceasefires had been concluded and only two significant groups remained in rebellion.

Because insurgent leaders signed the ceasefires largely out of a desire to rehabilitate their conflict-ravaged, impoverished regions, post-ceasefire borderlands politics has been dominated by developmental issues. Although ceasefire terms varied widely, they typically involved allowing insurgent groups to control some territory, resources and check-points and to continue (for the time being) trafficking opium, while the government supplied unprecedented healthcare, education and infrastructure investment. Army garrisons, the USDA and state apparatuses delivering new social services all entered the borderlands for the first time. Regional army commanders, wielding considerable arbitrary power, replicated central strategies, selectively dispensing licences, permits and business opportunities. Ceasefire group leaders were co-opted into new patronage networks, exploiting the natural resources they controlled with the aid of Thai and Chinese investors, and becoming “subcontract[ors]” for the state in their domains (Taylor 2009, 450).

Increasingly rapacious frontier capitalism subsequently emerged around timber, precious metals and stones, gas, oil and hydropower, facilitated by foreign investment.³ The alliances and accommodations forged around this now constitute state power in the borderlands. They are characterised by Callahan (2007, 3–4) as “‘emerging political complexes’... flexible and adaptive networks that link state and other political authorities to domestic and foreign business concerns (some legal, others illegal), traditional indigenous leaders, religious authorities, overseas refugee and diaspora communities, political party leaders, and NGOs,” particularly the USDA. The principal beneficiaries of these arrangements have been a narrow stratum of ethnic-minority elites, regional army commanders and national and foreign investors. Their monopolisation of rents has generated growing popular resentment among minority populations, including towards their own leaderships, which are generally highly authoritarian and illiberal. Popular grievance is intensifying as land grabs, forced displacement and landlessness, associated particularly with agribusiness development, mining and infrastructure development and typically occurring with the connivance of state agencies, become increasingly commonplace (Woods 2011, 765–767; TNI 2011). However, the dominance of these elite compacts goes largely unchallenged by more progressive forces. The turn from politics to development and the generally oppressive political climate have demobilised the old resistance organisations and channelled “civil society” organisations towards apolitical “development” activities, leaving most people with no collective political voice.

The regime's strategy of co-opting borderlands leaders carried serious implications for the development of Myanmar's national political economy. Insurgent commanders, including leading drugs barons, were encouraged to invest their proceeds from smuggling in central Myanmar – after paying a 25% “whitening” tax. In exchange for mediating several ceasefires, one of Asia's most notorious drug barons, Lo Hsing Han, was allowed

to use his capital to found AsiaWorld, which is now Myanmar's largest conglomerate. Run by Lo's son, Steven Law, AsiaWorld was given lucrative government contracts and privileged access to foreign investment. The US government reported that most Singaporean investment in the 1990s was linked to Lo's family (*The Nation*, December 2, 1996). The equally notorious Khun Sa also became a "national entrepreneur" as part of his "surrender" to the government in 1996. The emergent private banking system became dominated by Sino-Burmese "tycoons" closely linked to rebel groups, whose wealth stemmed from smuggling or opium trafficking (Turnell 2009, 260–265). Indeed, by the late 1990s, one analyst observed that "the current Myanmar Business Directory of the Union of Myanmar Chamber of Commerce and Industry reads like a who's who in the drug trade." (Lintner 1998, 179).

As with other emergent crony capitalists, the relationship between these new business elites and the state was symbiotic. The regime facilitated their rehabilitation and enrichment and drew them into the "limited access order," offering them patronage and exemption from prosecution in exchange for their loyalty (Meehan 2011). But equally, particularly in the 1990s, the emaciated state desperately needed the drug lords' capital – a dependency arguably intensified by international sanctions. As with other cronies, drugs barons were also required to supplement government social and physical infrastructure spending in the borderlands (Joyce 2002, 81). The legacy of this complex interdependence is that criminal proceeds – and criminals – are firmly ensconced within Myanmar's modern economy.

Today, the borderlands' "political complexes" are marked by dynamic struggles over the flows and benefits of ceasefire capitalism, with more centralised networks of army commanders and national and foreign investors becoming increasingly powerful *vis-à-vis* local power-brokers in some areas. Initially, investments in natural resource extraction favoured local headmen and ceasefire leaders who mediated the deals and "taxed" commodities crossing "their" borders into Thailand and China. However, from the early 2000s, as the army's presence strengthened, the state began re-routing Chinese trade and investment through military-state channels by signing strategic deals with foreign investors, banning trade through certain border towns and redirecting it through Yangon. This "increased state funds ... [and] – more importantly – cut off ethnic political resistance groups' access to resource rents ... resource extraction trading networks became connected to the regime's wider patron-client relations," with power shifting from local headmen to "regional and national military officials and Chinese businesspeople" and "national entrepreneurs." Similarly, emerging large-scale agribusiness became dominated by joint ventures between regional army commanders, "national entrepreneurs" and Chinese investors. Along the Chinese border, locals increasingly joined these more "centralised" networks or were squeezed out (Woods 2011, 750–752, 765–767). Along the Thai border, however, the presence of stronger ceasefire groups and competition between Thai and Chinese investors has maintained a wider circle of beneficiaries, including ceasefire groups like the United Wa State Army. This group retains some capacity to resist the central state, albeit at the risk of becoming a "Chinese vassal state" (TNI 2011, 75). The borderlands' "emergent political complexes" remain very complex.

Overall, however, the will and capacity of insurgent groups to resist central state power has clearly waned as a result of co-option, the re-routing of economic flows that sustained earlier resistance and the army's increased strength. A key test occurred in 2004–08 when the National Convention (NC) – suspended since 1996 – was reconvened to draft a new

constitution as part of the SPDC's "roadmap to democracy." In the 1990s, the NC was abandoned because NLD and minority representatives resisted the regime's plans. From 2004–08, although the process was far from smooth and ceasefire groups won some concessions, most minority leaders saw little opportunity for resistance, preferring instead to consolidate their economic gains via a new constitutional settlement (Smith 2007; Kramer 2009). Prior to the 2010 elections, the state sought to convert ceasefire groups' militias into "Border Guard Forces" (BGFs) under army control. Many consented while a few larger groups resisted, some of them by force. However, most were now no match for the Myanmar army – which had doubled in size since 1988 – and ceasefires quickly followed. Although these ceasefires are fragile in several areas, particularly Shan state, only the Kachin Independence Organisation and the far weaker Karen National Union remain in open revolt. Nonetheless, this armed resistance led the post-2010 government to shelve the BGF idea and pursue negotiations for a more durable settlement.

These episodes illustrate the continued complexity of political and economic life in Myanmar's minority-ethnic states, which is shaped by complex, shifting alliances between diverse actors struggling to control empowering economic flows. In some areas, the accommodations forged around ceasefire capitalism, coupled with threatened or actual coercion, have created increasingly durable power relations. However, they are typically characterised by illiberal, authoritarian governance and widening socio-economic inequality. Elsewhere, these patterns are less stable, with peripheral groups retaining some capacity to resist central agendas. These local power relations pose formidable challenges for would-be reformers.

Myanmar in Transition: Prospects and Pitfalls

This section explores how the political economy relations analysed above may affect the ongoing transition to market democracy and "reform." The first sub-section presents an optimistic "best-case scenario" in which the reform process is dismantling the worst aspects of Myanmar's previous regime. The second sub-section presents an alternative critical political economy analysis, divided into three parts. The first emphasises the top-down, military-managed nature of the transition and the broad constraints this places on the reform process. The second examines the ways in which "emerging political complexes" and crony capitalism, explored above, are also constraining and influencing the reform trajectory. The third part explores whether Myanmar is likely to tread a similar path to Cambodia, finding mixed evidence. The argument is that, even assuming that the reformist thrust is genuine, there are sound reasons to expect it to be heavily constrained and contested. One does not need to believe the more conspiratorial perspective of some exile groups and Western activists – which sees SPDC Senior General Than Shwe as still "pulling the strings," or current President Thein Sein as a con artist merely seeking a veneer of international legitimacy – in order to have cause for concern.

The Best-case Scenario

Following a rapid, unexpected series of reforms during 2011–12, understandably, there is now considerable optimism in some quarters about Myanmar's transition to market democracy. This is grounded in three interrelated claims: that "hard-liners" have been marginalised, making the transition irreversible; that more democratic institutions favour a

dispersal of power and empower reformers; and that economic reforms are side-lining Myanmar's crony capitalists. These arguments are rarely unqualified by warnings of potential setbacks, but they are presented here simply to provide a heuristic "best-case" scenario.

Optimists convincingly argue that the transition is unlikely to be suddenly reversed by "hard-liners." First, the reform process is not simply driven by the new president, ex-general Thein Sein, but apparently commands significant consensus among major power-holders. Second, the momentum behind reform, including popular enthusiasm, would make it difficult to reverse. Third, although some stand to lose out from reform, no cohesive bloc of "hard-liners" has yet emerged. "Spoilers" may resist specific changes but are unlikely entirely to overturn the reform agenda (ICG 2012b, 10–11).

Optimists also suggest that democratisation favours liberalisation by dispersing decision-making authority and empowering reformers. Reform is being superintended by ex-military officers who now comprise Myanmar's "civilian" administration, suggesting that a reformist faction existed under the SPDC. Previously cowed or controlled, it has now been unleashed to pursue its agenda (Kyaw Yin Hlaing 2012, 201–202, 209). Democratisation has also dispersed authority to four power centres – the presidency, parliament, the USDP, and the military. The president, seen as genuinely reform-minded, has assembled policy networks granting reformists unprecedented access to state power, notably his advisory committees and councils, which even contain a few formerly-exiled political opponents. Thein Sein has also consulted smaller opposition parties and Aung San Suu Kyi. Parliament, led by ex-general Shwe Mann as speaker, has also exhibited reformist tendencies, passing liberalising laws, voting without party discipline, and debating surprisingly freely. The presidency and parliament are said to be vying for the mantle of reform (Kyaw Yin Hlaing 2012, 206, 210; ICG 2012b, 3–4, 11). Thein Sein also ensured that the by-elections in 2012 were free and fair, facilitating the election of 47 NLD MPs. Under similar conditions, the NLD would win the 2015 general elections by a landslide. Apparently to forestall this, Thein Sein's administration has adopted the reformist language of its erstwhile opponents, seeking to deliver tangible benefits to the populace. This has generated glowing assessments that "the government is beholden to no one" (Kyaw Yin Hlaing 2012, 209), and is "putting a priority on the view of the public and ... the well-being of the population as a whole" (ICG 2012b, 6).

This optimistic view extends to economic reform. Institutionally and politically, Thein Sein has apparently tilted away from the "cronies" and towards the Small and Medium Enterprise (SME) sector. Two former UMFCCI presidents were appointed minister and deputy minister of commerce and UMFCCI members are now regularly consulted on economic policy, including through membership of cabinet sub-committees (interview with Zaw Win Min and Khine Khine Nwe, Vice-President and Joint General-Secretary of UMFCCI, July 13, 2012, Yangon; Larkin 2012, 21). The government states that SMEs are central to its economic strategy and has encouraged the formation of around 100 "public companies" through which they can pool resources to compete with larger firms (interview with Zaw Win Min and Khine Khine Nwe, July 13, 2012). From this perspective, the era of cronyism has ended. A joint general-secretary of UMFCCI declares that "the era of rent-seeking business is over" because the government has made commitments against monopolies, decision making is now dispersed and, given new media freedoms, any patronage dispensed to cronies would be reported and generate backlash, including in parliament (interview with Moe Kyaw, Joint General-Secretary, UMFCCI, July 7, 2012,

Yangon). Larkin (2012) outlines an optimistic scenario whereby cronies abandon rent-seeking to become hubs of “rapid industrialisation” by mediating foreign investment and SME supply chains. He suggests that they will self-interestedly pressure their patrons to uphold the rule of law and create a clean, predictable business environment. A major report from the ADB (2012) paints an even rosier picture of Myanmar’s prospects, declining even to mention crony capitalism and devoting just one paragraph to the risk of “political conflict” in the borderlands.

A number of credible observers, ranging from international NGOs and development institutions to local analysts and business elites, advance a quite optimistic assessment of Myanmar’s reform trajectory. To the extent that they take account of the political economy relations explored above, they imply that reform is relatively unencumbered by and even rapidly dissolving them. The following sub-section offers a more sceptical view.

A Critical Political Economy Perspective

Amidst growing optimism over the reform process, it is worth reminding ourselves of why pessimism reigned prior to mid-2011. Because the reform trajectory was initiated as a top-down process, the balance of socio-political forces has not radically changed, as would be the case in a revolutionary context. Those groups which became dominant under military rule retain considerable power while those disorganised and weakened by the regime remain disadvantaged in important ways. In particular, the military has been left “holding the ring,” placing broad constraints on the reform process. Within these broad contours, the reform process is arguably being shaped by struggles between various factions spanning state and society, fought out and accommodated across different state apparatuses. This is the case, for example, in Vietnam, where reformist and conservative coalitions, embedded in different parts of the state and economy, battle for control over the country’s transition to state capitalism (Dixon and Kilgour 2002). In Myanmar, these struggles are being shaped by the legacy of political complexes and ceasefire capitalism in the borderlands, and the power of business oligarchs.

A managed transition: the military and the contours of reform. Crucially, the military regime initiated democratisation from a position of relative strength, not weakness, enabling it to secure a dispensation where it could set the broad contours of reform. Although the exact trajectory will depend on struggles between different factions, the reform process is unlikely to stray beyond certain “red lines” defined by the interests of the military and its allies.

Despite various predictions that the junta would collapse, be overthrown, or brought to heel by international sanctions, the military regime not only remained in power but strengthened over time whilst forcibly disorganising those opponents it could not co-opt. The army’s size more than doubled to greater than 400,000 from 1988–2007, and arms imports exceeded US\$2 billion despite the Western arms embargo. This produced persistent trade and budget deficits – financed by printing money, thereby passing the cost on to the population via inflation. However, these were reversed by the early 2000s thanks to booming gas exports exceeding US\$2 billion a year. The regime had practically eviscerated the NLD via repeated crackdowns, prompting mass defections and the closure of all party offices outside Yangon. Other popular forces, including the ‘88 Generation of Students, were also forcibly disorganised. Decades of harsh repression created pervasive

fear, demobilising the masses, who increasingly took refuge in mysticism. In 2007, rising living costs brought perhaps 100,000 Buddhist monks on to the streets of major cities, but most people remained passive and the protests were easily dispersed by force. Key groups underpinning the regime – bureaucrats, the army, business and ethnic minority elites – did not defect from the power bloc. Nor was Western pressure effective. As one senior government figure comments, “sanctions did not paralyse us. We could continue ... for a long time even if Western countries did not lift sanctions. We could crack down on any domestic protests” (Kyaw Yin Hlaing 2012, 204). Any belief that the regime was somehow “forced” to surrender power through a democratic transition – a view current among some Western governments – is clearly deeply misguided.

Instead, the 2010 elections must be seen as the culmination of a top-down, managed transition to “discipline-flourishing democracy.” As noted above, the regime held the NC from 1993–96. SLORC’s goal was to persuade the delegates to accept a constitution in which the military’s interests, security and political role would be guaranteed, which was seen as necessary to prevent Myanmar’s disintegration in the face of separatist insurgencies. This would be achieved through reserving 25% of parliamentary seats for military representatives, creating a *de facto* veto on constitutional changes, ensuring the president had a military background, and granting an autonomous military commander-in-chief the authority to take power should the state’s sovereignty be threatened. Resistance by the NLD and ethnic minorities led to the NC being abandoned in 1996. However, after announcing a seven-step “roadmap to democracy” in 2003, the regime reconvened the NC from 2004–07. A virtually identical constitution to the one offered in 1996 was approved, then adopted via the 2008 referendum. The regime’s confidence in imposing its preferred system at this point reflected its success since the mid-1990s in weakening some opponents, and co-opting others via patronage and the “limited access order.” The opposition parties that stood in elections in 2010 and 2012 were essentially pushed into participating in a system they had no part in designing.

The implication of this top-down transition is that the military, as Myanmar’s dominant political force, has set the basic contours for the subsequent “reform” process. The military is left “holding the ring” in the new political dispensation, with a quarter of parliamentary seats, a supra-political National Defence and Security Council which meets thrice weekly to discuss all affairs of state, and the constitutional authority to retake power. The desire to avoid this scenario constrains all political actors to operate within bounds acceptable to the military. Senior General Than Shwe allegedly hand-picked the new president, cabinet, parliamentary speaker, and other key individuals, almost 90% of whom were ex-military. He thereby ensured a distribution of posts and power reflecting the armed forces’ different factions. The cabinet is thus reportedly split between 30% favouring swift reform and 30% who are cautious gradualists, presumably leaving 40% who are conservatives (Kyaw Yin Hlaing 2012, 208–209). Subsequent cabinet reshuffles and the appointment of a new vice-president suggest that this rough balance of forces has been durably predetermined. Repeated rumours that President Thein Sein would promote many liberalisers, heralding a rapid acceleration of reform, have been consistently confounded: the basic balance of power has remained relatively static. Furthermore, following the election of 47 NLD MPs, more hard-line military representatives were appointed to parliament, apparently to balance them out (ALTSEAN-Burma 2012, 19). From this perspective, the issue is not whether the transition is reversible. Reversal is threatened only if the “reform” process strays beyond acceptable limits. Recent changes have not

happened despite military reluctance, or because of an upsurge in democratic decision making, but because different factions are being carefully accommodated within a relatively moderate reform programme.

For now, this clearly constrains political possibilities in various ways. There can, for example, be no realistic prospect of holding leading officers to account for the human rights abuses of the last two decades. NLD comments on possible Nuremberg-style tribunals are thought to have helped dissuade the military from ceding power after the 1990 elections. Today's reformers are likely to be more pragmatic. As one member of Thein Sein's Social and Economic Advisory Council remarks, South Africa's Truth and Reconciliation Commission is inspiring, but Myanmar is ready only for reconciliation – not truth (interview July 18, 2012, Yangon). Similarly, any thorough probe into the wealth amassed by senior generals and their corporate allies could be profoundly destabilising. Conversely, in fact, they are receiving more resources under the new dispensation: the military budget was increased 57% from 2011–12, to 14.4% of total government expenditure (ALTSEAN-Burma 2012, 31). This implies that the crime and plunder of the last two decades may go largely unpunished, perpetuating a culture of impunity. This was largely the case in post-Suharto Indonesia. There, democratic transition happened in a rapid, shambolic fashion as the New Order power bloc quickly disintegrated following the Asian financial crisis. Still, very few regime figures or cronies were ever prosecuted, and many maintained considerable wealth and power. This outcome is even more likely in Myanmar's transition, where *ancien régime* forces remain largely intact, "holding the ring" of the new system.

Political complexes and crony capitalism: an enduring legacy. Within these broad contours, the month-by-month progress of reform is being shaped by struggles between social forces located within and outside the state apparatus. Although reformers may be cultivating a supportive coalition, particularly among the petty bourgeoisie, they face formidable challenges given the power relations inherited from military rule. The forces made dominant under the SPDC retain considerable influence to either undermine reform or steer it in their own interests.

Regional army commanders and other elements of the borderlands' "emerging political complexes" remain the principal power-brokers in Myanmar's minority states. Given that the threat of Myanmar's disintegration has repeatedly prompted military intervention in politics, the army is likely to continue to shape profoundly the central government's approach to the borderlands. Although the SPDC's strategy diminished this threat, armed conflict continues in Kachin and Karen states, where regional commanders have twice disobeyed executive ceasefire orders. Five ceasefires concluded elsewhere also remain fragile. A state of emergency was also declared in Rakhine state following communal violence between Muslims and Buddhists in June 2012, implying effective martial law.⁴ Reflecting the army's central role in the borderlands, ethnic-minority leaders complain that "political liberalisation undertaken by the new administration has not yet affected areas under their control" (Kyaw Yin Hlaing 2012, 213). In many areas, the state also relies heavily on the co-operation of authoritarian ceasefire group leaders; how far they are willing to implement reforms that threaten their interests remains to be seen. Reforms may be selectively embraced in ways that favour dominant groups. *The Irrawaddy* (May 15, 2012) reports, for example, that "land theft appears to be increasing as state agencies and powerfully placed domestic firms position themselves to welcome foreign investment,"

including those linked to the military, top crony capitalists and Chinese investors. All this suggests that reformers in Nay Pyi Taw have only a weak grip over affairs in the borderlands and that *de facto* power remains with the forces involved in “emerging political complexes.”

The forces with which reformers are compelled to partner when pursuing durable peace and reconciliation in the borderlands also reflect prevailing distributions of wealth and power. To bypass unreliable army and state personnel, Thein Sein has principally used his reformist minister of railways, Aung Min, to spearhead talks with minority groups. However, he was also forced to work through Aung Thang, a highly conservative ex-general and former industry minister who had cultivated major cronies – including his own sons – operating in the borderlands, and who became head of the parliamentary Union Level Peace Committee following his election as a USDP MP (*Irrawaddy*, May 11, 2012). Aung Thang was sidelined in May 2012, but Thein Sein himself has been forced to assume leadership of the central Committee, illustrating the shortage of committed reformers. Regional army commanders meanwhile sit on the various working committees, confirming their continued centrality. The president has also relied directly on crony businesspeople to facilitate peace negotiations. The Dawei Princess Company has facilitated and bankrolled talks with the Karen National Union; it has substantial mining and logging interests in areas they control, and is involved in a US\$60 billion Thai-backed infrastructure project spanning Karen territory. Similarly, Yup Zaw Hkawng of Jadeland Co., a major Kachin logging and jade-mining firm, has facilitated talks with the KIO (ICG 2012a, 16). These businesses – which partly comprise the “political complexes” in their areas – clearly wish to restore stability favourable to their commercial interests. Consequently, even if the reformers successfully pacify the borderlands, they may scarcely alter power relations on the ground.

This point is a useful reminder that struggles over the reform process occur not just at the level of policy making but also policy implementation. This is true even in Nay Pyi Taw, let alone the borderlands. Key ministries, like Industry I and Myanmar Industrial Development, which operate rent-seeking SEEs, “can be expected to offer stiff resistance to reforms.” Even when new laws are enacted they must “be interpreted by numerous ministries and government departments who will add their own layers of rules and regulations ... [This may generate] even more rent seeking as ‘exemptions’ granted by officials become even more necessary for business survival” (Larkin 2012, 43, 45–46, 58). Furthermore, years of political purges, inadequate funding and endemic corruption have produced a generally weak and inept bureaucracy heavily susceptible to influence by powerful non-state actors. As the ICG (2012a, 7; 2012b, 11–12) notes, the formal process of reform – the issuing of new laws and regulations – is now running well ahead of the reformers’ practical capacity to implement them through the state apparatus.

The likelihood of corruption undermining reform is intensified by the fact that a cronyist business elite, fostered by earlier state practices, now span the state and the economy. Prior to the 2010 elections, the regime recruited around 100 cronies to run as USDP candidates; many are now ensconced in parliament (*Newsweek*, November 15, 2010). In borderlands areas, local militia-commanders-turned-businessmen and drugs barons have been elected under the USDP banner (TNI 2011, 75; Meehan 2011, 398). Unsurprisingly, given the lack of alternative sources of finance, other parties also depend on business funding. The largest opposition party to participate in 2010 – the National Democratic Force (NDF), an NLD splinter group – was bankrolled by fisheries magnate

Hla Maung Shwe, vice-president of business-led NGO Myanmar Egress. The resulting controversy over “crony funds” split the opposition alliance (*Mizzima*, October 14, 2010). The NLD’s 2012 by-election campaign was also reportedly financed by business contributions.

Unsurprisingly, the legislative progress of reform has reflected this political economy context, involving struggles between different economic interests. Reflecting struggles in the borderlands, debates over new land laws “pitt[ed] businessmen-cum-politicians with vested interests in agribusiness, led by the newly-elected MP Htay Myint of Yuzana Company with his oil palm monopoly, against a handful of leaders representing ethnic political parties” (TNI 2011, 33). According to the Asian Legal Resources Centre (2012), the resultant Farmland Act, which empowers state agencies to allocate land and facilitates long private leases, enables “an epidemic of land grabbing.” Myanmar risks “going down the path of Cambodia, where land grabbing is so rife and the political and economic systems so heavily bound up in the state-sponsored theft of land that it is too late for the international community to do anything effective to stop it.” Protracted struggles also occurred over the Foreign Investment Bill. Responding to business lobbying, lower-house MPs inserted numerous clauses to protect domestic businesses from competition and funnel foreign investment into minority joint ventures with established local firms (*Reuters*, August 29, 2012). The president vetoed the bill and an amended version was passed in November 2012 which superficially conceded most points. However, it retained very ambiguous language and various concessions must now be interpreted through enabling regulations issued by ministries, which creates a further access point for business lobbying. Reflecting on such developments, the ICG (2012a, 11) concedes that “Myanmar will not be immune to the region’s money politics.” Meanwhile, amidst this inter-elite rivalry, the smaller, pro-democracy parties are largely marginalised. All 56 bills proposed by the NDF, for example, have been rejected (ALTSEAN-Burma 2012, 16).

Struggles over the reform process also take the form of constitutional wrangling. Executive-based reformers have tried to insulate their agenda from conservatives by limiting parliament’s role. For example, the presidency secured a constitutional court ruling that only it could initiate legislation. Parliament fought back by creating committees to scrutinise the executive and voting to impeach all members of the constitutional court, precipitating their resignation. Given the political economy context that lies behind these struggles, one should not necessarily suppose that parliament asserting itself against the executive by talking up “democracy” means that “the positions of liberal officials [are being] consolidated” (Kyaw Yin Hlaing 2012, 210). Democratisation need not yield liberalisation: it depends on the social forces to which it gives vent. As we have seen in other late-developing countries, including elsewhere in Southeast Asia, these forces are frequently illiberal.

Importantly, the continued influence of an illiberal business class does not simply stem from instrumental control of parliamentary seats, which could change at the next election, but their structural dominance in the economy. The state remains reliant on business for large parts of its revenue, the operation of extractive industries and, as we have seen, some aspects of policy implementation. The leading cronies, in particular, are so dominant in terms of market share, access to capital and human resources that their co-operation is seen as vital for Myanmar’s economic growth. As the head of one business association remarks, “Myanmar needs some cronies. Myanmar is fifty years closed ... so only cronies

got the chance. Their money, their effort is needed by the country” (interview with Wah Wah Tun, President, Myanmar Women’s Entrepreneurial Association, July 26, 2012, Yangon). Four leading cronies – Tay Za, Win Aung, Aung Ko Win and Nay Aung – joined Thein Sein’s business delegation to Japan in April 2012, reflecting the crony-conglomerates’ continued economic centrality as the only firms large enough to conduct business internationally. Even in Larkin’s (2012, 46) most optimistic scenario, the country’s top conglomerates are assigned a “pivotal role” in leading SME development and mediating foreign investment.

The structural dominance of big business will likely secure the tycoons’ continued political influence regardless of parliamentary personalities and, as with the military, this will impose broad limits on the progress of reform. As Larkin (2012, 46) concedes, the owners of leading conglomerates “are important enough to secure access to the power salons of Nay Pyi Taw under almost all scenarios.” They may not enjoy close relations with Thein Sein, but they have cultivated close relations with other ex-military figures and sector-specific ministries over many years. As the wrangling over the Foreign Investment Bill showed, business can influence MPs from outside parliament. The NDF imbroglio illustrates the impoverished political parties’ reliance on business funding. Their structural position is such that any serious attempt to probe the origins of cronies’ wealth or to dismantle their private monopolies and cartels, still less to expropriate their ill-gotten gains, would generate considerable economic disruption that could trigger social unrest. For example, criminal proceeds are so intermeshed with the country’s financial system that any real effort to tackle money-laundering would probably precipitate the collapse of the banking system, seriously damaging the wider economy. Thein Sein may have tilted away from the cronies, but he cannot move seriously against their interests without building a much stronger countervailing coalition of forces than he currently commands.

For now, rather than straightforwardly being undermined by the reform process, big business is in prime position to gain from it. Cronies and military-linked firms were the prime beneficiaries of a rush of privatisations during 2009–11 which converted state monopolies like ports and petroleum distribution into private monopolies or cartels (ALTSEAN-Burma 2011, 2–4). As we have already seen in relation to land and foreign investment, large-scale businesses have promoted sector-specific liberalisations from which they themselves stand to gain, whilst trying to limit liberalisation that harms their interests. Even when liberalisation is apparently “above board,” the cronies’ financial position means they are best-placed to benefit. For example, when the insurance industry was liberalised, the capital requirements shut out 20 smaller firms but the 12 approved licensees included subsidiaries of leading crony-conglomerates including those of Tay Za, Zaw Zaw and Steven Law (*Irrawaddy*, September 7, 2012). As UMFCI’s vice-president remarks, although everyone may now be free to bid for government contracts and licences, “the cronies still have advantages: financially, they are very strong; the newcomers, they are not” (interview with Zaw Win Min and Khine Khine Nwe, July 13, 2012). Those with established networks inside the state apparatus also retain a considerable advantage given that business permits and licences are still largely obtained through personal contacts (ICG 2012a, 5–6). Cronies have exploited such contacts to enter the media industry: Tay Za now owns two weekly newspapers, whilst Kyaw Win has established Myanmar’s second-only private television service, Skynet (interview with Thiha Saw, Editor, *Myanmar Dana*, July 24, 2012, Yangon). The situation is similar with regard to financial services. Of four private banks newly-licensed to handle overseas

remittances, three belong to leading cronies: Tay Za's Asia Green Development Bank, Aung Ko Win's Kanbawza Bank, and Zaw Zaw's Ayeyawady Bank (*New Light of Myanmar*, January 31, 2012). The cronies' size, resources and connections also position them to partner with foreign firms as the country admits more foreign investment. For example, Japan's 7-Eleven has signed a deal with Zaykabar Company, owned by crony businessman and USDP MP Khin Shwe, to open convenience stores, whilst Singapore's Aussino Group has partnered with Zaw Zaw to run privatised petrol stations (*Mizzima*, June 12, 2012; *Reuters*, June 19, 2012).

Naturally, gaining from liberalisation requires adjustments of strategy, and there will doubtless be some winners and losers. Some of the old methods by which cronies prospered have been dismantled by reformers and others may be politically unfeasible. For example, the abolition of the military-dominated Trade Policy Council and associated trade permits has terminated the scam of obtaining scarce import licences and re-selling imported goods at massively inflated prices. Although cronies were still receiving big construction contracts in 2010 and privatised state assets well into 2011, future deals may be more even-handed. The point is not that "business as usual" prevails, but that earlier regime strategies have created state-linked business empires that, with adjustments of approach, can remain dominant and even be boosted by "reform." On the evidence so far, it seems misguided to think that Myanmar's tycoons will not use their wealth and connections to secure advantages against rivals and instead promote equal competition and the rule of law. This scenario is based on notions of capitalist interests and strategy that seem idealised even in a Western context. Furthermore, this has not occurred anywhere else in Southeast Asia.⁵

It has alternatively been suggested that parliamentary or media outcry against any "rent-seeking" will force crony capitalists and state authorities to change. Given the influence of business and the weakness of opposition parties in parliament, the former seems questionable. As for the media, censorship has eased somewhat, and a new Media Law is being drafted with journalists' input. However, considerable legal restrictions on press freedom remain. For example, two weekly journals' licences to publish were suspended in June 2011 after exposing government corruption, and their editor is now being sued for defamation (*Asian Correspondent*, September 20, 2012). In June 2012, another journal's licence was suspended and its editor arrested on serious charges, including sedition, for publishing photographs which had sparked unrest in Arakan state; he was released only after a bail payment of 400 million kyats (US\$460,000), a colossal sum for a small media firm (*Myanmar Times*, July 2–8, 2012). Similarly, opposition politicians who accuse government officials of corruption have found themselves prosecuted for defamation and incitement (*Irrawaddy*, November 23, 2012). Such cases encourage self-censorship and create a widespread chilling effect. Moreover, even without state censorship, patterns of ownership and control determine the media's practical freedom. As one financial magazine editor observes, "cronies have begun to creep into the market" and smaller operators cannot compete with them financially or in terms of their ability to acquire licences. Cronies may even be willing to run media at a loss: "this is not about money, it is about media influence ... Now it can be freer, the media may have a lot of influence on government, business, politics, so they must have a foothold in this sector" (interview with Thiha Saw, July 24, 2012). Rather than opposing rent-seeking in general, media – and perhaps parliamentary – debates may instead express struggles over the spoils of reform. While some tycoons and market liberalisations have been attacked in the press,

according to a leading economist and former senior government official, “even those who are attacking the cronies are themselves cronies” (Interview with Khin Maung Nyo, July 11, 2012). For example, Eleven Media Group has attacked Skynet’s television monopoly, yet also criticised the liberalisation of car imports. This inconsistency is due to Eleven’s desire to expand its media market share, whilst defending the group’s other interests in vehicle sales. The complex business interests behind Myanmar’s handful of leading media groups may make the press a fickle watchdog of market liberalism.

From a critical political economy perspective, then, optimistic assessments of Myanmar’s reform trajectory are cast into doubt. The forces and power relations established through the military regime’s political and economic strategies remain in play and are already shaping the new dispensation. This influence is now mediated differently due to institutional change, compelling some dominant groups to change strategy. Cronies, in particular, are having to re-organise themselves through parliament, adopt techniques of “money politics,” and reposition their businesses for a somewhat more competitive environment. Yet, they are also seeking – in some cases quite successfully – to shape the reform trajectory in their own interests. The pace and extent of reform is being determined by their ongoing struggles with the reformers, within, across and outside state apparatuses.

A Cambodian Future?

Finally, we turn to investigate the possibility that Myanmar’s trajectory could be similar to that of post-communist Cambodia. This is necessarily a highly speculative analysis since much is contingent upon ongoing, dimly-understood processes. Cambodia and Myanmar have commonalities, notably their state-managed transition to capitalism and democracy, a dominant party partly intermeshed with state apparatuses, a partial fusion between business and political elites, and natural resources at the centre of their economies. However, whilst Cambodia’s Prime Minister Hun Sen has successfully built a dominant-party system that has essentially defeated all challengers, this process is far from complete in Myanmar, providing some reasons for hope. The outcome will be contingent on future social conflict, and there is the potential for a more progressive coalition to be formed. Yet formidable barriers emanate from the structural power relations inherited from the past, the weaknesses of opposition forces and strategies, and international practices.

Cambodia’s post-communist trajectory has seen the consolidation of a dominant party system, in which the CPP enjoys unrivalled power, under conditions comparable to Myanmar’s. In the 1980s, Cambodia was similarly boycotted and isolated by Western powers and, in response to cuts in Soviet aid in 1986, the government pursued a state-managed transition to capitalism. This involved privatising state assets into the hands of state cadres and their allies, and the patronage networks thereby established became the basis for the CPP (Hughes 2003). In 1993, a UN state-building intervention implemented a political settlement to Cambodia’s long-running civil war and oversaw a transition to electoral democracy. The CPP did not win the elections outright but was forced to govern in coalition with FUNCINPEC, a Western-backed guerrilla-movement-cum-party led by the son of Cambodia’s restored monarch, Sihanouk. However, the CPP enjoyed structural advantages through its interpenetration with the bureaucracy and army, its business interests, and, via the state, ample patronage resources and coercive capacities.

The CPP swiftly dominated rural areas, dispensing development projects to buy local support, co-opting headmen and coercing opponents. Nationally, the CPP used Cambodia's natural resources, particularly its forests, to construct a vast patronage network spanning the party and state apparatus (Global Witness 2007). Notwithstanding a major political crisis from 1997–99, which saw foreign aid suspended and serious international pressure on the CPP, FUNCINPEC was gradually outmanoeuvred. Repeated splits and defections reduced it to a negligible electoral force. Today's main opposition Sam Rainsy Party – which maintains strong support in urban areas, where CPP methods are less effective – is persistently harassed by state agencies. Its leader has been repeatedly prosecuted by the highly corrupt judicial system, forcing him into near-permanent exile. The CPP's rural dominance now secures it a large majority of parliamentary seats, permitting it to rule alone and exercise total hegemony over the state. All this was accomplished within formally democratic institutions, and amidst two decades of “good governance” programmes and aid from international donors.

Myanmar's structural similarities with Cambodia make possible a similar, albeit not identical, trajectory. A state-managed transition to capitalism has concentrated significant economic power in the hands of state-linked interests. The USDP exhibits a fusion of political, state and business power and, thanks to the rigged 2010 elections, is the dominant party in both chambers of the national parliament and all but one of the regional assemblies. Unlike the CPP, it does not need a coalition partner and is unencumbered by a Western state-building intervention. The USDP's relationship is even closer to the army than the CPP given its large ex-military membership. The USDP itself commands substantial business interests, as do many of its members, providing a potential patronage base. This could be enhanced through the use of government permits and licences, particularly for the exploitation of Myanmar's plentiful natural resources. USDP candidates have rallied voters through promises of local development spending, and parliamentary questions to ministers are dominated by funding requests for local projects, suggesting a strategy of pork and patronage. Much of this suggests that the USDP could replicate the CPP's exploits.

However, several important factors specific to Myanmar make this task far from straightforward. First, whereas the military, the cronies and their proxies are widely despised, Aung San Suu Kyi enjoys tremendous popularity. In the 2012 by-elections, the NLD swept the board with two-thirds of the vote, while the USDP won just 27%. If this was replicated in 2015, the USDP would lose office. However, this outcome is uncertain. FUNCINPEC enjoyed widespread support thanks to the Cambodian peasantry's reverence for Sihanouk, yet it was still outmanoeuvred. More importantly, we cannot be sure that the conditions surrounding the 2012 by-election will be repeated in 2015. The by-election was deliberately manufactured by Thein Sein to create an opportunity to bring the NLD inside the system and encourage Western countries to lift sanctions. To enable this, the USDP and its state allies were restrained from using the strategies of patronage and coercion they deployed in 2010. USDP elites seem unlikely to commit collective political suicide by replicating this in 2015. It is also unclear whether the army would tolerate an NLD government with a large majority taking office. If dominant forces return their earlier strategies, the NLD's victory is not assured. Even if the NLD wins, it will still confront a military bloc in parliament and other conservative forces within and beyond the state apparatus.

As reformists will emphasise in their struggle to ensure a clean election in 2015, serious electoral malfeasance risks a Western backlash. By then, however, Western economic interests in Myanmar may preclude a return to sanctions and isolation. In any case, appetite for this policy had waned considerably even prior to the 2010 elections. NDF leaders were persuaded to participate in those polls because a US diplomat informed them that, even if they were not free and fair, Washington would none the less recognise and work with the resultant government within six months (interview with Khin Maung Swe, NDF chair, July 4, 2012, Yangon). Notably, aside from 1997–99, Western donors have remained engaged in Cambodia throughout CPP rule, fully aware of the highly corrupt and authoritarian style of Hun Sen’s administration, yet vainly hoping for change.

Another factor which may see Myanmar avoid Cambodia’s trajectory is that USDP leaders may not be creating an effective party machine. This is critical because structural factors only condition possibilities; it takes human agency and struggle to determine outcomes. Dominant parties do not build themselves. The generals’ quest to insulate the state from party politics, which they see as inherently unruly and centrifugal, has created a constitution which separates both executive and legislative power and the executive from political parties. Consequently, no executive officers may legally participate in “party activities.” This is unlike Cambodia, where legislative, executive and party power are all controlled by Hun Sen, permitting the fashioning of a coherent power bloc. Of course, Thein Sein (who formally remains the USDP chair) might have helped build the USDP machine behind the scenes, ignoring official rules. Rather than becoming a party-based strongman, however, he has indicated his intention to step down in 2015 (due to his poor health), and has apparently devoted little effort to party-building. Contrariwise, given his tilt towards the reformists, he has struggled to assert the “de-politicised” executive’s supremacy over parliament and, by extension, the USDP. The counter-positioning of parliamentary speaker Shwe Mann – who is the USDP’s acting chair – may reflect moves to succeed Thein Sein using the party as a powerbase. However, he and other leaders lack experience of machine politics and whether they are actually providing adequate strategic leadership is unclear. Far more research is required on this question.

More optimistic analysts suggest that the USDP has been “sidelined,” reporting that its oligarchs are unwilling to finance the creation of a “political empire” (ICG 2012a, 13). If this is true, the USDP seems unlikely to survive as a dominant party, and Myanmar’s trajectory may be closer to post-Suharto Indonesia, where Golkar lost its pre-eminent position and jostled for position with several parties. Importantly, this did not mean that the oligarchic elite cultivated under Suharto simply vanished. Rather, their once cohesive bloc fragmented and different parties became “Trojan horses” for various oligarchic factions (Tan 2006). This is a reminder that any government in Myanmar – including one led by the NLD – will face similar structural constraints emanating from the political economy. Interestingly, some cronies appear to be hedging their bets ahead of 2015 by rehabilitating their public image through philanthropy and cultivating closer relations with Aung San Suu Kyi, with businesses even bankrolling the NLD’s by-election campaign (ICG 2012a, 10). The spectre of “money politics” will remain even if the USDP flounders.

From a Gramscian perspective, moderating the influence of dominant forces and pursuing more progressive policies would involve constructing a broader or counter-vailing socio-political coalition; but there are formidable barriers to doing this in Myanmar. The prospective constituents of a more “pro-poor” coalition might include militant monks, landless and small farmers battling land grabs, and urban workers, some

of whom have recently formed over 180 unions and won significant pay increases. Unfortunately, the legacy of decades of BSPP and military rule is that, as elsewhere in Southeast Asia, such popular forces have been systematically disorganised and weakened. A tiny handful of activists have only just begun to organise farmers against land grabs. The brutal suppression of a three-month occupation of the Monya mine (a joint venture between the military-owned Myanmar Economic Holdings and Chinese investors) in November 2012 was a stark indication of the challenges they face (*Al-Jazeera*, November 29, 2012). The leaders of solidarity protests in Rangoon were also charged with “incitement to unrest,” one of many examples of new laws apparently “liberalising” protest actually being used to curtail it (see ALTSEAN-Burma 2012, 18). Unions are in their infancy and are highly fragmented, operating mostly at the enterprise level. Many business-owners are hostile to organised labour, and state employers have dispersed workers seeking to organise unions (*Irrawaddy*, November 30, 2012). Furthermore, farmers and workers in what is Asia’s poorest country are typically preoccupied with their daily survival and, being impoverished, have few resources necessary for effective self-organisation.

Sadly, the NLD is doing little to help. One of its leaders, Win Tin, strongly criticised the ‘88 Generation of Students for working with unions, arguing this should be left to the NLD – but the party has still done little on its own account. This reflects the NLD’s lack of strategic thinking and any concrete policy platform, which itself stems from the dominance of its rigid, centralist and gerontocratic central committee. These shortcomings are not openly discussed because any criticism of Aung San Suu Kyi’s leadership is considered beyond the pale. By constraining itself to statements of principle, the NLD continues largely as a symbolic, elite opposition party – albeit one with a popular figure-head – rather than the vanguard of a counter-hegemonic bloc driving a new agenda. Although the ‘88 Generation is reportedly considering launching its own party, this would, of course, further fragment the opposition.

Other barriers to pro-poor mobilisation stem from international factors. Many political and civil society activists interviewed argue that, by constraining the country’s development, Western sanctions intensified the struggle for survival, making it harder for Myanmar’s poorest to participate in political struggle. Ironically, the sector hardest hit by US sanctions was the private-sector garments industry, where labour militancy was strongest; up to 340,000 urban workers lost their jobs, mostly returning to their villages, emigrating or allegedly becoming sex workers (interview with Zaw Win Min and Khine Khine Nwe, July 13, 2012). The foreign investment which did enter Myanmar, concentrated in the borderlands, empowered illiberal elites while fuelling land grabs and the marginalisation of small farmers. Unless post-sanctions Western investment is moderated by codes of conduct ensuring that local communities benefit (which seems unlikely), it could well accelerate this tendency. A further risk is that Western development and “civil society capacity building” interventions will, perhaps inadvertently, neuter emergent pro-poor organisations. This occurred in Cambodia when the International Labour Organisation directed garment workers’ unions to “professionalise” and adopt a “partnership” approach towards employers and government instead of a politicised, militant one. This effectively neutered the unions, depriving the opposition of a potentially vibrant urban base (Hughes 2007).

Myanmar thus shares important characteristics with Cambodia that could see it following a similar trajectory. The balance of social forces – arising from state-managed

transitions to capitalism and democracy – is similar in both countries, creating the structural conditions for a dominant-party system. However, at the level of political struggle, several important factors apparently mitigate against this trajectory, providing a more hopeful outlook. Yet key structural constraints, emanating from the political economy and social power relations, will confront any government and hamper progressive political organising. Shifting these constraints involves surmounting formidable social, economic and political obstacles.

Conclusion

The primary goal of this article has been to survey key developments in Myanmar's political economy over the previous two decades and explore their implications for the country's current reform era. From a "Murdoch school" perspective, the structural constraints emanating from the political economy and wider social power relations, and the struggles between social forces for power and control over resources, shape the extent of "reform" and its actual implementation. In Myanmar, key structural constraints include the continued power of the military, the politico-military-business nexuses of the borderlands' "political complexes," and state-facilitated crony capitalism. These power relations place limits on both the formulation and implementation of reform. The forces implicated in these relationships are also engaged in struggles with reformers over the direction and pace of reform, seeking to steer it in their interests. These struggles are being played out within, across and outside state apparatuses.

A secondary goal of the article was to emphasise changes in Myanmar's political economy rather than stagnation, and to situate its development within broader regional trends. As in other Southeast Asian countries, the state has facilitated the emergence of a significant "tycoon" class. The legacy of BSPP rule and the constraints of military strategy mean this class is considerably weaker than most of its contemporary counterparts. Although crony capitalists have now entered the political field for the first time, their longstanding dependence on the state has given them little experience of machine politics and it remains to be seen whether they can consolidate an instrumental control of the state. Another commonality, again stemming from both BSPP and military rule, is the systematic weakness and disorganisation of other social forces, including labour, the peasantry, minority groups and the middle class, making it difficult to challenge the structural power of dominant forces.

Furthermore, as elsewhere in Southeast Asia, Myanmar's mode of capitalist development has been highly rapacious and coercive. Myanmar is essentially experiencing the early phases of primitive accumulation. It is further "behind" in this respect than many regional economies, and the process has perhaps been intensified by Western sanctions which, by depriving the country of alternative development pathways, arguably drove the state to grab whatever resources it could and embrace highly exploitative forms of foreign investment. Nonetheless, the land grabs and abuses associated with deforestation, agribusiness, mining and infrastructure development are paralleled by similar events in countries like Indonesia and Cambodia, and they are driven by similar forces: rising demand for commodities and flows of foreign capital. Finally, that state power in Myanmar primarily serves a narrow social constituency is more apparent than is the case elsewhere. Unlike the region's more advanced capitalist states, it has not yet developed party machines that at least deliver some benefits to subordinated groups and generate "performance

legitimacy” for incumbent elites, let alone the sophisticated modes of technocratic participation that deflect popular participation away from challenging entrenched interests. Although this may change over time, for now, the threat or use of coercion remains an important feature of governance. Myanmar may be transforming into a more “normal” Southeast Asian state, and many will rightly see this as an improvement on direct military dictatorship; but regional “normality” still implies many constraints on truly emancipatory politics.

Acknowledgement

The research for this article was funded by an Economic and Social Research Council grant (RES-061-25-0500). The author is very grateful to Zaw Nay Aung and Kyaw Thu Mya Han for excellent research assistance and to Khin Maung Nyo and Matthew Sheader for their help in Yangon.

Notes

- ¹ On ethnicity in general, see Walton (2013).
- ² This concept was first applied to Myanmar by Patrick Meehan (2011).
- ³ Two-thirds of Myanmar’s total foreign investment is concentrated in the resource-rich borderlands (TNI 2011, 12).
- ⁴ Lack of sympathy for and even racist hostility towards the long-persecuted Muslim “Rohingyas” is widespread among ethnic Barmars, including among leading pro-democracy activists; Aung San Suu Kyi has also declined to “take sides.” Although the issue is complex, these reactions remind us that even pro-democracy forces may be illiberal.
- ⁵ Only Singapore’s economy exhibits robust “rule of law,” and this is due to the specific interests of state capitalists, not the demands of private enterprise. I owe this point to Garry Rodan.

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