Burma/Myanmar: The Role of The Military in the Economy

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1. INTRODUCTION

Myanmar is in economic, social, and institutional crises. A quagmire of quiet emergencies is made more poignant because they are out of the international public's ken, because of the potential richness of its natural resources, and its absence from the world's radar screen. Myanmar has one of the lowest per capita incomes in Asia. It is in the grip of hyper-inflation; foreign investment is stagnant, salaries woefully inadequate to meet minimal living costs, and poverty according to the World Bank is about 22 per cent of the population with another equal percentage of the diverse peoples living just at the poverty line. Some areas are on the verge of famine, theretofore unknown in that country. Social institutions are in decay, even free-fall. Health services, always meager, have declined; international reports rate Myanmar's health services the second worst in the world. Half of primary school-age children either do not finish even that level of education or do not go to school. Universities have been closed sporadically for long periods, and civil society has virtually been eliminated. One percent of the population, an educated elite, have fled the country. There is latent political unrest, and political dialogue with the harassed opposition is in its infancy. A significant number of minority peoples have been, or currently are, in revolt against the unitary state commanded and administered by the military, who not only commandeer power but whose pervasive activities absorb perhaps half of the state's annual budget.

Yet stripped of its strident rhetoric and endless repetition in the press and on billboards in Burmese and English, the aims set forth by the military government of the Union of Myanmar[50] seem appropriate and unobjectionable. The solidity of the Union and the protection of national sovereignty form the basis of the military's 'Three Main National Causes.' These hortatory charges to the public under the military State Law and Order Restoration Council (SLORC, 1988-1997) have been supplemented by twelve political, economic, and social objectives under the continuing military leadership of the State Peace and Development Council (SPDC, 1997-present). They include law and order under a new (as yet unannounced) constitution[51], development of a market-oriented economic system and

[50] In 1989, the military government that came to power through a coup on September 18, 1988 changed the name of the state from Burma to Myanmar, its formal printed form. This, those in opposition to the military refused to accept, and the choice of one or another became a hallmark of political persuasion. The United Nations uses Myanmar, the U.S. employs Burma. Other names have been changed as well; e.g., Rangoon to Yangon. In this paper, each is used without political bias–Myanmar for the state since 1988, Burma for previous references, Burmese as an adjective and for a citizen of the Union, and Burman, almost all of whom are Buddhist, for a member of the majority ethnic-linguistic group in the country.

[51] The military daily proclaim in the press that it is the duty of every citizen to support the development of a new constitution, yet the process has been stalled for almost a decade. Many believe that the military has

stress on agriculture, better health and education and wider access to these services, and the protection of the cultural heritage and morality of the entire country. Some of these ends have been included in the Third Five-Year Plan (fiscal years 2001-2002 to 2005-2006[52]), which emphasizes education, health, and rural development.

These ends, virtually unexceptional, might be included in the introduction to the national plans of many governments. But especially important in the Myanmar context is the military's continuous call for national unity in a society extremely ethnically diverse in which one-third of its population are non-Burman and many non-Buddhist, and in which a significant percentage of these groups have been in active rebellion against the state, or are quiescent under fragile cease-fires under which they retain their arms.

Yet these rational objectives belie both the reality of the depth of the problems and the means by which the ruling military SPDC (State Peace and Development Council) have sought to achieve these articulated ends.[53] The even more strident warnings to the citizenry to beware of those and their 'minions' attempting to split the state or who are 'destructive' or are 'traitorous elements' illustrate the perceived fears and vulnerability of the government and its continuing demands for orthodoxy despite its apparent strength and control over the sources of coercive power within the country.

Yet this not an essay on the state of the Burmese economy, as such studies have been done by the IMF, World Bank, and the Asian Development Bank, among others, nor on social or political structures. It is, rather, a study of the military's present and potential diverse roles in that economy. Previous studies have examined such factors as macro-economic policies and the need for reform, poverty problems, agriculture, and other aspects of the economy, but none have focused on the military as an economic institution, and the institutional and personal means through which their power is manifest in the economy, and what is likely to remain when the military finally 'civilianizes' its rule, which it is likely to do over time.

2. THE STATE AND MILITARY IN THE ECONOMY

The traditional role of the state in the Burmese economy has been pervasive in the pre-colonial era, and since independence. The laissez-faire colonial period (1886-1947) could be considered an interregnum in a *dirigiste* state. Whether in adhering to a rigid form of state socialism (1963-1988), or a moderate, civilian-run socialism (1948-58, 1960-62), or the present attempt to open to the private sector (1988-), one galvanizing element of political legitimacy on the part of any modern Burmese government has been the need to demonstrate that the economic structure of the state was no longer, as in the colonial era, in the hands of foreigners – British colonials for major industries, those from the Indian subcontinent for much of trading and for the supply of credit, and the Chinese community

completed their preferred version, and that this is the only document that will be allowed to emerge from the 'on again off again' National Convention charged with drawing up a new constitution.

[52] The Burmese fiscal year begins April 1 and ends March 30.

[53] On assuming power, the military leaders formed the State Law and Order Development Council (SLORC), but the name, and some of the secondary leaders, were changed in 1997 to the State Peace and Development Council (SPDC) to reflect that order had been restored and development was to be pursued. The government may have come to realize that the term SLORC had a sinister ring to some foreigners.

for other mid-level economic activities.[54] Under British colonialism, exacerbated because Burma was governed from India until 1937, the economy was under foreign control aside from petty trading in the bazaars. The communist party went into overt rebellion on independence because it felt that the socialism advocated by the civilian government of that era was not sufficiently doctrinaire. After the coup of 1962, the military, led by General Ne Win, advocated the rigid socialism of the Burma Socialist Programme Party (BSPP), which became the only legal party under the constitution of 1974[55]. Although this policy (in contrast to most of the state-owned economic enterprises that still remain in government hands–see Appendix I) was dismantled in 1988, the *dirigiste* attitude of the state toward the private sector, either indigenous or foreign, remains apparent. The continuing mistrust of the private sector stemmed from previous foreign control, perhaps rationalized that business and trading profits were a form of greed and thus un-Buddhistic, as former civilian Prime Minister U Nu is said to have remarked, however much this theory is undercut by the private sector advances in other Buddhist societies.

The military's involvement in the direct management of economic enterprises may be an outgrowth of its conception of its own self-perceived role as the essential positive social force and guardian of the state, as well as its distinct mistrust of civilian politicians and their competence. The *tatmadaw* (armed forces) regard potential foreign domination and insecurity neither simply nor essentially as a matter of protecting boundaries, but rather that the dangers to the state have generally been internal–whether from minority disaffection or insurrections or from foreign economic domination. The need to control such activities thus becomes an element in the national security equation as perceived by state actors. When such an attitude is complemented by the self-identified need to protect state sovereignty, it becomes a strong rationale for internal control.

Thus, operating in the national interests as defined by the military, economic institutions and economic activities simply serve to ensure domination by the group – the *tatmadaw* – that is singularly competent, in their own estimation, to guarantee the continued unity and efficacy of the state. The military have come to recognize that the continuation of their power is directly related to the economy–the urban costs of consumer necessities, such as rice and cooking oil, especially in Rangoon, already markedly increased through inflation. The military's intervention into the economy is thus in part to ensure no untoward, uncontrollable economic discontent develops, as in 1988, that could lead to political chaos.

These problems have become more acute because of internal and external factors. The military, since independence in 1948, have been in overt power 45 years–from 1958-1960, and since 1962.[56] In that latter period, under the leadership of the military-mandated Burma Socialist Programme Party (BSPP,1962-1988), the military managed to transform what, in

[54] The last complete census until the BSPP period was in 1931. The Chinese population was listed as 194,000 (1.3 per cent), the Indian population 1,018,000 (7.0 per cent) and Indo-Burman 182,000 (Saito and Lee Kin Kiong 1999:15). 'Foreigners' registered in 1993 were only 110,597, of whom 33,760 were Indian, 4,071 Pakistani, and 58,149 Chinese. This grossly understates the ethnic divisions.

[55] For the period 1962-1980, see Steinberg (1981).

[56] During the civilian government (1948-58, 1960-62), the military were influential; commander of the armed forces, General Ne Win, was Minister of Defense and sometime Deputy Prime Minister, and it was the military that saved the state soon after its birth from a variety of ethnic and political rebellions.

natural resources and population/land ratio, should have been the wealthiest country in Southeast Asia to one of the poorest. Its opening to foreign investment in 1988 in the most important reform since 1962 was to redress that problem. A special fillip to investment, development, and legitimacy was also to come in July 1997, when Myanmar joined ASEAN (Association of Southeast Asian Nations–the ten countries of that region), and a major lift to the Burmese economy was expected from investment from such sources. Disappointment ensued. The Asian financial crisis of 1997 that blossomed the same month that Myanmar joined ASEAN, United States sanctions on new investments that same year,[57] alternative and more alluring sites for foreign direct investment, and a drop in expected tourist arrivals helped truncate the expectations that economic liberalization and the abandonment of 'The Burmese Way to Socialism' was to bring. Despite these external factors, internal military mismanagement of the economy ultimately and greatly contributed to its poor state.

The natural endowment of the country, one of the few before World War II that was an exporter of food and fuel,[58] has lulled its leadership into a belief that the well being of the people could be attained, if necessary, through autarchic self-reliance. It has become increasingly self-evident that this is no longer true. Population increases, poor economic policies and priorities, environmental degradation of natural resources, together with state expenditures on non-productive activities, have pauperized the country. In spite of increased access to education, standards have fallen, and real expenditures per student have declined due to inflation and as a diminished percentage of the national budget. Health expenditures per capita in real terms have decreased as well and are among the lowest in Asia.

Greater stress on improved infrastructure, the apparent hallmark of the military's rule, has not strengthened the economy in the short term, whatever positive effect it may have over the longer term, but instead may have contributed to inflation and what have become publicly unreported increases in the money supply. Rice consumption per capita has not grown, living standards for those on fixed incomes have deteriorated due to inflation as prices in the bazaar have risen some 15 times since 1988.[59] Subsidies to the urban population, and especially the military and the civil service, are required to maintain civil order. Pre-World War II standards of living took three decades (to 1975/76) to recover, but at the turn of the 21st century the burgeoning population as a whole did not seem economically better off than in that pre-war period (Steinberg 1981:77). At the same time, the military institutionally has insulated itself from many of the ills of the society through its sponsorship of schools, hospitals, housing, consumer outlets, and other facilities for its staff and their dependents. The *tatmadaw* (armed forces) have been accurately called a state within a state.

If the economic and social problems have become increasingly acute, the means by which the leadership of the state have planned to address them have become anachronistic and

[57] Earlier, following the coup of 1988, the U.S. closed its economic assistance program and instituted an arms sale embargo.

[58] Burma was the largest rice exporter in the world--3.123 million tons in 1940, and that figure has never since been equaled in that country, and shipped some $35 million in oil to India.

[59] Meticulous figures exist on essential foodstuffs from a single bazaar in Yangon over several decades. Personal interview, Yangon, June 2002.

counter-productive. So although the sweeping and positive publicly articulated objectives of the military leadership may be unexceptional, the sins of commission–the means employed to try to reach such worthy goals–and those of omission–the penchant for avoiding the economic, social, and political reforms bedeviling the state and necessary to fulfilment of articulated state ends–have created a crisis. This crisis is compounded because the future of the economy is inextricably intertwined with the political and social issues that must be considered if reality is to be addressed.

The internal crises in Myanmar also cannot be contained within that country, making internal issues of regional, even worldwide, concerns. Through the spread of refugees to both the east and west, itinerant labor movements, diseases such as HIV/AIDS and the expansion of illegal activities, especially narcotics worldwide and the trafficking in women, Myanmar has become a regional nexus of concern to all its neighbours. To claim that the internal affairs of the Burmese state should not be subject to international scrutiny simply because they are internal is no longer credible.

The present Burmese military did not come to power in 1988 de novo. Since independence, it has had a long history of domination of much of the society and its leadership experience has shaped many of its perceptions of its societal role, its actual capacities and potential performance, as well as its beliefs about foreign advice, intervention, and motivations. As Mark Twain is said to have remarked, if history does not repeat itself, it often rhymes.

The Military as 'Caretakers' (1958-1960)

The confidence of the military leadership in themselves has been augmented by their historical role in economic affairs that has fostered their vision of their own extensive capacities to deal with economic policy formulation and management of the state as a whole–the past has been prelude. The formative period in which these positive confidences were solidified was in the military 'caretaker government' period.

The political causes of the 'constitutional coup' that brought the military to power for a specified period in 1958 have been extensively studied and summarized elsewhere. The period, however, was characterized by a flurry of economic activities led by a military regime, albeit conceived of as temporary (initially for a six-month period that was extended to eighteen months), that had absolute power. These actions ranged from production to consumption.[60] The military was intent on lowering prices in the bazaars, which it did by simple fiat, ordering merchants, often non-Burmese, to control costs, and accusing them of price gouging. There was no appeal from their proclamations.

More important for its long-term implications and the formation of positive attitudes toward their capacity to manage economic institutions was the Defence Services Institute (DSI)–the transformation of what had been founded in 1951 as a type of military post-exchange to supply needed commodities to the troops; it became an economic behemoth–an empire that ran a wide range of economic enterprises. In 1958 it was registered under the Companies

[60] In specific cases, the past also seemed prologue. In 1958, the military moved 164,000 squatters from Rangoon to new satellite towns. In 1988, the military moved about half a million Rangoon dwellers to other new peripheral towns. This also occurred in Mandalay and other cities.

Act and was granted tax exemptions and exemption from import duties, giving it marked economic advantages of essentially a public corporation. It had access to key imports and foreign exchange, which it used for its own benefit. This was an extensive operation–an early example of a military-run conglomerate in which a broad and disparate variety of economic enterprises were managed. There were fourteen boards, comprised of 38 firms and five holding companies, which ranged from the international shipping company, the Five Star Lines (after the five stars in the Burmese flag at that time); the Ava Bank; Rowe department store (formerly British owned); restaurant, hotel, and tourist facilities; construction, transport; Rangoon Electronic Works; Ava House (bookstore and publishing); coal and coke supply; international and domestic trade–a variety of enterprises tied together only by their military management. The DSI had four objectives: development of the national economy; lowering of prices; expansion into new economic fields; and propagation of industrial and commercial knowledge (Steinberg 1981:17-18). It was called the largest and most powerful business concern in the country.[61] The military also began to publish a periodical, *Myawaddy*, and to support a newspaper, the *Guardian*, to convey its views to the public. Its editor, Dr. Maung Maung, became the only civilian president since the 1962 coup for a few weeks in 1988 before that coup.[62]

Although the military management of the state in that period had been praised by both foreign and domestic observers as purposeful and efficient, especially after the inept administration of the civilian government led by U Nu[63], it seems evident that there was never any cost accounting of the financial status and profitability of these enterprises. Some held monopoly positions in their economic niches, and others employed military personnel who were paid under military, not company, budgets.[64] The total resources of the state could be brought to bear on any economic activity that was of priority interest. These factors, together with the state's coercive power to control prices in the bazaar, were at least partly responsible for the successes of these enterprises.

More important today than whether these companies were truly profitable, was the degree of confidence that their operations inspired in the military; the *tatmadaw* believed it could indeed run complex economic organizations, and thus the economy of the country as a whole.[65] This was understandable. The military had a limited time frame in which to accomplish their goals, and they approach their tasks with complete dedication and enthusiasm, a great deal of

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61 See Selth (2002). In 1961 it was changed into the Burma Economic Development Corporation and assumed many other state-run businesses. It was finally nationalized in 1963, and as one writer, U Thaung, in 1990 observed, "The military government has beheaded its own stepson." Quoted in Selth, *op. cit*, Chapter 6, 'The Economic Dimension.'

62 There have been three military interventions in Burma: 1958, 1962, and 1988. Of 57 years of Burmese independence, the military have ruled for 45.

63 This military caretaker period was used at that time by political science theorists as an example of a rational, goal-oriented military government that was the hope of development in third-world states.

64 The use of military personnel in such enterprises as the Myanmar Economic Holdings Corporation has also not been included in the cost accounting of that organization. Personal Interview, Yangon, June 2002.

65 See the military-prepared volume *Is Trust Vindicated? A Chronicle of a Trust, Striving and Triumph. Being an Account of the Accomplishments of the Government of the Union of Burma: November 1, 1958-February 6, 1960* (Government of the Union of Burma 1960). The dust jacket had an illustration of Hercules cleaning out the Augean stables, graphically illustrating how the military perceived its role and accomplishments. In the 1950s the military also took over the administration of part of the Shan State as a means to counter Chinese Nationalist (Kuomintang) activities, providing them with experience in local governance.

competence as well given their limited administrative term, and an effective hierarchical military command structure giving them the capacity to implement their programs through their personnel in key positions throughout the administration. Transferring such transitory efficacy into permanent rewards proved to be of a different, and insuperable, order.

The Socialist Era (1962-1988)

The socialist era, the policies of which were a direct result of the whims of the military rulers of that time, was an unmitigated economic disaster. It was supposed to be a particular Burmese brand, the so-called 'Burmese Way to Socialism,' and not simply a foreign import. It was clearly an element in an exaggerated nationalism, which, as noted above, was the basis of the legitimacy of the socialist approach. But as one leading civilian politician said about the 'Burmese Way to Socialism,' the ideological base of the military regime, that because it was socialist it was good, but because it was Burmese it was better.

Following the early (1963) purge of the most influential military officer under General Ne Win, Brigadier Aung Gyi who was noted as an economic moderate, and his replacement by a doctrinaire hard-line socialist, Brigadier Tin Pe, and ideologue Kyaw Nyein, the state turned inward and nationalized indiscriminately some 15,000 private firms. The state was intent on building an industrial proletariat (in a state that had little industry) and in controlling virtually all economic activity of any significance.[66] At the same time it purged the administration of the civilian meritocratic bureaucratic elite who were the only civil servants capable of even attempting to run a centrally planned economy. In their place, the military substituted its own officer corps who were high on enthusiasm and in ordering activities, but low on economic competence. The result was a disaster in which even the leader of the country, General Ne Win, complained to his commanders that Burma in 1967, after only a few years into the rigid socialist era, could not feed itself–this in a country that had been the leading rice exporter in the world before World War II.

Even after the first Burma Socialist Programme Party (BSPP) congress in 1971, in which decisions were reached to abandon stress on industrial production and concentrate on agriculture, forest resources, fisheries, and mining (especially oil), the concept of socialism was not abandoned and the military did not slacken in their attempts to control the economy of the state. Multilateral and bilateral foreign aid agencies were invited in, but the basic economic control of the economy by the military did not abate. Foreign aid agencies were welcomed to choose from approved projects, but the government admitted that it could not coordinate assistance to projects involving more than one ministry[67]; thus leading to fragmentation of effort. There was no questioning of the socialist orientation policy of the government by foreign aid organizations at that time. Significant policy dialogue did not exist.

[66] The exception was agricultural land. Under the 1947 constitution, all land was the ultimate property of the state, and peasants could farm it at the sufferance of the government. In the BSPP period, party approval was required to deed the usufruct rights to land to heirs, and peasants had to adhere to state farming regulations or lose those rights. There were plans, however, to promote agricultural cooperatives, which never reached fruition.

[67] Personal interviews, Rangoon, 1979-1988.

The end of the socialist era came not with the coup of September 1988, nor even with the BSPP Congress of July 1988 at which Ne Win resigned from the chairmanship of the party, but from the slow imbalance of trade in the 1980s in which import prices of intermediate goods and spare parts increased but the export prices of Burmese commodities decreased, the gradual accumulation of foreign debt because of the strengthening of the Japanese yen (and about half the debt was in Japanese currency), the inane demonetization of much of the currency in September 1987, and finally the prompting of the Japanese in March 1988 that if the Burmese government did not economically reform in some significant but unspecified manner, Japan would have to reconsider its foreign assistance program, which at that time amounted to about half of all foreign aid.[68] Socialism, which had been the secular element that was to provide the military with political legitimacy, as Buddhism had been a critical element of U Nu's civilian legitimacy, had failed.

One ultimate cause of the demise of the military socialist government was economic, although the precipitating factor was an apolitical student riot and resulting deaths that cascaded into a generalized people's rebellion against military rule. On 5 September, 1987, General Ne Win, Chairman of the BSPP and the singular leader of state power, had demonetized perhaps 60 per cent of the currency by simply declaring all Burmese currency notes (*kyat*) over a certain value to be illegal with no possible redemption. This was the third, and most stringent, of demonetizations under the military since 1962. Fear of holding local currency resulted; farmers hoarded paddy forcing prices up in urban areas, and urban dwellers bought any possible staple rather than keeping cash. At the same time, the major overland trading posts with China became clear of insurgents and China itself was expanding its private sector. Smuggled Chinese goods swamped Burma, as consumers bought anything of inherent value, and destroyed Burmese light industrial production, which could not compete in price, quality, and in capacity as Burma's foreign exchange resources had been depleted and industrial materiel and spare parts were lacking.

Thus the military SLORC, which came to power in September 1988 in a coup to shore up the previously discredited military BSPP government that itself had initiated a coup, inherited an economic crisis that it attempted to resolve, but its efforts were insufficient.

The Military and the Economic Crisis

The SLORC, as it reminded the Burmese, ruled by decree, not law, and had complete command over those portions of the society that were under its physical control. It began by engaging in three major promising changes. After the brutal repression of the people's revolution in 1988, the first was the opening to both the indigenous and foreign private sectors with the passage of the Foreign Investment Act of 1988. Such an act had been discussed in the late 1950s but never promulgated, and if passed would likely have engendered considerable political debate in that charged nationalistic setting. As early as late 1988, the country opened itself to on-shore oil exploration by granting concessions to ten foreign companies and extracting from them substantial funds for simply signing the agreements. No previous independent government in Burma had let foreign oil firms on-shore, with the result that oil production, an indigenous industry from the pre-colonial era,

[68] Personal interview, Rangoon. 1988. Total Japanese aid through the coup of 1988 (including World War II reparations) amounted to $2.2 billion. See Steinberg (1993).

never developed the technological sophistication and production required to meet the expectations and plans of the BSPP government. Although the results of these explorations proved economically unsustainable, the precedent was set. To gain foreign exchange, Myanmar also negotiated a number of timber (mainly teak) and fisheries agreements, especially with Thai firms, that were charged with being environmentally devastating. As the Burma Communist Party along the China border collapsed in 1989 through internal dissension and opened more trading routes to China, increased smuggling took place even after the normalization of land-route trading.

The second was the decision to negotiate cease-fire arrangements with the multitude of ethnic insurgent groups along Myanmar's frontiers. In large part this effort was successful, with a number of economic and political consequences. It took immediate pressure off the military, opened a large portion of the country (although with small populations) to economic activities that could benefit the state treasury as a whole (e.g., mining, timber extraction, etc.), and gave the government more opportunity to suppress the narcotics trade. At the same time, it imposed financial burdens on the state to provide goods and services to those populations, and to build the infrastructure that had never existed in those areas. These cease-fires may yet prove ephemeral, however, as those in insurrection have been allowed to retain their arms until a new election associated with a new constitution is to come into effect. In some areas, Burmese troops have had little or no authority.

The third was the decision to engage in a massive program of infrastructure construction. This has been the main emphasis of both the SLORC and the SPDC. An array of roads, bridges, dams, railroads, port facilities, and building construction has become the signature of the administration. Political legitimacy has been sought through infrastructural development. Their accomplishments, endlessly proclaimed in the state-controlled media, have been remarkable, if unheralded abroad. Even as the SLORC/SPDC have sought recognition and appreciation for their efforts, many have questioned the choice of some of the construction, the priorities attached to some works, the financial costs that have resulted in increasing the money supply, the use of corvee'[69] labor, and the neglect of other potential uses, such as increasing social services, on which these funds might have been spent. The construction of infrastructure has many implications beyond legitimacy. It allows the military more access to the periphery and is also essential for the economic development of those regions. It has also enabled the government to move men and materiel, including new heavy military equipment, to potentially critical areas, and thus further central control over the minorities.

The military control of economic and other policies was absolute, and there seems to have been the intent to build up military capacity while they had unregulated power. A U.S.$1.2 billion arms agreement was reached with the Chinese (another U.S.$400 million was added later) that was to modernize and upgrade what had been, and still largely is, a labor-intensive military. Other, unquantified, arms deals have been reached with a variety of countries. At

[69] The government has claimed that labor was donated for state-sponsored projects on the analogy of Burmese donating labor (and earning Buddhist merit) for religious projects. Then, the state maintained they were simply using British laws from the early 20th century allowing for commandeered labor. The opposition has claimed this was 'slave' or 'forced' labor. At best, it was a tax on the peasant, that element of society already the most heavily taxed.

the same time, an expansion of the armed forces from about 186,000 troops at the time of the 1988 coup to what is estimated at almost half a million in 2005 took place.[70] Military expenditures as a percentage of the national budget are notoriously under-calculated, with the government admitting to some 25-30 per cent (depending on the year–budgets are no longer published), but estimates range as much as 100 per cent higher. With limited financial capacities, the result has been the use of foreign exchange for military purchases and the denial of adequate social services for the bulk of the population.

Although data are lacking, it seemed apparent, as the military publicly maintained following the 1988 coup, that they did not plan to hold titular, overt political power on a continuing basis, although it seems evident that they envisioned an autonomous military within a controllable 'civilianized' political structure. The early SLORC economic plans were for only one year, rather than the usual four or five-year planning process because the government characterized itself as 'transitional.' It seems likely that the military had agreed to the holding of elections in May 1990, authorizing over 90 political parties to participate, in the belief that the fragmented results would give them the ability to control the political process. They were mistaken, and following their 'non-recognition' of the election results in which the opposition National League for Democracy garnered over 80 per cent of the seats, planning for continuing military control seems to have been evident.[71] Five year plans were then formulated, and by 2002 some ministries (e.g., education, cooperatives) had evolved thirty-year plans, obviously under centralized direction.

The Political Process and Military Capacity

Economic policies are held captive to, and are supportive of, perceived political needs, as is evident in many countries, and which in turn are influenced by a pervasive political culture. The finite conception of power, its personalization and resulting entourages, the reluctance to share it, the uses of information as an element of such power, a pervasive intelligence network that reinforces authority, the need for resources to ensure the entourage system functions, and the overall hierarchical structure under such a system affect economic policy formation and performance. These tendencies are exacerbated by the hierarchical nature of military rule and the element of fear that pervades power relationships. They converge to make economic policy choices appear to be made at the apex of the hierarchy and often based on limited comprehension of priorities for national governance or international experience. The leadership is often insular because of the limits of the Burmese educational system and minimal foreign exposure, and insulated because the leadership does not appear to appreciate negative reporting. There seems a strong confluence in the perceptions of the military leadership of national interests and those of the military. This has made the policy formation under present conditions difficult. The military leadership evidently does not completely trust civilians, as no civilian has been made a member of either the SLORC or the SPDC, although a few have become ministers. Yet military personnel have not been trained in modern economics, and Myanmar has suffered since the coup of 1962 a political

[70] Whether there are 'ghost' soldiers (i.e., unfilled military positions for which salaries may or may not have been paid) has often been rumoured.

[71] Ignoring those election results has proven to be traumatic. For a dozen years, the opposition National League for Democracy has demanded its recognition, as has the United States and the EU, while the SLORC/SPDC seem to have stiffened in their determination to evade the results. The views of all participants and observers seem to have appreciably hardened as a result.

and economic brain drain of perhaps one per cent of its total population (exclusive of refugees and itinerant workers in Thailand), the educated elite. There are few in government positions, and even less who are trusted, who can plan and evaluate economic policy options. There are, however, a number of expatriate Burmese who have these capacities.

At the same time, there is a continuing distrust of foreigners who either are suspected of conspiring to vitiate state sovereignty or who are said not have the best interests of the country in mind. All neighbors of Burma and the major powers have at one time or another, most around the middle of the 20th century, supported or encouraged ethnic or political rebellions. The Burmese leadership has not forgotten this period–indeed seem transfixed by it and do not believe that times have changed. Formal arrangements for foreign advice on economic policy matters have been virtually impossible since 1962 except for quite low-level technical matters, such as those in specific agricultural issues. During the BSPP era, multilateral and bilateral lending organizations avoided policy debates except on marginal issues that supported government objectives, such as increasing revenues. At the same time, the considerable economic talents of a large number of expatriate Burmese have not been employed and they have not been encouraged to return.[72] At the same time, economic decisions are made that have short-term positive impacts on foreign exchange holdings and local power, but often result in environmental destruction or social upheavals. Localized evidence indicates that the extensive campaign for double-cropping of rice has been harmful to the environment in some areas.[73]

Elements of Military Economic Control

Since Myanmar is an autocratic state run by the military, it is evident that their control of economic policy formulation and implementation is ubiquitous. The means through which this pervasive military economic writ is implemented, however, need clarification. There are two generic and conceptually different types of control that in practice are often merged. The first is the institutional means by which the military manages, and is likely to continue to influence, the economy. The second is the personal means through which individual members of the *tatmadaw* shape the economy for public or private ends. Given the personalization of power, that this latter category should figure prominently in the equation is not unexpected, although it obviously cannot be quantified and is avoided in official reporting.

There are a wide variety of means through which the tatmadaw controls the economic processes of the state. Although there is a growing private set of business interests ostensibly outside of state control, yet the iron glove of the military envelops the invisible hand of the private sector. The most basic dichotomy is between the institutional elements

[72] This is in contrast to Cambodia, where returned Cambodians were critical in changing that society. For an example of Burmese expatriate economic thinking, see Khin Maung Kyi et. al. (2000). When South Korea was under the dictatorial rule of General Park Chung Hee, he recognized that his militarized government did not have the capacity to plan economically. He first considered 'forcing' Korean Ph.D.s back to Korea to participate, but then rethought that plan, and enticed them back by offering incentives and the chance to influence policy. Foreign advice was also sought, and so the Korea Development Institute was created (assistance was provided by the Harvard Institute of International Development), to which Park personally paid much attention. Korean economic policies proved to be very successful in that period (1961-72).

[73] Personal interview, Rangoon, June 2002.

of control and personalized influences. Within the institutional context, the military act as policymakers, as producers through direct command over production, and as consumers of the state budget. There are also institutional elements under military authority that are likely to continue in any post-transitional government.

The Military as Policy Makers

From their apex in the power structure, the military are the ubiquitous element proposing, formulating, administering, and evaluating the efficacy of state economic policies through a variety of mechanisms examined below.

- *Overall Economic Policy Formulation*

Since the military is in absolute command of all organs of power, their ability to set economic policies is complete. There are no other forces that can affect such policies except those under military control. Policy formation seems to be uncoordinated, sometimes contradictory, perhaps reflecting differing views of individual leaders, and although there are visions of ultimate economic and social goals, the dissonance between these goals and the uncoordinated means to achieve them is profound. Coordination among agencies and ministries is limited, and the achievement of targets may be undercut by concentration on individual activities rather than the processes necessary to achieve such aims.

Since leadership is highly personalized, policies can be formulated and changed only by the highest ranking individuals, some of whom may be excluded or protected from knowledge of lower level information quite necessary or desirable for formulating such decisions. The insulation of the leadership from alternative policy possibilities is important in limiting the possibilities of reform. Although foreign advice may be proffered at lower levels, the path to reach the apex of the system is tortuous and uncertain. Direct foreign influence on economic policies is marginal at best, but there may be means to bring alternatives to the attention of superiors through careful, lower-level suggestions.

- *Macro-Economic Policies*

As there is no independent entity in Myanmar that can influence the military on macro-economic issues such as the money supply and exchange rates; these sectors are at the discretion of the leader. General Ne Win unilaterally engaged in the demonetization of 1987 (as well as earlier ones and even changed the denomination of currency notes for his personal astrological purposes) that was one of the fundamental causes of the people's revolution of 1988, although not its precipitating event. Since 1997, the government has not reported on the money supply.[74] Many believe that the Central Bank, which is not independent of the administration, does not have accurate figures on this issue. The government claims that, in addition to state banks, there are private banks. Some of the so-called private banks are those connected directly to some government institution, such as the Yangon municipality or the cooperative movement. One is a product of the Myanmar Economic Holdings Corporation (Myawaddy Bank), the Myanmar Economic Corporation (Innwa Bank), and others have links to the military in various ways. At least one is said to be related to the drug trade. All banks, however, are under the control of the military, whose *dirigiste* policies affect lending and activities.

[74] Central Statistical Organization, Government of the Union of Myanmar (2001).

The government fixes interest rates for bank loans and for seasonal farm credit both of which are lower than the inflation rate; it has no effective control over the interest rates of money lenders, however, whose charges are excessively high and destructive of the peasantry's livelihood. The military through its government processes can allocate foreign exchange and thus determine the direction of production and consumer spending.

- *Subsidies and taxation policies*

The government controls the formation of subsidies and taxation not necessarily to implement social policies, but rather to extract from the populace the means to run the state. On this they are not very efficient. The heaviest tax burden falls on the peasant, who up until recently had to sell to the government a fixed percentage (about 12 per cent depending on area) of his paddy crop (unhusked rice) at far below market prices.[75] This the government buys and uses to feed the military, supply subsidized rations to the civil service, aid the public through subsidized distribution in times of stress, and provide the modest remainder (should there be any) for export. Tension between export needs (and thus foreign exchange earnings) and local requirements is often present. The sale of Burmese rice on the international market fetches poor prices because of procurement in kind (the poorest quality of paddy is provided), inadequate milling standards, and lack of knowledge of the markets.

When rice shortages occur and prices rise in the bazaar, the government distributes subsidized rice to urban dwellers, for it is aware that any untoward increase could lead to urban unrest, as in 1988.[76] Gasoline is rationed (70 gallons per month at K.700 per gallon) but extra supplies (and in certain areas higher octane necessary to run car air conditioners) are available at around K1,000, and in places from the military owned MEHC outlets.[77]

Taxation policies are inadequate and inadequately collected. In this field foreign advice might prove useful to the state, but at the same time it could adversely affect social needs unless it was progressive and carefully and fairly administered. In effect, the farmer is taxed through the procurement system, the urban dweller through low interest rates on bank accounts, and the rural population in many instances through corvee' labor requirements.

- *Creation of Monopolies and Allotment of Licenses*

The state maintains monopoly control over certain industries and sectors (e.g., defense industries, much of the communications field), not an unusual circumstance internationally. The prevalence of monopolies in Myanmar, however, is far more common. One effective means to control certain industries and encourage profitability is to ensure that they have a monopoly on both production and sales by limiting licenses and banning imports. When these organizations are government ministries, SEEs, or military enterprises, then it is the consumer who is hurt.[78] There is no competition and economic distortions are widespread

[75] The government's policies with regard to compulsory procurement fluctuate with alarming regularity. At present, in theory, forced procurement of paddy is in abeyance.

[76]. The military erroneously believe that a shortage of rice in Jakarta was the cause of Suharto's downfall, and this was one motivation for the effort in double cropping of paddy. Personal interview. Yangon.

[77] Democratic Voice of Burma, Oslo, 6 May 2005.

[78] One rumour in Yangon was that a cement plant in the Karen State was mandated by the military, and to ensure success, all Thai cement imports were banned. But the supply of cement could not be maintained

and counter-productive. The military-run Myanmar Economic Holdings Corporation, for example, has a monopoly on the import of gasoline. Monopolies are not simply remnants of the socialist period, but rather represent a more basic need for state authority, of which socialism and *dirigiste* attitudes are manifestations.

Control over the issuance of licenses to import or export have been a feature of all governments since independence. Their original purpose was to place the economy back in Burman hands, but there had been continuous charges in the civilian period that the Burman firms were simply fronts for Chinese or Indian businessmen. Authority to issue licenses become a means of corruption, and as an Indonesian Vice Minister of Trade once said, because of that his ministry had become 'a den of pirates.' The 2002 decision in Myanmar to prevent foreign firms from receiving licenses to import or export, however arbitrary, counterproductive, and self-defeating it may have been, has its roots in earlier Burmese practice.

One aspect of the licensing process is approval of foreign investment either in joint ventures or in wholly-owned firms. Such investments need the approval of the military-controlled Myanmar Investment Commission, which then may steer such investments to military conglomerates (see Appendices II and III), ministries, or to state-owned enterprises. These connections provide avenues for personal rent-seeking and corruption as well.

- *Control of Urban and Rural Land*

The military has seized land (since all land is ultimately public) for its own urban purposes, whether for military housing, speculation, or military installations. In both 1958 and more extensively in 1988, urban dwellers were moved from downtown locations by decree to outlying areas where local infrastructure was often inadequate or lacking. This exacerbated employment problems, for many were employed in the central cities, and raised costs of transportation to work. The motivation behind such moves have been variously explained as political, for social betterment, to enable the military to reallocate the use of such lands for their own purposes, and for industrial development. There has been no recourse to protest such moves.

Rural land, always under ultimate state control, has been confiscated for the feeding of military units in the countryside, and larger tracts for regimental investments, some of which, such as various types of orchards, require maturation rates of four or five years and thus indicate the relatively permanent nature of such planning. Since 1997, the 12 regional military commands have been ordered to meet their basic logistical food needs locally (Selth 2002). The state has also allocated large tracts of land (300,000 acres total, up to 5,000 acres individually) for commercial agriculture, and these have been bought by private contractors, with anecdotal evidence that senior military figures are behind some of them.[79]

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because the plant could not operate at full capacity, and the road and bridge infrastructure was insufficient to bring adequate supplies to market. The result was that the government-mandated price created a black market in which a bag of cement was three times the official price. Personal interview. Yangon. June 2002.

[79] This plan was the product of SLORC Chairman Saw Maung's visit to China in 1990, after which he was locally advised that it was easier to expand agricultural production by horizontal means (bringing new land into cultivation) rather than vertically (increase per acre yields). 300,000 acres were originally allocated for this project, at 5,000 acres per investment under a renewable 30 year lease. Over a four-year period there is a land

The military's involvement in commercial use of agricultural land has never been studied, and on which there are no data. It is likely that any reversion to a civilian government would not affect the holdings of such lands.

- *Control of foreign assistance*

The modest foreign assistance entering Myanmar is controlled by the military government. Direct bilateral assistance goes through the Ministry of Planning and Economic Development (its FERD-Foreign Economic Relations Division) under direct military supervision. International NGO support may or may not go directly or indirectly to government entities, but if it is directed to private groups, such activities are screened by the relevant ministry. Such organizations are monitored on an ad hoc basis, some have memoranda of understanding with the government, but others function under informal-verbal agreements. The need to have a regularized, transparent method of administrative arrangements with the government seems apparent both to ensure compliance with reasonable and uniform government regulations, and to improve the efficacy of NGO operations. To date such suggestions have not been heeded. The understanding of the military and Aung San Suu Kyi in May 2002 that humanitarian assistance was needed may increase both the urgency of some standardized, transparent administrative regulations if additional international NGOs are to provide support and if such support is to increase, for the present administrative capacity of the state is insufficient to cope with the assistance the state seems to seek.

Under the civilian administration, the minority states wanted direct access to foreign aid agencies without going through the central government. This was denied. Under the SLORC, however, the Yangon Municipality Act has given to that local government the authority to negotiate directly with foreign aid organizations assistance for the city. Rather than illustrating increased autonomy of local governments, it may rather reflect the military's belief that it will continue to control those institutions.

The importance of improved training and administrative systems to manage foreign aid, public or private and bilateral or multilateral, is apparent. Even if such assistance is not forthcoming in the immediate future, the urgency of such improvements is apparent.

- *Control over Foreign Investment*

All foreign investment of any magnitude goes through the military-run Myanmar Investment Commission, which determines whether such investments will be approved, and if joint ventures, with which organization it will be associated (a public sector industry, a ministry, a military conglomerate, or a private concern). Productive enterprises require the use of state-owned land, and labor is controlled by the government. Strikes are illegal. In those cases where formal approval has not been officially sought or given, such as the extensive and obvious investment of Yunnanese Chinese, especially in Upper Myanmar, it seems apparent

tax, which if not paid could result in the loss of the lease. This has not happened, and the project 'is out of control,' with the military involved in it. In 1994, acreage was increased to 50,000 per investment and foreigners were prohibited from holding such leases. Personal interview. Yangon. June 2002. Different reports have different total areas for the whole scheme.

that these take place with the tacit approval of military officials and perhaps contributes to the widespread corruption that is common knowledge in the bazaars.

The Military as Producers

The military not only set policies, they have extensive control over, and sometimes direct interest in, production. There are a variety of mechanisms for such activities.

- *Control over the State Economic Enterprises (SEE–Public Sector)*

The SEEs (see Appendix I for a list and financial indicators) number 51. Under both civilian and military governments, the perceived need for state control over important sections of the economy were apparent soon after independence. Some were founded for social reasons (e.g., the pharmaceutical industry), and some for 'development' prestige (a steel mill using World War II scrap). In spite of stress on the private sector since 1988, little change has occurred in these businesses. Although the state has expressed interest in selling off some of these organizations or their subsidiaries, they have not been successful except for a few cinemas and other small businesses. There are multiple reasons. There are questions over the valuation of the assets and the financial obligations of these organizations. There is then the overall predilection for state management and control over even a private sector economy because of the fear that an autonomous center of power might grow from such potentially lucrative endeavors. This is supplemented by more immediate fears that privatization would lead to the rationalization of the labor force, and thus extensive layoffs to make the enterprise profitable. This is politically dangerous, and in some cases the government has indicated that any buyer or leasee of a SEE had to retain the mandated labor contingent. Few buyers were interested under these conditions. The SEEs have been a continuous drain on the state budget; in 1999/2000, they accounted for 95.8 per cent of the total national budget deficit, 11.4 per cent of the annual budget deficit, and 3.0 per cent of the GDP (World Bank 1999:74). Their financing involves manipulation of the official and informal exchange rate discrepancies.

- *The Cooperative Movement*

The cooperative movement has always been an element of state policy. Started in the late 19th century as a British effort to mitigate the dire influence of Indian money lenders, it was sponsored by the state, and continued in the civilian era as a state-run entity with ministerial status. There was little or no involvement of the membership in operations or decision-making. In the BSPP period, plans called for a major increase in production cooperatives in both agriculture and light industry. This effort failed. The consumer cooperative, however, was ubiquitous, because it was the means through which the state distributed goods in scarce supply, very often goods produced by state economic enterprises. Cooperatives could not engage in entrepreneurial activities advantageous to its members.[80] The cooperative movement is another element in state productive (and consumer) control. The cooperative structure is ubiquitous, operating nationally under state sponsorship and defying international connotations of the movement as a collaborative popular economic and social force. They remain important but less effective with the opening of the economy. Yet their

[80] In Mandalay, when all bicycles were imported from China, cooperatives could not buy them wholesale in bulk and sell them below market prices to its membership because the center had not authorized such activities. Personal interview, Mandalay, 1989.

importance is evident as at various times the minister of cooperatives was in change of the BSPP youth movement, and later under the SLORC ran the Union Solidarity and Development Association (see below).

- *The military procurement system*

The military procurement system is extensive, and is far more broad than the supply of military equipment, ammunition, clothing, or foodstuffs for *tatmadaw* use.[81] The strategy of using the Office of Procurement (which also has extensive interests in the Myanmar Economic Holdings Corporation--see below) is a means to supplement the military budget as well as supply the immediate needs of the increasing large military establishment; it also keeps profits out of public scrutiny. Factories making a variety of consumer products are in the market, and although figures are lacking, it must be assumed that they have a special advantage in terms of cost accounting the use of military personnel, land, and facilities. These activities include canning, pharmaceuticals, dairy, and leather products, and the aim is to provide funding and also jobs for military families.[82]

The question of the relationship between military access to, and management of, such assets with their interest or intent in remaining or seizing control over the operations of the governance of the state as a whole have not been sufficiently explored. These holdings are designed for a variety of purposes depending on time and place. The motivations involve, individually or collectively: direct control over economic assets that can be used to secure the autonomy and influence of the military throughout the society; providing additional institutional income in societies where military budgets are deemed to be inadequate; employing the families and dependents of military personnel where other employment opportunities are limited; ensuring additional incomes for often underpaid officers; providing avenues for social and economic mobility in post-retirement situations (as generally the military retire at a relatively young age); even to feeding some local military units; and to providing avenues of rent-seeking and personal influence. Motivations for any or all of these activities thus may be either institutional or personal or both.

Some states, such as Vietnam, have built into their laws and legal structure explicit provisions for military-run economic activities, and units are encouraged to develop them. In other countries, such as Thailand, the military may own media outlets, banks, and other enterprises and legally invest some of their state-provided funds in furthering their economic activities. In other countries, such as Indonesia, the military had a monopoly through a state organization called BULAG (*Badan Urusan Logistik*) on the import and distribution of certain staple commodities such as wheat, flour, sugar, and garlic. Before the recent sale of factories, the Chinese military is said to have owned some 15,000 businesses.

Such businesses enable the military to provide post-military career opportunities for its officer corps (perhaps reducing the pressures for coups from younger officers by providing lucrative opportunities to those who retire early), and give both social and economic mobility to the troops. Whether the holding of such assets encourages the retention of political power by the military is the subject of some dispute, or whether, by holding non-military

[81] For the most extensive study, see Selth (2002).
[82] Selth (2002) citing Maung Aung Myoe (2002).

economic assets this relieves the internal pressures on the military to retain political control, is as yet unclear. That the military hold such economic assets in itself is neither inherently detrimental to the society nor to the economy. Each state has unique factors that determine the efficacy of the military's economic role.[83]

- *The Myanmar Economic Holdings Corporation (MEHC)*

The MEHC was established by SLORC Order #7/90 on 19 February, 1990. Its original purpose was to provide retirement income to veterans, who were in difficult economic straits as their pensions were inadequate. The initial capitalization was up to K.10 billion (U.S.$1.4 billion at the official exchange rate), with 40 per cent of the shares ('A' shares) allocated to the Directorate of Procurement of the Ministry of Defense, and the remaining 60 per cent of the shares ('B' shares) divided among armed forces personnel, veterans organizations, and regimental units.[84] Investments are made in local businesses and joint ventures established with foreign firms (see Appendix II). The range of MEHC interests seems ubiquitous. The extensive nature of this conglomerate allows it to influence market forces in a wide variety of fields, and the lack of cost-accounting of the use of military personnel, land, facilities, and transport mean that it has a distinct advantage over private businesses in similar fields.

There are other advantages: 'Traders report that the only way for private companies to export an item under government monopoly is to do so under the authorization of the MEHC or the Myanmar Agricultural Produce Trading Company. The military/government corporations receive an 11 per cent commission on transactions as well as a favorable exchange rate that allows them to profit from the transaction.'[85]

Since 1996, the MEHC, established under the Companies Act which requires that it issue published reports, has not distributed any reports that are available to the public. Anecdotal evidence indicates that in the past few years annual profits have been running at about 30 per cent.[86] The head of of the MEHC, Lt. General Win Myint (Secretary-3 of the SPDC) was sacked for corruption in 2001.[87]

- *The Myanmar Economic Corporation (MEC)*

The MEC was set up as a rival of the MEHC, which military some felt did not fulfill the purposes of support to the Ministry of Defense (see Appendix III). It was established in March 1997 'in order to contribute towards the development of the State economy, to decrease defence expenditures by fulfilling the needs of the *Tatmadaw*, to carry out the welfare of the *Tatmadaw* service personnel and to implement other necessary matters for the *Tatmadaw*.'[88] It is wholly owned by the Ministry of Defense, and is under the Quartermaster

[83] Taiwan is a special case where the Kuomintang Party (KMT), which started as a military organization, still maintains extensive economic holdings, making it perhaps the richest political party in Asia.

[84] Additional capital was authorized later: some K.200,000,000 from 1992/93 through 1995/96, K.1,538,119,000 in 1996/97, and K.1,793,014,000 in 1997/98 (compared that year to a national budget of, K.1,036,386,000 (Tucker 2001:195).

[85] Government of the United States (2001:33).

[86] Personal interview. Yangon. June 2002.

[87] *Bangkok Post* 15 November 2001.

[88] Selth (2002), quoting Maung Aung Myoe, *op. cit.*

General's authority. As it was established under a separate edict, it does not have to report to the public. It has heavy industry interests, such as in steel and in power generation, and light industrial ventures, such as in beer. It is involved in banking, insurance, and mining as well. Information on this organization is 'closely held,' as diplomatic sources indicate, but it is evident that it is a powerful group. Its head, Lt. General Tin Hla was sacked for corruption along with the head of the MEHC.[89]

- *The Union Solidarity and Development Association (USDA)*

The USDA was founded as an outgrowth of the May 1990 election debacle (from a military viewpoint). The BSPP having failed as a party, the military decided, probably on a GOLKAR ('functional groups') model from Indonesia before that organization became a political party, to create a mass mobilization organization that would be the popular basis for support for the military, Senior General Than Shwe being the patron of the USDA and its purposes specifically mention support to the military. By 2002, it was said to have some 16 million members, or virtually one-third of the total population of the state. Although the military deny coercion in membership drives, it is apparent that joining is a sine qua non for advancement and also membership stops social harassment to join. The USDA engages in educational programs as well as broad political activities in support of the military. It also encourages its members to receive basic military training.

This organization often operates at local levels using public or military facilities, such as office space, and it engages in a wide range of local economic activities, including production, transport, and real estate to support its activities. As a subsidiary of the military, its local economic involvement may be significant depending on the locality (Steinberg 1997). Other state-sponsored groups, such as the veterans organizations, conduct economic activities as well.

The Military as Consumers

If the military make policies, and then produces under such policy guidelines, they are also consumers; that is, a significant portion of the state assets and annual budgets are allocated to the military.

Foreign observers of Myanmar often attempt to read the budgetary tea leaves to determine what percentage of the operating budget costs and capital expenditures in any one year are assigned to the military. It has been a futile effort. Official public figures from the BSPP and SLORC/SPDC periods, when they are available, indicate that from a quarter to one-third of annual expenditures are allocated to the military. These figures are widely held not to be credible. Increases in the size of the military, over double since 1988, the augmentation of new and more sophisticated military equipment, largely from China but from other states as well, clearly indicate that military budgets must increase for pay, logistic support, spare parts, training, and replacement however the original purchases were financed, whether through loans or grants. It is believed that military expenditures account for at least half of the national budget in any year, and may be appreciably higher. Expenditures seem extravagant given the state of the economy. The new and extensive Ministry of Defense compound in Rangoon is an example of the edifice complex, making

[89] *Bangkok Post,* 15 November 2001.

that ministerial quarters dwarf all other ministries. The construction of military and military-sponsored museums further drain the meager resources of the state and foreign exchange reserves, leading to two results: the printing of more local currency to cover local expenses, and the deprivation of social programs that might alleviate some of the poverty in the society.

3. THE MILTARY IN A POST-TRANSITIONAL GOVERNMENT

The military will continue to play a critical role in any post-transitional political accommodation that may be reached in the coming years. Not only will this role be focused on the protection of the integrity of the state from perceived foreign and domestic threats, the administrative means through which this will be accomplished will not only occur through the control of the coercive forces of the state, but through the *tatmadaw*'s relative autonomy in the executive branch and their ability to influence the legislature. Through their continuing economic assets, they will have an important role in the economy.

- *The Military in a Future Legislature*

Plans for the new legislature in Myanmar under the proposed, but incomplete, constitution have been circulated. It calls for a legislature in which 25 per cent of the members would be active duty military. This plan, based on an Indonesian model that is being gradually discarded there, is designed to ensure perpetual military control over the legislative process. If it is instituted, it is likely to succeed. The military's influence over the economy will be considerable and any legislative efforts to disband or otherwise control the MEHC and the MEC would likely be defeated. In addition to the active duty military who are likely to be appointed to the legislature, there will be many retired military of all persuasions who will be elected, and at least some of whom may have financial interests in the MEHC.

- *The Intelligence Network*

Intelligence networks have operated since independence to obtain information on internal dissidents and activities. Since 1962, they have become pervasive under military control. The head of military intelligence has in the past gathered information on senior members of the government and armed forces, and has used it to purge those regarded as internal threats to the leadership or the system.

It would be unrealistic to expect that the military would agree to the abandonment of their ubiquitous intelligence system, or perhaps one should say systems. Although under a new civilianized government surveillance is likely to decrease and the rigorous control over the movement and residence of peoples is likely to be lifted, every administration in Burma/Myanmar, including that of U Nu, collected intelligence information on key figures to be used as the regime felt appropriate. Since much of the hold that the leadership has over members of its own entourage as well as any dissidents is in such information, and given the nature of the power structure, rent-seeking, and the abysmal salaries paid, much of this information will be economic in nature. This will give any military authorities the ability to influence economic and political decisions as well.

Since power is so highly personalized and connections are required to ensure access to economic goods at any major level, it is not surprising that who one knows is extremely important in ensuring the success of any business venture. Access to important individuals is thus a critical element in the sphere of economics. According to the U.S. Embassy, 'private rent-seeking by military personnel appears to be institutionalized and openly tolerated (Selth 2002). Military promotions are also subject to this system.

The perpetuation of the military in power has changed the nature of these personalized influences. Under the military 'caretaker government,' there were few charges of corruption among the officer corps (although the economic interests of General Ne Win were a subject of rumor in the bazaar). As the military perpetuated its power, however, that changed. Corruption has become a major factor in economic activity, and is indeed ubiquitous at all levels. The heads of the MEHC and MEC have been dismissed for corruption, and a number of ministers in the 1997 period. Activities involving trade seem to be especially vulnerable to corruption. Rumors abound that General Ne Win heard about the foreign holdings of senior military on trips to Singapore where some key military held personal accounts, and caused to be taken against some of the miscreants.[90] In any analysis of the military in the Myanmar economy, the personalized role of individual military staff, at best to supply access to favorable decisions and at worst to make those decisions based on corruption or rent-seeking, seems to be an endemic problem in that society that will not easily disappear even with a change in government.[91]

4. ECONOMIC IMPLICATIONS OF CONTINUING MILITARY RULE

If there is continuation of current policies under the military rule, there seems little room for optimism. The inextricably linked political and social aspects of the crisis, and their regional implications, combine with economic policies that likely will continue the quiet societal malaise that remains little understood outside Myanmar. By any standard of a modern state, the economy of Myanmar has already collapsed. Because it is a fragmented, essential self-sufficient rural set of societies of some 40,000 villages, because its tropical setting affords more sustenance than those countries in the temperate zone, and because military coercive power is open and ubiquitous in urban areas, overt social unrest has been subdued.

Until 1988, Burma could be ignored except by those along the periphery who made an income from smuggling. The state was essentially closed except for major foreign economic assistance, which had been resuscitated in the mid-1970s after the first BSPP Congress in 1971. Economic opportunities for foreign private firms had been closed, and the society, in spite of the myriad rebellions that existed along its frontiers, was off most policy maps. The bloody people's rebellion of 1988 and its repression, greater monitoring by international human rights groups and foreign governments, potential openings for private sector

[90] Personal interview. Yangon. June 2002.

[91] As a taxi driver said, a policeman gets K.4,000-5,000 per month but needs four or five times that amount for his family. Each morning, police are assigned beats that have diverse potential for lucrative income, so that the extra-legal incomes are equalized. Cars are stopped to ensure licenses are up to date, and small bribes are paid to escape harassment. One policeman didn't bother to find fault, but simply said to an elder, obviously middle class, driver, "Father, don't you take care of your children?" He was given K.200. Personal Interview, Yangon.

investment, and the personalized image of Aung San Suu Kyi changed that attention. Further spurred by the election of May 1990, the results of which were ignored by the Burmese government, Myanmar became momentarily once again in the news, and then disappeared from the international press as few visas were issued to journalists. The revolution in information technology has meant that in spite of military censorship efforts more information filtered into the country from abroad than news from Myanmar reached the external world. Myanmar, then, could be ignored by most of the outside world with relative impunity.

This placid, if constrained, veneer apparent to the relatively few external observers of this country masks the dangers that pervade Myanmar that also extend beyond its borders to its neighbors.

The repeated calls by that government that foreign states should not meddle in the internal affairs of other countries becomes irrelevant when, because of combined political and economic problems, refugees spill across borders, illegal migrants seeking work bring disease, where trafficking of narcotics and women and children becomes rampant, where smuggling becomes the major occupation along the state's littorals transforming border regions, and where a strategically situated country like Myanmar–between India and China and close to the northern entrance to the Straits of Malacca–becomes internationally important.

Internal Dimensions

The implications of continued military rule and the extension of present macro-economic and social policies over the medium term of two to three years means that the crisis will deepen, if only quietly, and its amelioration will become more difficult whenever it is addressed. Poverty will intensify in various areas, and environmental destruction will continue, sometimes the product of individual or institutional ignorance or greed, and sometimes because of criminal intent. Employment will be limited and the rising landlessness (now estimated at 30 per cent) in rural areas is likely to result in internal urban migration for employment that is absent or marginal at best, and a search for work across international boundaries. The lack of foreign exchange or its use directed toward socially irresponsible purchase of advanced weaponry or facilities that necessitate heavy expenditures on maintenance, spare parts, and training simply mean that the requirements for such support preclude funding without foreign assistance for basic human needs and enhancement of the human resources required to run a complex state and society. As long as a political stalemate or lack of substantial political progress is evident, there will be little official foreign bilateral assistance, and aid from the multilateral agencies will be precluded.

Arbitrary changes in 'policy,' and reliance on edicts rather than transparent laws means that foreign investment will be limited even if U.S. sanctions were to be lifted. Investment will occur only when there are important natural resources that can be exploited (e.g., oil, gas), or when the low wages of a literate, controlled labor force (often supplemented by using Myanmar to avoid import quotas from other countries) makes investment highly lucrative, but leaves little distribution of longer term benefits to the state in terms of transfer of technology or to the people except ephemeral occupation. These investments in textiles and other fields are eminently moveable and can be quickly relocated should economic or

political conditions warrant. Regulations on remitting foreign exchange hamper investment as well. The absence of real bank interest rates reduces savings, hyper-inflation destroys confidence in the government and incites more poverty, multiple exchange rates and secretive printing of currency all destroy credibility of the administration, and the absence of sufficient productive credit for farmers or for indigenous entrepreneurs retard development, and force people into the hands of unscrupulous money lenders, this time Burmese and not the Indians of the colonial era. Coupled with the personalization of authority, these factors inspire dismay, not confidence.

As important is the lack of predictability, the sine qua non of longer-term productive investment. Although the military ruled under the State Law and Order Restoration Council, law had little continuity and operations were based instead on what was called 'policy,' which in effect means the edict of the moment changed to reflect the perceived interests of the leadership. Under such circumstances, and lacking an independent judiciary and any neutral arbitration mechanism, foreign investment will continue to highly restricted.[92]

No doubt some will benefit. The emergence of a new class structure seems in the making with potentially dire consequences. At the apex of the class pyramid is the high-ranking active duty or retired military. They often have the resources to invest in new enterprises, have the personal contacts to ensure success, and have the advantage of social 'insider-trading' because of the personalization of power. The new middle class will largely be composed of nouveau riche Chinese, many recent legal or illegal immigrants from Yunnan Province. They have the access to informal credit mechanisms through clan, family, or linguistic connections, and the international contacts for market development lacking to most of the Burman population. Their emergence, and the obvious wealth that in some cases is flagrantly displayed, will eventually excite envy of a population where income disparities have markedly grown. Where once Burmese lived in shared poverty, this is no longer true. The social and political implications of this shift are profound. The economic implications are that access to future economic advancement will be channeled through the military and through the Chinese. The lessons from Indonesia should not be ignored; there, the two per cent comprising the Chinese population controlled 70 per cent of the capital, and thus economic tensions (exacerbated by religious differences that are not relevant in Myanmar) produced explosive results. The symbiotic relationship between the Burmese military and the Chinese state and business community could easily backfire.

It seems evident that the military will attempt to keep its autonomy under any future 'civilianized' or civilian government. It is likely to do so through constitutional means, such as ensuring a percentage of active-duty officers in a parliament (there in any case will be many retired military in politics–the National League for Democracy's top leadership around Aung San Suu Kyi are also former military), or creating a national security council it could control. It will also attempt to ensure its own budgets, but in any case will supplement those budgets through economic activities that are outside of the ken of a new administration.

[92] Mandalay Brewery was taken over by a Singapore firm. As soon as it became highly lucrative (and as the military established a competing firm), it was taken over by the government. A court case is pending in Singapore. Personal interview, Yangon, June 2002.

These include the continuation of a military procurement system that is far wider in scope than the needs for defense, but include lucrative industries, the profits from which feed into military coffers. It will also retain its Myanmar Economic Holdings Corporation (MEHC–see Appendix II), incorporated under the companies act and thus outside of the public sector (the State Economic Enterprises). It also controls the Myanmar Economic Corporation (MEC–see Appendix III). All these enterprises enable the military to supplement its budgets, provide employment for military and their families, and provide additional retirement funds for institutional and individual members. The scope of these activities is so great, employing some hundreds of thousands of workers in fields such as mining, that they could have a profound affect on the market in certain areas in which they predominate or have monopolies. Thus, military ventures into the economy in the future should not be considered as isolated lucrative efforts, but rather that they have the potential, through both institutional and personal means, of broadly influencing the markets and sectors of the economy.

Although it is linguistically simpler and grammatically correct to think of the military in the singular, it should be thought of as potentially plural. Although the most heinous crime is that of attempting to split the military, that this institution should be immune from factionalism and competition for power would not be credible given the history of such factors in Burmese politics; that this particular charge is so important indicates the sensitivity of the issue. Although the SLORC and the SPDC have kept a facade of unanimity, differences or even contradictions in policies minimally indicate disputes in tactics and the potential for power struggles.

The minority issues deserve special attention. The military has become an army under Burman leadership at the field level, creating suspicions among the minorities. This is a profound historical change. The geographical insularity of the Burman population, in contrast with the minorities, all of whom are related to cross-border ethnic and linguistic cousins, tends to increase the fears of separatism that has motivated much of the military's rule. This attitude is not easily abated.

This essay has focused on the economic aspects of the crises. Yet they are inextricably linked to the political process of dialogue and hoped-for reconciliation, and are directly related to the issue of ethnic peace, stability, and development, which in turn affect international issues such as narcotics trafficking and migration. Although economic reforms are certainly needed, political and social policies need reformation as well.

External Dimensions

Continuing economic instability in Myanmar, and a government that is dependent on China for its military and economic support, has strategic implications that after September 11, 2001 have subsided, but are nonetheless real and are likely to become again increasingly important. The 'War Against Terrorism' has temporarily shelved Indian concerns about China, and Chinese fears of U.S. containment. China has joined in the 'War' to ensure that its Muslim Uighur population in strategically situated Xinjiang Province remains cowed. India wants Muslim extremists to stop infiltrating Kashmir. Yet, as the Indian Defense Minister has said, the ultimate potential enemy of India is China, and a Myanmar on India's eastern flank under Chinese influence, with China having access to the Bay of Bengal

through Myanmar, are causes for Indian concern.[93] The Myanmar government has officially indicated that the United States wants to overthrow the military in Myanmar because Myanmar is the weakest link in the U.S. containment policy toward China.[94] Japan, which views any effort by China to strengthen its position in the region as anathema, has considered economic support beyond humanitarian assistance to the Myanmar government in an attempt to reduce Chinese influence, but American pressure has delayed such aid. As a senior Japanese military official said, 'If China can import oil to its Southwest via Burma without going through the Straits of Malacca and the South China Sea, this is not in Japan's interest.'[95] The interests of the ASEAN states in Myanmar membership was prompted in part to reduce its dependence on China.

Thailand has had a most intense economic relationship with Myanmar. Illegal and then legal border trade with Burma/Myanmar has been important to the Thai economy, although estimates are lacking. Thai investment in Myanmar has been significant, and timber and fishery agreements have been substantial. Timber concessions started in 1988 and were especially important as Thailand had banned all internal logging that year because of a disastrous mudslide due to overcutting that killed hundreds of Thai villagers near the Burma border. Thai logging thus continued, but within Myanmar's boundaries.

Relations with Thailand became complex for a number of reasons, the most basic because Thailand at various formal and informal levels of state authority supported or tolerated the creation of a series of 'buffer' states of ethnic insurgents along the border to protect the conservative Bangkok government from what the Thai regarded as a radical Rangoon/Yangon government. Dissident Burmese seizure of the Myanmar Embassy in Bangkok, and the attack on a Thai hospital in Ratchburi Province near the border have caused tensions to rise, and the influx of metamphetamines (estimates from Thai sources are from 700 million to one billion tablets in 2002) from the Shan State (said to be produced by the Wa ethnic minority) have become a political problem in Thailand that no government can ignore. The arming of the dissident Shan State Army (SSA) by the Thai to counter the Wa (allies of the Burmese but who seem to be a law unto themselves), and the seizure of six border posts in the Shan State by the SSA resulted in June 2002 in an outburst of Burmese state-sponsored xenophobia, orchestrated through the Union Solidarity and Development Association and other state-controlled mass mobilization organizations.

Ironically, the Thai government of Prime Minister Thaksin Shinawatra and the 'Thai-Love-Thai' Party that came into office in January 2001 (and re-elected in February 2005) was potentially far more favorable to the military in Yangon than the previous Chuan Leekpai government under the Democratic Party. There are some 120,000 Burmese (Karen and Mon) in refugee camps in Thailand, over one million illegal workers (many Shan), and an important trans-border spread of HIV/AIDS and other diseases, as well as trafficking in women and children, and various narcotics including opium, heroin, and the synthetic drugs.

[93] India tests its missiles along its eastern, Bay of Bengal, littoral, which means that Chinese tracking of such tests from Burmese territory becomes easier. For a discussion of the issue, see Lyall (2001).
[94] Myanmar spokesman, Lt. Col. Hla Min (Hla Min 1998).
[95] Personal interview, Tokyo.

The Thai have registered some 300,000 illegal workers, and plan to send as many as possible back to Myanmar.[96]

Along the Bangladesh frontier, the continued presence of some 20,000 Muslim refugees from Rakhine (Arakan) State, the remnants of over 200,000 who fled from Burmese military oppression twice (in the 1970s and then in the 1990s because of military immigration sweeps and harassment), remain an unresolved problem.

The *tatmadaw* has essentially caste aside the mantle of political legitimacy of Buddhism, which U Nu embraced, and they have discarded the socialism of the previous military era. Instead, they seem now to have focused on the military itself as the legitimate heirs to Burmese history by rewriting and reinterpreting Burma's past. It is doubtful, however, that this effort that has been so extensive will replace the need for legitimacy based on adequate and fair distribution of the resources of the state among all the peoples and classes in the country, and a process by which these diverse peoples can determine their own fate.

RECOMMENDATIONS

[NOTE: A full range of recommendations have been made by all multilateral financial institutions. These are not repeated here, as they are readily available through the reports of other organizations. Macro-economic reforms, including exchange rate rationalization, control of the money supply, increased revenue collection and reduced expenditures on the military, installation of a real bank savings rate, control of inflation, and other such needs are urgently required. The recommendations listed below pertain to the military and foreign assistance.[97]]

FOR THE GOVERNMENT OF THE UNION OF MYANMAR

1. There is an urgent need to establish an unbiased, neutral body to adjudicate disputes in foreign investment. The judiciary is not neutral.
2. No military-run organization should be able to impose control of imports to create artificial monopolies to benefit specific industrials/businesses in which the military is influential.
3. Proper auditing of military enterprises should include the costs attributed to employment of military personnel, and the use of military facilities, transport, etc., to ensure a 'level economic playing field.'
4. Strict enforcement of anti-corruption legislation for military personnel is urgently needed.

[96] Personal Interview, Bangkok. June 2002.

[97] Additional to recommendations of the IMF, World Bank, and the Asian Development Bank, see Steinberg (2001: Appendix I: 315-320) for a discussion of reforms ('Economic Reforms in Burma: Problems and Priority Needs') that were apparent in November 1988, but have yet to be fulfilled.

5. Military units in the field need to be provided adequate funding to pay for supplies and services commandeered from villagers.
6. Transparent and uniform administrative regulations need to be formulated on the operations of international NGOs providing humanitarian assistance.
7. A transparent and fair system of choosing state employees for foreign training needs to be established. Such a system should include minorities as well as Burmans.
8. Training for local, minority individuals is necessary to replace military administrations in minority areas.
9. Development of consistent and transparent administrative (not programmatic) guidelines for the operation of international NGOs is needed, and should be formulated in consultation with those organization. Otherwise, increased humanitarian assistance will be constrained.

FOR EXTERNAL DONORS

1. Foreign assistance beyond humanitarian aid needs to be conditioned on policy reforms, not provided in advance.
2. Such assistance should be targeted for those in the society in greatest need.
3. A staged, negotiated set of steps for the normalization of external relations between the Myanmar government and foreign states is needed, perhaps formulated at an international consultative group meeting. This should produce a clear road map.
4. A critical need for the society beyond immediate humanitarian assistance is the start of capacity-building through both internal and external training. Such training should begin with basic human needs education, and should include the management and administration of minority areas by training those concerned, and should also focus on economic planning and the management of foreign assistance.
5. Conditionality of foreign assistance should be negotiated in private, and donors and foreign government should avoid the embarrassment of publicly 'dictating' terms of assistance, as this is interpreted as an infringement on national sovereignty.
6. In the past, Burmese government did not publicly request foreign assistance, so those donors that require such requests should negotiate means by which this dilemma might be satisfactorily resolved.
7. The need for economic transformation should not be presented in ideological, confrontational, or moralistic modes. Instead, it should be presented as requirements for the military to achieve some of its own stated goals.

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