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**NAVAL
POSTGRADUATE
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MONTEREY, CALIFORNIA

THESIS

**THE ROLE OF THE MILITARY IN MYANMAR'S
POLITICAL ECONOMY**

by

Pamela T. Stein

March 2016

Thesis Advisor:
Second Reader:

Naazneen Barma
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THE ROLE OF THE MILITARY IN MYANMAR'S POLITICAL ECONOMY

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Submitted in partial fulfillment of the
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ABSTRACT

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LIST OF ACRONYMS AND ABBREVIATIONS

ADB	Asian Development Bank
AFC	Asian financial crisis
AFPFL	Anti-Fascist Peoples Freedom League
ASEAN	Association of Southeast Asia Nations
BDA	Burma Defense Army
BIA	Burma Independence Army
BNA	Burma National Army
BSPP	Burma Socialist Programmed Party
BWS	<i>Burmese Way to Socialism</i>
CIPS	Central Institute of Political Science
CO	commanding officers
CPB	Communist Party of Burma
DSI	Defense Services Institute
EIU	Economist Intelligence Unit
EOI	export-oriented industrialization
FCD	foreign currency deposit
FDI	foreign direct investment
FIL	foreign investment law
FIML	Financial Institutions of Myanmar Law
FYP	Four-Year Plan
GDP	gross domestic product
IMF	international monetary fund
ISI	import-substitution industrialization
KMT	Kuomintang
LID	light infantry division
LTSTEP	long-term and short-term economic policies
MEC	Myanmar Economic Corporation
NIC	newly industrialized countries
NIE	new institutional economics
NLD	National League of Democracy

NUF	National United Front
OECD	Overseas Economic Cooperation Fund
ODA	overseas development aid
PBF	Patriotic Burmese Forces
RC	Revolutionary Council
SLORC	State Law and Order Restoration Council
SOE	state-owned economic enterprise
SPDC	State Peace and Development Council
TYP	Twenty-Year Plan
UMEHL	Union of Myanmar Economic Holdings Limited
UN	United Nations

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I. INTRODUCTION

A. MAJOR RESEARCH QUESTION

In 1962, the Myanmar military, or the Tatmadaw, staged a coup, after which the military government adopted socialism. Myanmar pursued socialist economic policies until 1989 when the Myanmar's government officially abandoned socialism and embraced capitalism.¹ How did the Tatmadaw shape Myanmar's economic policy during the socialist period (1962–1988) and its subsequent market liberalization (1988–2010)? To underpin the analysis of the political economy of these two periods, this thesis examines the role of the military in shaping Myanmar's economic trajectory from socialism to market liberalization and thereby identifies the core elements that explain Myanmar's political economy after 2010.

B. SIGNIFICANCE OF THE RESEARCH QUESTION

The emergence of military regimes is unique to each nation state. Studying the role of the military within political economies leads to the understanding of how different societal forces, such as political, economic, and ideological factors, interact to create particular political outcomes. The research question contributes to the current body of information about Myanmar's political economy. The research applies historical comparative methodology to reveal the underlying trends and factors that shaped Myanmar's current economic policies. The broader implication of this thesis is that the identified underlying trends could serve as the starting point in identifying possible U.S. economic policy options for Myanmar.

Additionally, as of 2014, the United Nations (UN) Conference on Trade and Development still lists Myanmar among its forty eight “least developed countries.”² As Myanmar attempts to address its problems of underdevelopment, context of its successes

¹ Myat Thein, *Economic Development of Myanmar* (Singapore: Institute of Southeast Asian Studies, 2004), 123; Tin Maung Maung Than, *State Dominance in Myanmar: The Political Economy of Industrialization* (Singapore: Institute of Southeast Asian Studies, 2007), 356.

² “The Least Developed Country Report 2014,” *United Nations Conference on Trade and Development, 2014*, http://unctad.org/en/PublicationsLibrary/ldc2014_en.pdf.

and failures are important data points in areas such as market liberalization. Using Myanmar as a case study may help other impoverished countries reflect on their unique sets of challenges on their road to growth and development.

C. A NOTE ON TERMINOLOGY

From 1948 to 1989, the country of Burma was referred to formally as the Union of Burma. The term “Burman” referred to both the Burman ethnic group and the citizens of the Union of Burma. In 1989, the military government officially changed the Union of Burma to “Myanmar,” a name that is associated with the Burman ethnic majority group.³ The UN, the Association of Southeast Asia Nations (ASEAN), and other international organizations recognized this name change.⁴

In support of the National League of Democracy’s (NLD) electoral victory in 1990 and with the failure of the military government to transfer political power, the United States and some Western democracies refused to recognize the name “Myanmar.”⁵ The relationship between Myanmar and the United States improved with President Thein Sein’s reforms, which included ceasefire agreements with armed ethnic insurgent groups, the release of political prisoners, improved freedom of the press, and the participation and recognition of the NLD’s victory in securing seats during the 2012 by-elections that culminated in President Obama’s trip to Myanmar.⁶ Despite the country’s political changes, as of 2014, the U.S. Department of State retains the policy of referring to Myanmar as Burma in most contexts.⁷

For this thesis, “Myanmar” is used to refer to the country formerly known as Burma in every instance except when “Burma” and or “Burmese” are used as part of organization names or ideology created before 1989. Some examples include the Burma Trading Company and the Burmese Way to Socialism. Depending on the context, the

³ Lex Rieffel, *Myanmar/Burma: Inside Challenges, Outside Interests*, ed. Lex Rieffel, (Washington, DC: Brookings Institution Press, 2010), xiii.

⁴ Ibid.

⁵ Ibid.

⁶ U.S. Department of State, “U.S. Relations with Burma, Bureau of East Asian Pacific Affairs Fact Sheet,” December 18, 2015, www.state.gov/r/pa/ei/bgn/35910.htm.

⁷ Ibid.

term Burman refers to the people belonging to the Burman ethnic group and to the people of Myanmar. According to the World Bank's convention, the plural form of people from Myanmar is "Myanmar" and the adjective form of Myanmar is "Myanmar."⁸ As such, the terms "Myanmarese" and "Myanmese" are not used in this thesis.

D. HISTORICAL CONTEXT

To comprehend Myanmar's contemporary economic development, understanding the historic foundation and circumstances of the Myanmar experience as a nation is crucial. Each former colony in Southeast Asia underwent a unique transformation into an independent sovereign country. Myanmar is no exception. The following section establishes the environment that gave rise to the formation of the Tatmadaw. Such context is relevant in the analysis of the Tatmadaw's role in the development of Myanmar's early economic institutions that led the country toward socialism.

1. Precolonial Myanmar

Before the arrival of the British, modern-day Myanmar consisted of many smaller kingdoms. Clashes between the British East India Company and Myanmar's Konbaung Dynasty stemmed from differences in the concept of sovereignty and territorial control.⁹ In 1823, the territories of Manipur and Assam revolted. When troops from Myanmar pursued the assailants across the British demarcated border, the British responded with a large naval expedition that took Yangon by surprise.¹⁰ Myanmar was forced to abandon interests in Manipur and Assam, cede Rakhine and Tanintharyi territories to the British, pay an indemnity, and enter into an unfavorable treaty.¹¹

From 1837 to 1852, rebellions and upheavals led to frequent turnovers in the palace. In 1837, King Bagyidaw was replaced by his brother Tharrawaddy, who was later deposed by his son Pagan in 1846. In 1851, an appointed Yangon governor named

⁸ World Bank, accessed 28 December 2015, <http://siteresources.worldbank.org/TRANSLATIONSERVICESEXT/Resources/CountryNamesandAdjectives.doc>.

⁹ Norman G. Owen, ed., *The Emergence of Modern Southeast Asia: A New History* (Honolulu: University of Hawai'i Press: 2005), 87.

¹⁰ Ibid.

¹¹ Ibid.

Maung Ok, who was known for demanding extraneous payments from traders and for using indiscriminate criminal charges to solicit bribes, detained two British captains for murder. This sparked a chain of events that led to the Second Anglo-Burmese War in 1852.¹² King Pagan lost the war, and his brother King Mindon came into power in 1852.

King Mindon tried to consolidate his power by initiating economic, administrative, and military reforms. Among his efforts, the pursuit of economic and diplomatic relationships with France and Italy was viewed unfavorably by British India.¹³ King Mindon did not name a successor before he died in 1878. After a violent quarrel among his queens and heirs, one of his lesser queens, Hsinbyumashin, successfully placed her son-in-law Thibaw on the throne. In 1885, the Myanmar court tried to levy a fine on a British company.¹⁴ This action started a series of events that prompted the third and final Anglo-Burmese war.

2. Colonial Myanmar under the British

After Myanmar's defeat in the Third Anglo-Burmese War, Myanmar became a British colony, an event that would forever change the path of Myanmar's social, political, and economic trajectory. The annexation process was gradual since some sporadic fighting remained in the Shan and Chin areas after Mandalay fell in 1885.¹⁵ Over the next few years, the British successfully placed Myanmar under India's administration. Under the British, Myanmar's internal ethnic migration shifted. The natural movement of the Kachin southward halted. The Irrawaddy delta that was once sparsely populated with Karen was flooded with laboring Indians and Burmans as the area was cleared for rice cultivation.¹⁶ The direct and indirect influence of the British over Myanmar's demography had increased the contrast between the ethnic groups within Myanmar's borders.

¹² Norman G. Owen, ed., *The Emergence of Modern Southeast Asia: A New History* (Honolulu: University of Hawai'i Press: 2005), 89.

¹³ *Ibid.*, 90.

¹⁴ *Ibid.*, 1.

¹⁵ Maung Maung, *Burma and General Ne Win* (Bombay, India: Asia Publishing House, 1969), 2.

¹⁶ David I. Steinberg, *Burma: The State of Myanmar* (Washington, DC: Georgetown University Press, 2001), 183.

The British's focus on Myanmar was rice production. Dubbed "the breadbasket of India," Burma exported approximately two million tons of rice per year from 1905 to 1906; by the 1920s, the amount had increased to three million tons per year.¹⁷ As Myanmar was becoming self-sufficient, the British gradually separated its colonial administration of Myanmar from India. With limited administrative capacity, Britain governed Myanmar's periphery hills areas differently than central Myanmar.¹⁸ Central Myanmar (also known as Ministerial Burma and Old Burma Proper) had a parliament with a restricted local democracy that had seats reserved for some minority groups such as the Karen, Chinese, and Indians.¹⁹ The hills areas or "excluded areas" were governed directly by a British governor, while administrative, legal, and financial matters remained in the hands of chiefs and hereditary rulers.²⁰

Whereas central Myanmar had a history of organized Buddhist organizations (such as the Young Men's Buddhist Association, which formed in Rangoon in 1906), the hills areas were less impervious to the influences of Christian missionaries.²¹ Since the British recruited most of its military forces from the periphery—notably from the Karen population—Christianity was quick to spread and remain in the hills areas of Myanmar. The appearance of preferential treatment of the hills people by the British exacerbated the growing distrust and suspicion among the Burman nationalists.²² To the hills people, the British neglect of the periphery areas in contrast with the focus on the rice-producing deltas was a point of contention.²³ Entering the 1930s, Myanmar's social and political demography had been altered drastically by the British.

¹⁷ Martin Smith, *Burma: Insurgency and the Politics of Ethnicity*, 2nd (revised) ed. (New York: St Martin's Press, 1999) 42.

¹⁸ Steinberg, *Burma*, 183.

¹⁹ Smith, *Burma*, 42.

²⁰ *Ibid.*, 43.

²¹ Steinberg, *Burma*, 183.

²² Smith, *Burma*, 45.

²³ *Ibid.*, 47.

3. The Independence Movement and the Formation of the Tatmadaw

The 1930s marked the beginning of the Myanmar nationalist movement. The Dobama Asiayone (We Burmans Association) consisted of students and intellectuals, and members started to address one another as “Thankin” (lord or master) to signify that they were the real rulers of the country, not the British or the Indian/Chinese business interests.²⁴ In the mid-1930s, a new class of Thankin leaders emerged to include Aung San and U Nu.²⁵ As the Thankin movement gained momentum, factions within the Dobama Asiayone developed: a large faction with an interest in Marxism that included Aung San and U Nu, a more nationalist faction that included little-known Ne Win, and a smaller short-lived faction called the Fabian League.²⁶

In 1939, Aung San, Soe, Ba Hein, Hla Pe, Ba Tin, and Dr. Nath founded the Communist Party of Burma (CPB).²⁷ In the same year, an alliance called the Freedom Bloc was formed between the Dobama Asiayone, politically active monks, Dr. Ba Maw’s Sinyetha (Poor Man’s Party), and the All Burma Student Union. With Aung San as secretary and Dr. Ba Maw as ahnashin (president-dictator), the goal of the Freedom Bloc was to pressure the British to recognize Myanmar’s right to independence by staging anti-British rallies inside Burma and acquiring foreign support for Myanmar’s cause. Dr. Ba Maw officially approached the Japanese for support in September 1939.²⁸

The British reacted to the Freedom Bloc’s effort. In the mid-1940s, under the Defense of Burma Rules, leaders of the Freedom Bloc and the Dobama Asiayone were arrested. Aung San and Hla Myaing escaped to Amoy in China.²⁹ While Dr. Ba Maw remained in Myanmar, he made contact with Colonel Keiji Suzuki, a Japanese army officer assigned to conduct intelligence operations in Myanmar. The two men located

²⁴ Smith, *Burma*, 54.

²⁵ *Ibid.*

²⁶ *Ibid.*, 55.

²⁷ *Ibid.*, 56.

²⁸ *Ibid.*, 58.

²⁹ *Ibid.*

Aung San and Hla Myaing in Amoy and sent them to Japan.³⁰ In Japan, Aung San and Hla Myaing met Colonel Suzuki, who urged Aung San to draw a blueprint for Burma's independence.³¹ The plan outlined steps to bring thirty volunteers to Japan to train as military leaders.³² In 1941, Aung San traveled back to Myanmar, recruited the thirty volunteers (nicknamed the "Thirty Comrades"), and brought them to Japan for training.³³ After completing the training, the Thirty Comrades traveled to Siam (Thailand) to recruit volunteers along the border.³⁴ In Bangkok, on 28 December 1941, the Thirty Comrades took up new names, held a ceremony, and the Burma Independence Army (BIA) was born.³⁵

The BIA grew rapidly, and by May 1942, it included approximately 23,000 men. The size of the BIA came at the sacrifice of discipline, so in July the Japanese reduced, reorganized, and re-formed the BIA into the Burma Defense Army (BDA). Members of the BDA sided with the Japanese because they believed Myanmar's independence was the ultimate prize.³⁶ As the war progressed, the brutality of the Japanese occupation sickened the Burmese nationalists.³⁷ Japan's refusal to recognize independent Burma in 1943 led to revolts by BDA officers such as Aung Gyi and Maung Maung.³⁸ Although these revolts were kept in check by General Aung San, Colonel Ne Win, and some Communist leaders at the time, other Communist leaders were looking for a way to solve the Japanese problem. An opportunity occurred when several Communist leaders formed an alliance with the British Special Operation Executive Force 139, which allowed the BDA to turn against the Japanese.³⁹ The BDA renamed itself in 1943 as the Burma

³⁰ Zakaria Haji Ahmad and Harold Crouch, eds., *Military-Civilian Relations in South-East Asia* (Oxford, UK: Oxford University Press, 1985), 18.

³¹ Maung Maung, *Burma Nationalist Movement 1940–1948*, (Edinburgh, UK: Kiscadale Publications, 1989), 26.

³² *Ibid.*, 59.

³³ *Ibid.*, 27.

³⁴ *Ibid.*

³⁵ *Ibid.*

³⁶ Smith, *Burma*, 60; Bertil Lintner, *Burma in Revolt: Opium and Insurgency Since 1948* (Chiang-Mai, Thailand: Silkworm Books, 1999), 44.

³⁷ Lintner, *Burma in Revolt*, 72.

³⁸ Haji Ahmad and Crouch, *Military-Civilian Relations*, 21.

³⁹ *Ibid.*, 22.

National Army (BNA).⁴⁰ In 1945, the BNA went underground. With British support, the BNA emerged as the Patriotic Burmese Forces (PBF).⁴¹

After the defeat of the Japanese and the liberation of Rangoon, the British were determined to disband the young nationalist army. To Aung San and other fighters, preserving the strength of the PBF and politically uniting the Communist, non-Communist, civilian, and military leadership under the Anti-Fascist People's Freedom League (AFPFL) would force the British into negotiations without a military confrontation. In September 1945, General Aung San signed an agreement with the British South-East Asia commander Lord Mountbatten in Kandy, Sri Lanka.⁴² In accordance with the Kandy agreement, the Tatmadaw was re-formed by combining the British Burman Army and the PBF.⁴³

Concerned about the future of the periphery areas under the prospect of Myanmar's independence, the Shan ethnic leaders sponsored a conference at Panglong to discuss the future of the ethnic states. Representatives of several (but not all) ethnic groups including Shan, Kachin, Chin, and Karen were present. The Panglong agreement was signed in February 1947 with provisions for degrees of autonomy and guarantees of rights and privileges for the frontier areas. In July 1947, Aung San and the de facto Burman cabinet were assassinated by armed paramilitaries of U Saw (the former prime minister of British Burma). Myanmar went into mourning for its national hero, and U Nu, Aung San's AFPFL deputy, took over as prime minister.⁴⁴

Aung San's death was a turning point for the development of Myanmar's politics. At the time of his death, Aung San was the unifying force for Myanmar. His brother-in-law was Thakin Than Tun, the leader of the CPB, an organization that had a major role in expelling the Japanese from Myanmar. Aung San also had a close relationship with the socialist faction leader, Kyaw Nyien, whom he had served with during their time on the Rangoon University Students' Union executive committee. Aung San was also the leader

⁴⁰ Ibid., 19.

⁴¹ Smith, *Burma*, 60; Lintner, *Burma in Revolt*, 73.

⁴² Donald M. Seekins, *History Dictionary of Burma* (Lanham, MD: Scarecrow Press, 2006) 240.

⁴³ Maung Maung, *Burma Nationalist Movement*, 48; Smith, *Burma*, 65.

⁴⁴ Lintner, *Burma in Revolt*, xii-xiii.

of the Thirty Comrades and had gained the trust of many minority leaders. The fragile political and social solidarity of Myanmar's union arguably rested on Aung San's leadership.

4. The Myanmar Political Economy 1948–1962

The issues of political representation of ethnic minorities were unresolved when Myanmar officially gained independence in 1948. Many leaders of the ethnic minority groups had served as civil servants under colonial rule. They were educated and had developed a strong sense of their ethnic identities. Immediately after independence, distrust among the ethnic minority groups grew as, in their view, the Burman-dominated government failed to allocate political and economic benefits equitably.⁴⁵

The government's practice of dividing revenue according to shares of the population was contradictory to the minority groups' interpretation of Aung San's earlier promise. Aung San had said, "If a Burman gets one kyat, a Shan will get one kyat as well," which the minority groups had interpreted as meaning one kyat for a Burman is one kyat for a Shan, one for a Karen, one for a Mon, and Kachin alike, but the actual practice was one kyat for a Burman and one kyat for all the minority groups combined.⁴⁶ Additionally, some ethnic leaders believed that since their areas were underdeveloped compared to Rangoon, the government should invest more in their areas.⁴⁷ Tension and frustration felt by the minority groups motivated them to demand greater autonomy, which culminated into Myanmar's first civil war under the parliamentary government in the same year independence was declared.

Years as a British colony turned Myanmar into a lopsided exporter that depended on the production and export of one commodity, paddy (rice).⁴⁸ Most Burman peasants were landless paddy laborers who were "almost totally excluded from any role in the

⁴⁵ Kyaw Yin Hlaing, "Problems with the Process of Reconciliation," in *Myanmar/Burma: Inside Challenges, Outside Interests*, ed. Lex Rieffel (Washington, DC: Brookings Institution Press, 2010), 44.

⁴⁶ Ibid.

⁴⁷ Ibid.

⁴⁸ Myat Thein, *Economic Development*, 15.

process of modernization.”⁴⁹ The Land Naturalization Act of 1948 was intended to correct these imbalances by redistributing land to the Burmese laborer (with the limit of ten acres each).⁵⁰ After independence, the Myanmar’s government systematically took command of various commodities such as rice, timber, and oil.

The economic policy in 1948 consisted of a Two-Year Plan followed by an Eight-Year Plan. More closely resembling a list of desirable industrial projects than a strategy, the Two-Year Plan was never fully implemented due to a massive political uprising in the latter part of 1948 that consumed all the government’s resources.⁵¹ The Eight-Year Plan, or the Pyaidawtha Plan, was based on the report of American engineers and economists belonging to Knappen Tippetts Abbett Engineering Company.⁵² According to Prime Minister U Nu, the Eight-Year Plan failed to achieve targets due to the failure to restore law and order in the country, the lack of trained administrators to manage the projects, the prevalence of inefficiencies from the lack of skill, low morale and ineffective management, and the “lapse of time.”⁵³ The projects had gained momentum midway into the plan in 1954/55 rather than in the beginning in 1950/51. These failures were attributed to two major assumptions of the Eight-Year Plan: that social unrest would have calmed by the end of 1954 and that the price for Myanmar’s rice exports would remain high.⁵⁴ In actuality, the government never had a firm grip on the political turmoil. In the 1950s, when the Korean War ended, the global demand for rice dropped significantly and so did the price. Additionally, in 1954–55 the plan had stalled due to a financial crisis.⁵⁵ The plan had no provisions that netted the support of the Tatmadaw, so when Ne Win came into power, he had no motivation to continue it. The Eight-Year Plan was abandoned after 1955–56 and later replaced by two less unrealistic Four-Year Plans.”⁵⁶

⁴⁹ Ibid.

⁵⁰ Ibid.

⁵¹ Ibid., 18.

⁵² Ibid., 16.

⁵³ Ibid., 20.

⁵⁴ Maung Maung, *Burma and General Ne Win*, 237; Myat Thein, *Economic Development*, 20.

⁵⁵ Ibid.

⁵⁶ Myat Thein, *Economic Development*, 16.

In 1958, the AFPFL succumbed to fractionalization and split into two factions, the “Stable AFPFL” led by Kyaw Nyein and Ba Sew and the “Clean AFPFL” led by Nu.⁵⁷ On 28 October, the Tatmadaw assumed leadership of the caretaker government, and Ne Win became prime minister on a precondition that the military leadership would step down after the next general election. From 1958 to 1960, the Ne Win caretaker government kept the existing economic plan although the Tatmadaw concentrated on containing the black markets and inflation.⁵⁸ During this period, the Defense Service Institute grew dramatically and transformed into a large conglomeration of business interests with branches that engaged in transport, finances, manufacturing, retail, and wholesale trades.⁵⁹ In 1960, when it transferred power back to the civilian government, the Tatmadaw was arguably the most organized institution in Myanmar.

From 1960 to 1962, social unrest and political division worsened. Although U Nu had won the 1960 election, he was unable to co-opt the opposition. In March 1962, General Ne Win launched his coup. Brigadier General Aung Gyi, the spokesman for the Tatmadaw, claimed that “economic and political crisis had forced Ne Win to depose President Win Maung and Premier U Nu and reinstall a military regime.”⁶⁰ Other views were expressed by prominent Burmese political figures, such as Myanmar’s foreign minister at the time of the coup, Sao Hkun Hkio, who believed that the military had tasted political power in 1958 and that the coup was to quench its thirst for more.⁶¹ General Ne Win supposedly told U Zahre Lian, the Chin minister who was rounded up and taken to the army’s headquarters during the coup, that “Federalism is impossible; it will destroy

⁵⁷ David I. Steinberg, *The Future of Burma: Crisis and Choice in Myanmar* (Lanham, MD: University Press of America, 1990), 10.

⁵⁸ Tin Maung Maung Than, *State Dominance*, 57.

⁵⁹ Ibid.

⁶⁰ Robert Trumbull, “Burma Official Says Crisis Forced Coup,” *Dallas Morning News*, March 8, 1962, http://infoweb.newsbank.com.libproxy.nps.edu/iw-search/we/HistArchive/?p_product=WHNPX&p_theme=ahnp&p_nbid=J63P57CMMTQ0NTU0Nzk1Mi4xMjExMDM6MT0xMzoyMDUuMTU1LjY1LjU2&p_action=doc&s_lastnonissuequeryname=8&d_viewref=search&p_queryname=8&p_docnum=5&p_docref=v2:0F99DDB671832188@WHNPX-0FFE655D5063DDBF@2437732-0FFE655D66FBFF29@4.

⁶¹ Smith, *Burma*, 197.

the Union.”⁶² Regardless of the debate about the reasons for the coup, the Tatmadaw had exercised its monopoly on force and overthrown Myanmar’s elected government.

5. The Tatmadaw 1948–1962

In the late 1940s, the Tatmadaw was a feeble, meager, and internally divided force. After the Kandy agreement, the intent was to incorporate Myanmar’s ethnic and communal divisions into the Tatmadaw.⁶³ The unintended result was that the race and political leanings of the some Tatmadaw members (along with the constant interference by politicians and the disparate opinions between the field and the regional commanders) exacerbated and fractured the force.⁶⁴ After political factionalism led to a civil war from 1948 to 1952, General Ne Win, as the leader of the Tatmadaw after independence, contended with mutinies and the desertion of troops who followed their allegiance to either the Burma Communist Party or the Karen National Defense Organization.⁶⁵ After the civil war, the Tatmadaw officer corps was greatly reduced in size and became more ideologically united—a unity that lasted until 1961.⁶⁶

General Ne Win’s perception was dominated by Myanmar’s colonial experience, his involvement in the independence movement as a member of the Thirty Comrades, and the failure of the early parliamentary government. The colonial experience caused General Ne Win’s suspicion of capitalism and foreign intervention. In a 1953 meeting at the residence of U Ba Swe (the Myanmar defense minister at the time), several senior leaders gathered to discuss Myanmar’s political path forward. General Ne Win remarked that the AFPFL should adopt whatever ideology “would be best suited to Burma’s needs and conditions.”⁶⁷ He stated that “You must not depend on the big traders who make big money by selling import licenses to the foreign capitalists. If you do, you will continue to

⁶² Smith, *Burma*, 196.

⁶³ Haji Ahmad and Crouch, *Military-Civilian Relations*, 23.

⁶⁴ Maung Aung Myoe, *Building the Tatmadaw: Myanmar Armed Forces since 1948* (Singapore: Institute of Southeast Asian Studies, 2009), 47.

⁶⁵ Haji Ahmad and Crouch, *Military-Civilian Relations*, 24.

⁶⁶ *Ibid.*, 24.

⁶⁷ Maung Maung, *Burma and General Ne Win*, 235.

be under their obligation. Your socialism will begin and end in slogans.”⁶⁸ Although General Ne Win did not suggest that the government removed all foreign interests from Myanmar’s economy, his statement pointed to a bias toward certain business sectors and foreign traders.

In the same meeting, in reference to the future of the army, General Ne Win directed that “We [the army and the AFPFL] have come to a parting of ways. You must go to your’s [sic] on the political front; we must go our way on the military....The Army must build itself into a People’s Army, and with the fight against insurgents and the Kuomintang marauders on its hands, it would be fully engaged.”⁶⁹ At this time, General Ne Win already perceived the Tatmadaw’s role as the defender of Myanmar and the ethnic insurgents and foreigners as threats. To General Ne Win, political matters belonged to the AFPFL.

General Ne Win’s statement on building the Tatmadaw into a People’s Army reflected an effort to solidify the military. Defense expenses in 1948 and 1949 were estimated at 40 percent of the total government expenditures.⁷⁰ In 1950, the War Office was reorganized into the Ministry of Defense with increased authority over finances and administration.⁷¹ In the same year, a lengthy commanding officers (CO) conference highlighted the lack of cooperation between field and staff officers and addressed supply shortage problems.⁷² In the following year, the Tatmadaw established the Defense Services Institute (DSI), which operated several businesses for the purposes of providing welfare services and subsidized commodities for service members.⁷³ After the reorganization, the Tatmadaw developed its first military doctrine focusing on the foreign invasion, mainly combating the Kuomintang (KMT) remnants.⁷⁴

⁶⁸ Maung Maung, *Burma and General Ne Win*, 235.

⁶⁹ *Ibid.*

⁷⁰ Maung Aung Myoe, *Building the Tatmadaw*, 164.

⁷¹ *Ibid.*, 53

⁷² *Ibid.*, 55.

⁷³ Maung Aung Myoe, *Building the Tatmadaw*, 164; Tin Maung Maung Than, *State Dominance*, 57.

⁷⁴ Maung Aung Myoe, *Building the Tatmadaw*, 17.

In the mid-1950s, the failure of the Pyaidawtha Plan created by the American firm Knappen Tippetts Abnett was evident. When the price of rice fell in the early 1950s, Myanmar foreign reserves plunged from 1,269 million kyat in June 1953 to 628 million kyat in February 1955.⁷⁵ Since some of the Myanmar's economists had predicted the fall of the price of rice, the government's decision to adhere to a plan that was proposed by a foreign firm rekindled the suspicion of foreign interests in a few of Myanmar's political circle.⁷⁶ U The Tun, director of Myanmar's Central Statistics and Economics Department wrote, "The lesson about the use of foreign staff is that personnel from academic institutions or disinterested governments would have been more useful than commercial firms who acquire vested interest and tend to work to perpetuate their contracts."⁷⁷ The decline of Myanmar's economy in this period fueled a deep-seated mistrust of foreigners, a sentiment that steered Myanmar toward socialism and autarky in the next decade.

Myanmar's economy in the second half of the 1950s continued to slump. The only social sectors that prospered during this period were high-level civil servants, businesses not associated with rice, licensees, and black market traders. Economic hardship aggravated the AFPFL's internal conflicts. Since the national meeting of delegates in 1947, the League had not held another. By 1956, the ideological divide between the various factions and their party bosses had crippled the AFPFL. In response to the situation, U Kyaw Nyein, a Socialist Party member of the AFPFL, issued a letter accusing U Nu of having been corrupted by business interests and stating that the AFPFL socialist ideology had been compromised.⁷⁸ An attempt to amend differences during the 1958 AFPFL national conference ended in failure. In March, just two months after the conference, the AFPFL split into two factions, and a political opportunity was created for the Tatmadaw.

Although General Ne Win maintained neutral of the Tatmadaw immediately after the AFPFL split, some of the Tatmadaw officers grew weary as the "Clean" AFPFL won the election in 1958. In the AFPFL split, the "Stable" had retained the majority of the

⁷⁵ Maung Aung Myoe, *Building the Tatmadaw*, 17.

⁷⁶ Ibid.

⁷⁷ Maung Maung, *Burma and General Ne Win*, 237–238.

⁷⁸ Ibid., 240.

AFPFL members, and the “Clean” had co-opted minority groups and the National United Front (NUF).⁷⁹ Since the NUF was known to associate with communists, the Tatmadaw field commanders were concerned about the ties between the NUF’s Communist elements and the outlawed Burma Communist Party.⁸⁰ Meanwhile, political tension grew as the “Stable” faction demanded that the “Clean” faction vacate the AFPFL headquarters and turn over the League’s funds.⁸¹ Organizational rivalry between the newly created Union Labor Organization and the older Burma Trade Union Congress also grew as a source of political tension.⁸² In September 1958, Colonel Aung Gyi and Colonel Maung Maung went to see Prime Minister U Nu. Their discussion of the situation ended in an agreement for the U Nu government to transfer power to the Tatmadaw.⁸³ The result was the formation of the 1958 caretaker government with General Ne Win as the prime minister.⁸⁴

For General Ne Win, the political situation had collapsed. He remarked that “It was imperative that the Union should not drown in shallow waters as it nearly did in 1948–49. So it fell on the armed forces to perform their bounden duty to take security measures to forestall and prevent a recurrence.”⁸⁵ General Ne Win was trusted with the caretaker government because he had been one of the Thirty Comrades who fought along the late Aung San, the famed Burma liberator. The transfer of power was the official recognition of the Tatmadaw as a national organization and the elevation of its role as the preserver of the Union of Myanmar.

In the political center of Rangoon, the Tatmadaw was perceived as a righteous guarantor of the security of Myanmar. In the periphery regions of Myanmar, the same sentiment was not shared. At the end of World War II, the British sent different political messages to the Myanmar nationalists in Rangoon and to the ethnic minorities groups. Many ethnic groups, notably the Karen and Kachin, had fought bravely as a part of the

⁷⁹ Maung Aung Myoe, *Building the Tatmadaw*, 55.

⁸⁰ *Ibid.*

⁸¹ Maung Maung, *Burma and General Ne Win*, 247.

⁸² *Ibid.*

⁸³ Maung Aung Myoe, *Building the Tatmadaw*, 56.

⁸⁴ Maung Maung, *Burma and General Ne Win*, 248.

⁸⁵ *Ibid.*, 247.

British forces. In return for their loyalty, the British officers had promised to support their Karen and Kachin troops.⁸⁶ Since these promises were echoed in Aung San's "Blue Print for Burma," the minority groups believed that decisions regarding the frontier areas would include their consent, equivalently, that the ethnic groups had "the ultimate rights of self-determination."⁸⁷ The minorities' expectations became a major source of conflict leading to an insurgency that consumed the Tatmadaw in the decades to follow.

E. RESEARCH DESIGN

This thesis relies on a comparative analysis of two phases of Myanmar's history: the socialist phase (1962–1988) and the market liberalization phase (1988–2010). The research focuses on policies developed and implemented by the Myanmar's government under two separate eras: the socialist period under General Ne Win and the market-liberal period under the State Law and Order Restoration Council (SLORC)/State Peace and Development Council (SPDC). This research uses a hybrid of developmental state and new institutional economic (NIE) frameworks to explain Myanmar's economic trajectory and its current economic strategy. A development strategy is a package of policies designed to drive economic activities into a "particular mixture of ownership and sectors."⁸⁸ This research attempts to associate government policies and strategies with their incentives. In analyzing these incentives, the research also tries to identify the social/economic pressures and the political processes that shape them. In building historical narratives of the two periods, this research investigates the domestic political processes, actors, institutions, ideologies, economic policies, and environment through an analysis of existing scholarship.

Although the Myanmar's government revoked the 1965 Law of Establishment of the Socialist Economic System in March 1989, the introduction of capitalism arguably began in 1987 with the removal of government procurement system for rice and other

⁸⁶ Smith, *Burma*, 72; Steinberg, *Burma*, 279.

⁸⁷ Ibid.

⁸⁸ Stephan Haggard, *Pathways from the Periphery: The Politics of Growth in the Newly Industrializing Countries* (Ithaca, NY: Cornell University Press, 1990), 23.

crops.⁸⁹ The 1988 Foreign Investment Law is another evidence of the Myanmar's government embracing capitalism before socialism was officially denounced. To coincide with 1988 domestic unrest that catalyzed the introduction capitalism, this thesis uses 1988 as the year that marks the end of socialism and the beginning of the market liberalization period.

Whenever relevant, the thesis employs economic data—such as gross domestic product (GDP), exports and imports, interest rates, and wages—generated by institutions such as the World Bank, the International Monetary Fund (IMF), and the Asian Development Bank (ADB). The research relies on sources such as research papers from the Overseas Economic Cooperation Fund (OECF) to substantiate the outcome of economic policies such as growth, gains in productivity, and improvement in the livelihood of Myanmar's citizens. Due to Myanmar's autarkic economic policies, much of the IMF and ADB data on Myanmar is missing. Many scholars have questioned the accuracy of Myanmar's statistics as reported by the government to international organizations.⁹⁰ To compensate for some of the missing data and accuracy issues, reports by Thailand on Myanmar exports and imports and reports by the Japanese government on foreign aid supplement the analysis.

F. SCOPE AND LIMITATIONS

This thesis focuses on the role of the Tatmadaw in influencing the development and metamorphosis of Myanmar's economic institutions from a socialist to a market economy using a historical comparative method. Although a hybrid of NIE and developmental state theories provides the underlying analytical framework, this thesis limits the NIE discussion to the creation of formal and informal institutions and the ways these institutions influence the development of Myanmar's political economy. As such, other aspects of NIE, such as the Coase Theorem and transaction cost analysis, are omitted from the discussion.

⁸⁹ Myat Thein, *Economic*, 123; Tin Maung Maung Than, *State Dominance*, 356.

⁹⁰ Lex Rieffel, "The Moment," in *Myanmar/Burma: Inside Challenges, Outside Interests*, ed. Lex Rieffel (Washington, DC: Brookings Institution Press, 2010), 10; Steinberg, *Burma*, xxvii.

G. THE STRUCTURE OF THIS THESIS

This thesis consists of six chapters. Chapter II outlines the analytical framework of this thesis. The chapter provides brief background information on NIE and the developmental state model. The chapter also discusses the motivation behind the NIE developmental state framework and specifies how this thesis will use the framework to analyze Myanmar's political economy.

Chapter III addresses Myanmar's economic developments during the socialist period between 1962 and 1988. The chapter describes conditions and events that influenced the development of economic institutions under socialism. Additionally, Chapter III contrasts Myanmar's socialist political economy with that of the developmental state model.

Chapter IV analyzes the development of Myanmar's market liberalization period from 1988 to 2010 and describes and traces the interactions of events that influenced the shifts in Myanmar's economic institutions. An evaluation of the development of Myanmar's market-based economy from a developmental state point of view is also included in Chapter IV.

Chapter V is a comparative analysis between the socialist and market-economy period to assay the role of the Tatmadaw in framing and influencing institutional changes. Furthermore, a comparison between Myanmar's institutions to those of the developmental state model is presented. Chapter VI summarizes the major findings of this thesis.

II. ANALYTICAL FRAMEWORK

The socialist economic strategy pursued by the government of Myanmar since 1962 severely limited the role of private enterprise in the formulation of Myanmar's political economy. After twenty-six years of socialism, a revolution swept through Myanmar in 1988. General Ne Win, the head of Myanmar's government and its military, was replaced by a junta of senior military members. The SLORC abandoned socialism and embraced market liberalization. Focusing on the role of the military in shaping Myanmar's political economic institutions, this thesis employs a hybrid analytical framework that builds on the NIE and the developmental state model. This chapter uses the NIE framework to establish a connection between institutions and economic strategy while employing developmental state theory to gauge Myanmar's divergence from East Asian and some Southeast Asian economies that have adopted economic policies based on the model. The overall goal of the analysis is to understand how the experiences of the Tatmadaw influenced the emergence of certain political economic institutions that, in turn, led Myanmar's economy trajectory to diverge from the developmental state model.

A. THE NEW INSTITUTIONAL ECONOMICS

In the context of this thesis, the term "institution" has two meanings. First, institution refers to a particular social, political, and economic organization such as the Tatmadaw and the SLORC. Second, institutions are social rules that govern human interactions in society.⁹¹ The NIE perspective argues that the role of the state is to create institutions that decrease transaction costs and facilitate free and fair competition and to serve as an impartial referee in the application of rules and institutions. As the state intervenes in the market to rebalance competition, the state undergoes a trial-and-error process to generate favorable outcomes for all the participants. After many interventions, a "superior configuration of institution" emerges that satisfies almost all the economic

⁹¹ Douglass North, *Institutions, Institutional Change and Economic Performance* (Cambridge: Cambridge University Press, 1990), 3.

actors.⁹² Institutions such as property rights can define the incentive structure that influences transaction costs. Outside of these roles, NIE emphasizes limited government intervention in the economy. Once the institutions are created, competition in the private sector should be the primary determinant of the market price mechanism.

The NIE's focus on allowing the market mechanism to work stems from the notion that the market accelerates the development of institutions while socially developed institutions tend to proceed at a much slower speed.⁹³ At the agent level, institution changes occur as a part of the cognitive apparatus applied through the learning process.⁹⁴ At the societal level, institutional changes take place when all or most participants agree to make the changes resulting in a shift in the shared mindset that transforms into new values and norms.⁹⁵ Since it takes time for change to be accepted by the majority of the participants, social institutional changes do not occur spontaneously.

Since institutions represent consensus in human engagement, they are symbolically solutions to old problems.⁹⁶ Arguably, when an agent enters the marketplace, existing institutions the agent shares with others (such as legal protection, property rights expectations, and the degree of freedom of exchange) help to free all the participants from the effort of repeatedly developing solutions to old problems and to direct the participants to solve new challenges as the market presents them.⁹⁷ Consequently, success is marked by agents who can best and most expeditiously develop innovative solutions rather than those who mechanically apply old solutions to new problems.

The neoclassical description of the market centers on specialization and division of labor. In the context of institutional changes, specializing meant that whatever institutions are developed by an agent to solve market problems are unique solutions to

⁹² Steven Casper and Frans van Waarden, editors, *Innovation and Institutions: A Multidisciplinary Review of the Study of Innovation Systems* (Northampton, MA: Edward Elgar, 2005), 196.

⁹³ C. Mantzavinos, *Individuals, Institutions, and Markets: Political Economy of Institutions and Decisions* (Cambridge: Cambridge University Press, 2001), 180.

⁹⁴ *Ibid.*

⁹⁵ *Ibid.*

⁹⁶ *Ibid.*, 182–183.

⁹⁷ North, *Institutions*, 22; Mantzavinos, *Individuals*, 186.

that agent's particular set of utility challenges. Each agent's trial-and-error process represents separate and individualized learning experiences. Not only that the creation of knowledge, learning, and change took place at a faster pace in the market than in social context, the fact that institutional changes do not require acceptance by all its agents to be valuable means that institutional changes under market pressures occur more swiftly than social institutional changes.⁹⁸

Under socialism, the influence of competition on the growth of economic institutions became diminished. From this view, as long as the Myanmar's government continued to assume the market's allocative role, theoretically Myanmar could not achieve a configuration of institutions that enabled prosperity while pursuing socialism. As the state continuously applies old solutions to new problems via centralized system, the state restricts the agent market learning process that consequently impacts Myanmar's ability to react to economic problems.

An NIE explanation attributes the collapse of the planned economy to the inefficiencies and dysfunctions of the socialist institutions. As time passes, the controlling interests that characterize the planned economy at its inception gradually wane and eventually give way to competing interests that challenge the ruling faction.⁹⁹ As these competing interests bargain and negotiate for greater shares of power, more resources are diverted to the distribution of wealth.¹⁰⁰ As a result, the control mechanisms of the planned economy intended to sustain the state monopoly erode, causing serious imbalances in consumption and production. Equilibrium begins to teeter. The elites start to perceive more benefits in promoting change, and the economic system slowly liberalizes.¹⁰¹

The NIE explanation for the collapse of Myanmar's planned economy matches the historical development of circumstances experienced by the Tatmadaw. Competition for resources, political power to control the rule of the game, and prestige between the

⁹⁸ Mantzavinos, *Individuals*, 180.

⁹⁹ Peter M. Lichtenstein, "A New-Institutionalist Story about the Transformation of Former Socialist Economies: A Recounting and an Assessment," *Journal of Economic Issues* 30, no. 1 (March 1996): 254.

¹⁰⁰ *Ibid.*

¹⁰¹ *Ibid.*, 255.

regional Tatmadaw commanders in the periphery and the political Tatmadaw commanders in the capital does exist.¹⁰² Myanmar is rich in oil, natural gas, and timber, but the government lacks the investment capacity to exploit its resources. Some Tatmadaw commanders viewed that market liberalization would bring the necessary foreign investment and technical assistance to exploit the available resources.¹⁰³ Others interpreted greater integration into the global economy as access to new markets and potential new avenues to expand their private business interests. According to the NIE framework, the controlling interests that put Myanmar on the path to socialism should diminish in power over time as other interests emerge. Equivalently, the Tatmadaw leadership that favored capitalism could gradually replace those that favored socialism. To a degree, this did happen as General Ne Win, who promulgated socialism, was forced out by the SLORC in 1988.

Considering the historical comparative method employed by this thesis, the utility of the NIE is amplified. In building a story of Myanmar's political economy through time, the NIE provides a continuous picture of changes. As incentives varied over time, institutional analysis redirects emphasis while retaining normative theoretical tools.¹⁰⁴ Additionally, the methodology retains rationality while providing consideration to the implication of ideology on the transformations of economies.¹⁰⁵ Overlaying a comparison of the socialist and the market liberalization period, the NIE framework serves to reveal a logical story of how incentives and institutions paved the path for Myanmar's political economy.

Applying the NIE framework to Myanmar's political economy and the Tatmadaw is not without some unique challenges. General Ne Win was the highest-ranking Tatmadaw leader. He advocated for socialism and executed his vision with the Tatmadaw-dominated government from 1962 to 1988. In 1989 when Myanmar announced it was abandoning socialism and embracing market liberalization, the

¹⁰² Casper and van Waarden, *Innovation*, 196; Maung Aung Myoe, *Building the Tatmadaw*, 199.

¹⁰³ David I. Steinburg, "Myanmar in 1991: The Miasma in Burma," *Asian Survey* 32, no. 2, (February 1992): 148, www.jstor.org/stable/2645212.

¹⁰⁴ North, *Institutions*, 135.

¹⁰⁵ *Ibid.*

Tatmadaw retained its prominence in Myanmar's politics.¹⁰⁶ At the organizational level of analysis, within the NIE framework, market liberalization should have ushered in new organizations to replace the Tatmadaw along with new sets of accompanying institutions; however, the institutions (such as rent-seeking norms) created by the Tatmadaw and the Tatmadaw as an organization, remained largely unchanged. Here, the challenge for the NIE framework is how to explain shifts in economic strategy that precede institutional changes—an explanation that involves understanding a complex interplay of competing institutions in Myanmar's politics.

Another challenge in applying the NIE framework is the difficulty of distinguishing NIE from human capital theory in explaining the decline of the agricultural sector during the socialist era. The NIE approach advocates the inefficiency of institutions as the causes that brought the demise of socialism. So the decline in the agricultural sector is a matter of not having the proper market incentives for the Burmese farmers to produce. Human capital theory argues that human behaviors are derived from “attributes of individuals or groups, such as education, time horizons, or values.”¹⁰⁷ From this perspective, the cause of the decline in agricultural output is the cultural nature of Burmese farmers. Steinberg, in his analysis of the farmers' incentives wrote:

The farmer throughout this period received little inducement to improve the quality of his product even though the government tried to encourage the sowing of high-quality seeds. The cultivator had few needs and was able to purchase consumer goods at relatively stable prices. . . .He found himself standing alone against predator insurgents and dacoits as well as against a government that did not listen closely to what he said. . . . Conservative by nature, he wanted little beyond what he grew and, most of all, to be left alone by government and insurgents. His cash income together with monies he borrowed satisfied his needs, and when he had a little left over, he invested it in festivals and religious activity—giving a feast or decorating a pagoda.¹⁰⁸

From the passage, the Burmese farmer's “propensity to truck and barter” seemed to be stymied by his “conservative nature.” It is possible to read the passage and derive

¹⁰⁶ Steinberg, *Burma*, 69–70.

¹⁰⁷ Peter Gouresvitch, “The Role of Politics in Economic Development,” *Annual Review of Political Science* 11 (2008): 142, doi:10.1146/annurev.polisci.11.053006.185507.

¹⁰⁸ Steinberg, *Burma*, 149.

institutional incentives as the motivator of the farmers' behavior, albeit inconclusively, since the farmer could have saved what he had left over to expand his productivity. Since the human capital theory cannot completely be discredited—even though the applicability of the NIE remains—the exclusivity of the NIE framework to derive an explanation is open to question.

One of the criticisms of the NIE approach is that the framework is too broad. Concepts such as property rights and the rule of law are umbrellas that cover myriads of subtopics. The framework provides no prescriptions for how to establish property rights nor answers the question of how to fairly allocate economic resources. Upon achieving independence, many countries embarked on land reforms as one of the measures to establish property rights for the local populations. These early economic measures shaped the social and economic structures and incentives of the economic system that would later develop. The NIE framework concentrates on the role of the government in establishing institutions that enabled the forces of competition to regulate the emerging market.¹⁰⁹ The weakness of NIE is that the theory does not specify the amount of time that must pass from when institutions are created to when a stable market economy is established. After land reforms, many Southeast Asian postcolonial economies stagnated. The NIE framework does not account for the uncertainty that exists from the time when the government created institutions to when market equilibrium is achieved.

Despite these shortfalls, NIE remains a viable model for the analysis of Myanmar's economy. Although the NIE framework concentrates on market institutions such as property rights and rule of law, the introduction of institutions as the unit of analysis provides both a broad and a narrow lens through which to examine Myanmar's political economy. The influence of protracted insurgency, the colonial experience, the idealism of the early nationalists, the failure of the parliamentary government, and social unrest can be explained in terms of how they change, shift, and create institutions. Institutions also serve to normalize the numerous facets of challenges that Myanmar had faced on its road to create a market economy. Social norms are generalized as means of

¹⁰⁹ North, *Institutions*, 7.

solving social problems and serve as platforms for overcoming social conflicts.¹¹⁰ As such, an NIE lens allows this thesis to analyze social factors and justify the outcome of conflicts. It can also address capacity questions. What are the Tatmadaw's capacities to bring about economic development and social modernization? Answering such questions involves an understanding of not only a variety of factors, but also of their different weights and of the dynamics when they are combined. Finally, the NIE lens can also provide a basis for logical predictions of plausible futures given the government's current ability.

B. THE DEVELOPMENTAL STATE MODEL

Myanmar's stark divergence is not grounds for dismissal of the developmental state model as an analytical tool. On the contrary, the developmental state approach is useful in providing a framework that rationalizes Myanmar's lackluster growth. Accounting for what is missing is as revealing as finding justification for what is present. In essence, the state of Myanmar's political economy can be measured in terms of how far it has diverged from the developmental state model.

The groundwork for the developmental state model was laid by investigations of the underlying reasons for the stellar economic growth experienced by Japan, South Korea, Taiwan, Hong Kong, and Singapore by scholars such as Chalmers Johnson, Stephan Haggard, Tun-jen Cheng, and Hagen Koo. In their works, economic successes were seen to result from a combination of close cooperation between the public and private sectors, capable bureaucracy that insulated from political influences, high rates of savings, an emphasis on growth with equity, strong and stable autocratic or single-party government, and government skilled at particular forms of market intervention.¹¹¹ The performance of these Asian economies demonstrated an alternative to both the *laissez-faire* and socialist models: economic success is possible under a planned market system. Furthermore, the developmental state model challenged the notion that democracy is

¹¹⁰ Mantzavinos, *Individuals*, 86.

¹¹¹ Chalmers Johnson, "Political Institutions and Economic Performance: The Government-Business Relationship in Japan, South Korea, and Taiwan," in *The Political Economy of the New Asian Industrialism*, ed. Frederic C. Deyo (New York: Cornell University Press, 1987), 145; Tuong Vu, *Paths to Development*, 234.

necessary for prosperity. The model established the basis for how the stability, cohesion, and discipline of autocracy can translate to economic performance.

Academic works that use the developmental state lens to analyze Myanmar's political economy are scarce due to many sharp divergences between Myanmar's economic policies and those of the developmental state. Myanmar lacks three crucial factors that were ascribed as reasons for the economic success under the developmental state model. First, economic prosperity through guided cooperation between the public and the private sector is unlikely to happen in Myanmar because of its underdeveloped private sector. Early in the socialist period, Myanmar nationalized most of its industries, causing a massive exodus of Indian commercial interest. Between 1963 and 1967, some 300,000 Indians and 100,000 Chinese reportedly left.¹¹² Since Indians were the most-capable civil servants in Myanmar (due to their history with the British colonial administration) and the overwhelming majority of Myanmar's capitalist class, Myanmar's state capacity dwindled with their departure.¹¹³ Second, in terms of a strong autocratic government, Myanmar had decades of strong military rule under General Ne Win (1962–1988) and under the SLORC/SPDC (1988–2010). Nonetheless, macroeconomic choices such as the exchange rate policy and the demonetizations of the kyat question whether the government is capable of enacting macroeconomic policies that are conducive to economic growth and stability.¹¹⁴ Last, the protracted insurgency with the ethnic minority groups consumed much of Myanmar's state budget. The limited funds that remained for social welfare, such as education, compounded the damage to the already shrinking pool of capable technocrats to administer the country. Growth with equity was a grave challenge that was largely unmet by the Myanmar's government.

The divergence between Myanmar's economic growth and that of the developmental states are stark. In 2012, Myanmar's GDP per capita was \$1,421.50,

¹¹² Smith, *Burma*, 219.

¹¹³ *Ibid.*, 127.

¹¹⁴ Steinberg, *Burma*, 134.

whereas South Korea's was \$24,454.00.¹¹⁵ Myanmar's neighbor, Thailand, who adopted some of the developmental state model's mantra, posted a figure of \$5,448.80.¹¹⁶

C. THE FRAMEWORK OF THIS THESIS

No single framework is sufficient to account for the dynamics of Myanmar's political economy. This research attempts to craft an explanation by combining the NIE and the developmental state approaches. One motivation behind the hybrid approach is that the developmental state model naturally has embedded elements of NIE. The mechanism that made possible the close cooperation between public and private sectors in the developmental state is institutions. The success of the developmental state government to execute its industrial policies is dependent on the collaborative norms between politically insulated technocrats and private firms.¹¹⁷ The Asian newly industrialized countries (NIC) were able to make industrial adjustments as a result of institutionalized patterns of policy development, state intervention, and state-business cooperation.¹¹⁸ Considering the roles of institutions in the application of the developmental state framework is natural.

The other motivation is that the developmental state model alone is inadequate in identifying prevailing institutions that influence the shaping of Myanmar political economy. The developmental state model provides no provision for analyzing and explaining the role of the Tatmadaw in creating institutions that guide Myanmar's economic direction. The developmental state framework is limited to viewing the state and its role from the perspectives of political stability, the relationship with technocrats and private sector, and the understanding of market forces. Although the developmental state model made a compelling case for the relevance of these factors, other extraneous factors that fall outside of the model (such as the regime's military mindset and military-

¹¹⁵ World Bank, <http://data.worldbank.org/indicator/NY.GDP.PCAP.CD>, accessed 31 December 2015.

¹¹⁶ World Bank, <http://data.worldbank.org/indicator/NY.GDP.PCAP.CD>, accessed 31 December 2015.

¹¹⁷ Frederic C. Deyo, "Introduction," in *The Political Economy of the New Asian Industrialism*, ed. Frederic C. Deyo (Ithaca, NY: Cornell University Press, 1987), 19.

¹¹⁸ Haggard, *Pathways*, 127.

based norms such as strict adherence to hierarchy in decision making, placing high priority on absolute loyalty, and harsh punishment for dissent) should not be omitted when trying to construct a country's overall economic narrative.

The developmental state framework has been aptly used to explain South Korea's economic growth. According to the model, Park Chung-hee's autocratic state created the political conditions for the developmental state to emerge.¹¹⁹ The relationship between Park Chung-hee's administration and the chaebol (Korean private business conglomerations), coupled with the state's industrial policies, propelled unprecedented economic growth in the 1960s with GDP growth that jumped from 3.9 percent annually in 1961/62 to 9.2 percent annually from 1963 to 1966.¹²⁰ Even though Park Chung-hee was a South Korean military general, the developmental state model provides no groundwork explaining how, why, or to what degree Park Chung-hee's experience as a military leader shaped the emergence, perpetuation, or decline of the South Korean developmental state. In the case where the military has a heavy influence over the control of the state, considering the role of the military in creating market institutions helps build a comprehensive picture of the country's political economy. The majority of developmental state analyses have concentrated on the presence or absence of factors contributing to success. Since the developmental state model does not stipulate the regime type, the role of the military-centric government was swept under the umbrella of "soft authoritarianism." Because the model does not provide an analytical space to examine the military as a separate entity, little has been investigated on the role of the military in conjunction with the emergence of the developmental state.

This thesis attempts to supplement these deficiencies of the developmental state model with the NIE framework. Using the NIE lens, the examination of Myanmar's political economy extends to the role of the military government in creating barriers to market institutions during the socialist period and promoting fair and open competition

¹¹⁹ John Minns, "Of Miracles and Models: The Rise and Decline of the Developmental State in South Korea," *Third World Quarterly* 22, no. 6, (December 2001), 1026, www.jstor.org/stable/3993460; Dwight H. Perkins, *East Asian Development: Foundations and Strategies* (Cambridge, MA: Harvard University Press, 2013), 44.

¹²⁰ Perkins, *East Asian Development*, 59.

during market liberalization period. To identify the prevailing elements that shaped the Myanmar political economy, the analysis of institutional factors extends beyond the question of whether the Myanmar's government created market institutions and what kind of institutions the Myanmar's government created. Comprehensive research involves exploring why certain institutions emerge in Myanmar, how and why they persist, whether they change over time, and how they are adopted. Central to answering these questions is understanding the Tatmadaw, the most enduring and entrenched institution in Myanmar since its independence and undeniably the most influential organization in Myanmar's political economy.

The analytical framework of this thesis directs focus on the motivations of key Myanmar political leaders, namely General Ne Win and the SLORC/SPDC, the social interactions between the junta and other economic actors, formal and informal institutions, and any spontaneous or deliberate processes that are responsible for the emergence of market institutions. Central to this thesis is the analysis of Tatmadaw as the dominant organization that heavily influenced Myanmar's politics, economics, and security environment. Since Myanmar's independence, the Tatmadaw has matured as an organization and developed particular attitudes toward the economy. A comparison between the socialist and the market liberalization periods reveals events that shaped new beliefs, norms, and outlooks that translated into shifts in Myanmar's economic policy.

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III. SOCIALIST PERIOD (1962–1990)

The purpose of this chapter is to explain the development of socialism in Myanmar in terms of General Ne Win's strategy to establish an authoritarian military state and the shaping of Myanmar's political economy as the result of this effort. The first section discusses the role of the colonial and independent experience in the seeding of socialist ideology. The second section provides a background of the formulation of Myanmar's socialist state, with an emphasis on the role of the Tatmadaw in espousing and implementing the socialist ideology. The third section details Myanmar's socialist economic policies as they relate to the destruction of liberal market institutions. The fourth section compares Myanmar's socialist political economy with the developmental state model.

A. THE ROOTS OF SOCIALISM IN THE COLONIAL AND INDEPENDENT EXPERIENCE

Myanmar's leaning toward socialism has deep roots in societal resentment about the exclusion of the Burmese population from the colonial economy. As a British colony, Myanmar's economy was state-directed and administered by foreigners, mainly Indians and some Chinese.¹²¹ Trade—both export and import—was dominated by foreigners with the Burmese occupying the agricultural sector.¹²² On the eve of independence, Myanmar had a robust economy dominated by Indian business interests.¹²³ The Burmese population saw their exclusion from economic opportunities as a barrier to development, a viewpoint that Myanmar's early leaders sought to destroy along with any organizations and associated market institutions.¹²⁴ The fierce rejection of the colonial economic system that had excluded the Burmese from the economy contributed to Myanmar's early socialistic leanings.¹²⁵ The result was socialism and nationalization of foreign interests.

¹²¹ Steinberg, *Burma*, 127.

¹²² *Ibid.*

¹²³ *Ibid.*

¹²⁴ Ian Brown, *Burma's Economy in the Twentieth Century* (Cambridge: Cambridge University Press, 2013), 205.

¹²⁵ *Ibid.*

In the late 1940s, the Indian population in Yangon was estimated at around one million with the majority employed in various businesses and crafts such as rice mills and trading and commerce companies, and as private lenders.¹²⁶ With nationalization of industries, Indian business interests left Myanmar.

Anticolonial sentiment was so deeply entrenched that Myanmar's leaders missed opportunities to foster liberal market institutions. Immediately after independence in 1948, Myanmar's economy remained largely private with Indians dominating the business sector. This was in spite of the government's initiating numerous efforts to increase the presence of Burmese in the economy, such as controlling the sale of import and export licenses to foreigners.¹²⁷ This effort was unsuccessful as there were few highly educated Burmese to run successful businesses. One of the first economic policies enacted by the AFPFL government after independence was to take over the rice and the timber industries from foreign monopolies.¹²⁸ Other foreign companies, such as the Irrawaddy Flotilla Company, the Burma Corporation, and the Burma Oil Company, were either nationalized or became a joint venture.¹²⁹ Rather than fully taking control, the Myanmar's leadership could have taken the opportunity to co-opt foreign business interests just as Malaysia's independence leaders co-opted the Chinese and Indian business interests into their nations after independence. The presence of outward-looking Indian business interests would have provided a liberal option to socialist market institutions. The resistance in the minds of Myanmar's leaders to the colonial economy was so ferocious that they did not consider this path an option.¹³⁰ Instead, Myanmar's leaders enacted policies that caused the mass exodus of Indian and Chinese business interests.¹³¹ As a result, Myanmar lost a large portion of its business that would have been the voice of free-market interests.

¹²⁶ Ibid., 209.

¹²⁷ Steinberg, *Burma*, 128.

¹²⁸ Thein, *Economic Development*, 15.

¹²⁹ Ibid.

¹³⁰ Brown, *Burma's Economy*, 209–210.

¹³¹ Ibid., 173, 211.

B. MYANMAR AS A SOCIALIST STATE: THE TATMADAW TAKE OVER

Myanmar's political economic trajectory toward socialism had roots in the country's colonialism and independence, but it was the work of a soldier that turned Myanmar into a socialist society. In the market-based colonial system, the Burmese people perceived an economic bias in favor of foreign business interests at the sacrifice of Burmese labor and natural resources. Actions taken by Myanmar nationalists to free the country from the grips of economic oppression included the creation of a revolutionary army that later became the Tatmadaw.

Although he was one of the Thirty Comrades, General Ne Win was not a prominent personality in Myanmar's nationalist movement immediately after independence. When General Aung San was negotiating Myanmar's independence in the mid to late 1940s, General Ne Win's role was to prepare for a "possible attack" if the peace talks went awry.¹³² If independence was assured, the role included building a Myanmar defense force.¹³³ The Tatmadaw remained weak in the 1940s due to defections such as the formulation of the People's Volunteer Organization and the Karen and Kachin troop rebellions that siphoned troop strength from the Tatmadaw.¹³⁴ At one point in 1948, the Tatmadaw had less than two thousand soldiers.¹³⁵

In the 1950s, under General Ne Win, the Tatmadaw reorganized itself under the new Ministry of Defense, becoming more institutionalized and independent of civilian oversight.¹³⁶ During the caretaker government, the military left the governmental and economic infrastructures untouched while focusing on enforcing law and order, to include embarking on projects such as relocating squatters out of many sections of Rangoon. The Tatmadaw's actions during the caretaker period indicated that the army "believed itself to be as representative of the entire nation as elected politicians might be and perhaps even morally better," and that the Tatmadaw had "believed itself to be the

¹³² Robert H. Taylor, *General Ne Win: A Political Biography* (Singapore: Institute of Southeast Asian Studies, 2015), 83.

¹³³ *Ibid.*

¹³⁴ *Ibid.*, 46.

¹³⁵ *Ibid.*

¹³⁶ *Ibid.*, 48.

vanguard which had proved itself in the course of the fight for national independence and against the insurgents.”¹³⁷ With such sentiments, the Tatmadaw emerged from the 1950s more centralized and cohesive with the legitimacy of a national institution.

When Ne Win launched his coup, the Tatmadaw was the basis of his political power. The Tatmadaw in 1962 was a different organization than during the independence and the parliamentary period. Large ethnic units had already split from the Tatmadaw.¹³⁸ The few commanders (such as the Revolutionary Council (RC) vice-chairmen, General Aung Gyi and General Tin Oo) who voiced different ideologies from General Ne Win’s were removed through personnel purges.¹³⁹ The DSI was expanding and providing necessary welfare for the troops. When combined with the factionalized AFPFL, the weakened Communist elements, and the declining NUF party, General Ne Win, as the leader of the elevated Tatmadaw, was politically invincible.

The March 1962 coup was a watershed event in Myanmar’s political economic trajectory because it was the point where Myanmar’s mixed economy of the post-independence era ended and the socialist economy began. The military blamed the civilian parliamentary government for failing to “realize the potential of the economy.”¹⁴⁰ With the relative success of the Tatmadaw’s stewardship during the caretaker period, the military came to believe it had the power to steer the country back to its socialist beginnings.¹⁴¹ After expelling the civilian government in March 1962, General Ne Win created and installed the RC as the new head of government. A few months later, the new regime announced the Burmese Way to Socialism (BWS) and published the Constitution of the Burma Socialist Programmed Party (BSPP).¹⁴² The main features of the BWS focused on eliminating foreign interests from Myanmar’s domestic economy, an inward-looking economic strategy aiming at reducing Myanmar’s

¹³⁷ Barbara McLennan, “Evolution of Concepts of Representation in Burma,” *Journal of Southeast Asian History* 8, no. 2 (1967): 280, www.jstor.org/stable/20067632.

¹³⁸ Taylor, *General Ne Win*, 46.

¹³⁹ Tin Maung Maung Than, *State Dominance*, 114.

¹⁴⁰ Laurence D. Stifel, “Burmese Socialism: Economic Problems of the First Decade,” *Pacific Affairs* 45, no. 1 (1972): 61, www.jstor.org/stable/2755261.

¹⁴¹ *Ibid.*

¹⁴² Brown, *Burma’s Economy*, 135; Fred R. von der Mehden, “The Burmese Way to Socialism,” *Asian Survey* 3, no. 3 (1963): 129, www.jstor.org/stable/3023620.

reliance on foreign markets, and a shift toward a “more balanced industrial state” in which the state, not market forces, managing economic development.¹⁴³

From 1962 to 1988, although still combating insurgency in the outlying areas of Myanmar, the Tatmadaw’s role had shifted toward building a socialist political economy and the organization became the backbone of the socialist changes in Myanmar.¹⁴⁴ Immediately after the coup, the role of the Tatmadaw in the politics of the newly created socialist state was clear. After the first day of the 1963 annual CO conference, General Ne Win remarked that “a great and growing responsibility rests on the shoulders of the defense forces in political, administrative, and economic fields.”¹⁴⁵ During the socialist era, the members of the Tatmadaw became the political mechanism that enabled General Ne Win to realize his socialist vision. Almost a decade after the coup, in 1971, at the 26th Armed Forces Day Parade, vice chief of staff Brigadier Thaug Dan stated that “We, members of the armed forces must cooperate with the working people in carrying out our respective duties for the success of the present socialist, social revolution.”¹⁴⁶ The role of the Tatmadaw had extended beyond the defense of Myanmar’s sovereignty and territorial integrity to fulfilling a socialist revolution envisioned by its leadership.

1. Organization and Link with the Burma Socialist Programme Party

For the first decade after the coup, the seventeen-member RC centralized political decisions. Fourteen of the seventeen RC members were former Burma Independent Army members; in other words, they were General Ne Win’s old war cronies.¹⁴⁷ Dominated by military members, the BSPP adopted the Tatmadaw’s “vanguard” outlook—the party members believed that the BSPP was a champion party for the working class with a “self-

¹⁴³ Richard W. A. Vokes, “Burma and Asia Pacific Dynamism: Problems and Prospects of Export-Oriented Growth in the 1990s,” in *Myanmar Dilemmas and Options: The Challenge of Economic Transition in the 1990s*, ed. Mya Than and Joseph L. H. Tan (Singapore: Institute of Southeast Asian Studies, Singapore, 1990), 220.

¹⁴⁴ Maung Aung Myoe, *Building the Tatmadaw*, 61.

¹⁴⁵ “Defense Forces’ Conference Opens,” Peking NCNA, March 30, 1963, as published in Daily Report. Foreign Radio Broadcasts, FBIS-FRB-63-064 on April 2, 1964.

¹⁴⁶ Rangoon Domestic Service, March 27, 1971, FBIS-FRB-71-06.

¹⁴⁷ Taylor, *General Ne Win*, 259.

asserted knowledge that it knows what is best for the people.”¹⁴⁸ Ten years after its founding, the BSPP grew to be the monolith party.

The National Defense College played a role in establishing the ideological uniformity of the Tatmadaw. Although the college was formally established in 1958, after the 1962 coup, institutions such as the BSPP-operated Central Institute of Political Science (CIPS) were added to indoctrinate civilian and military personnel.¹⁴⁹ The official BSPP ideology, known as “System of Correlation of Man and His Environment,” became required material for the CIPS ideology course.¹⁵⁰ By the time the promulgation of the 1974 constitution officially transferred Myanmar’s political leadership from the RC to the BSPP, every Tatmadaw officer was a member of the BSPP.¹⁵¹

The entrenchment of the Tatmadaw in the BSPP created an informal institution that cemented the Tatmadaw’s loyalty to the BSPP. For junior and senior Tatmadaw members alike, membership in the BSPP meant access to a “Soviet-style nomenklatura” system, in which the member’s career advancement came at the approval of the BSPP.¹⁵² For the Tatmadaw members, the act of discrediting or questioning the BSPP’s ideology meant jeopardizing their military careers. With advancement incentives tied to political party loyalty, the Tatmadaw became an armed extension of the BSPP.

The internal organizational fractionalization of the Tatmadaw during the civil war period (such as the revolt of the Karen rifle units and the mutiny of the procommunist faction of the Tatmadaw that occurred in the late 1940s) led to its majority Burman leadership’s cautioning against the formulation of cliques within the organization.¹⁵³ As a result, the Tatmadaw underwent several impactful personnel purges such as the 1976 and 1977 dismissals of several senior Tatmadaw leaders and the 1983 purge of the intelligence corps.¹⁵⁴ These arrests of five members of the handpicked RC officers were

¹⁴⁸ Ibid., 259.

¹⁴⁹ Maung Aung Myoe, *Building the Tatmadaw*, 61.

¹⁵⁰ Ibid., 62.

¹⁵¹ Ibid.

¹⁵² Ibid.; Tin Maung Maung Than, *State Dominance*, 225.

¹⁵³ Maung Aung Myoe, *Building the Tatmadaw*, 50.

¹⁵⁴ Ibid., 58–59.

evidence of the general's severe disdain for dissent.¹⁵⁵ Consequently, the personnel purges amplified the importance and acceptance of the existing militaristic norm of obedience.

The expansion of the Tatmadaw also increased the number of BSPP members, albeit slowly. In 1948, Myanmar had fifteen infantry battalions under two regional commands.¹⁵⁶ In 1962, with the transformation of the Union Military Police into new Tatmadaw battalions, the Tatmadaw had a total of 84 battalions by 1963.¹⁵⁷ By 1968, the Tatmadaw had grown to 99 infantry battalions, 5 regional commands, 2 infantry brigades, and 3 Light Infantry Divisions (LID).¹⁵⁸ When the BSPP was formed in 1962, it had 24 full members. By 1971, the party had 73,369 full members, of which 42,359 were members of the Tatmadaw, with an additional 260,857 candidate members.¹⁵⁹ The gradual growth of the party suggests that during the first 10 years of socialism, the RC was selective of the party cadre membership and that members of the military were deemed as good candidates.

On 20 April 1972, General Ne Win resigned from the military and became U Ne Win and Myanmar's first premier. The ceremonial removal of the military rank had little impact on the political structure of Myanmar's socialist government since U Ne Win remained the prime minister and the chairman of the newly-organized fifteen-member RC.¹⁶⁰ Two years later, on 2 March 1974, U Ne Win became the first president of the Socialist Republic of the Union of Myanmar and chairman of the 451-member Pyithu Hluttaw (People's Assembly). The changes were superficial as U Ne Win was still the undisputed leader of the country as he supervised the general secretary of the party and the commander in chief of the Tatmadaw.¹⁶¹ Stemming from the highest level of

¹⁵⁵ Smith, *Burma*, 201.

¹⁵⁶ Maung Aung Myoe, *Building the Tatmadaw*, 77.

¹⁵⁷ *Ibid.*

¹⁵⁸ *Ibid.*

¹⁵⁹ Richard Butwell, "Ne Win's Burma: At the End of the First Decade," *Asian Survey* 12, no. 10 (1972): 903, www.jstor.org/stable/2643067.

¹⁶⁰ Taylor, *General Ne Win*, 413.

¹⁶¹ *Ibid.*, 427.

leadership, the interdependence between the Tatmadaw and the BSPP continued to deepen even after the U Ne Win was replaced by the SLORC in 1988.

2. Political Suppression and Ethnic Insurgency

The Tatmadaw's monopoly over the use of force lessened the possibility of a structural change that did not align with the Tatmadaw's socialist vision and decreased the role of other groups and forces (such as Buddhism) in Myanmar's political life.¹⁶² The 1962 coup accompanied demonstrations that broke out at Rangoon University over new regulations imposed by the new regime. The Tatmadaw responded with brutal force, firing at close range at the protestors and dynamiting the student union building that had been a symbol of Myanmar's civil society since the 1930s.¹⁶³ The violent suppression of the student protestors in 1962 was the first indication that the use of force had been institutionalized as the Tatmadaw's method of exerting political authority. The Tatmadaw would use the same oppressive and violent suppression methods during the 1974 workers' strike, the U Than funeral protest, and the 1975/76 student demonstrations.¹⁶⁴ Through violent political suppression, the Tatmadaw eliminated political opposition groups and reinforced the prominence of the BSPP as "the sole political party" and leader of the state.¹⁶⁵

Throughout the socialist period, Myanmar continued to be plagued with waves of insurgent activities. In the late 1960s, the Tatmadaw's "four cuts" strategy of denying the insurgents food, funding, information, and recruits drove the minority insurgents from the lower and central deltas into the outlying hills in the north and northeast regions of Myanmar. These remote regions required greater military equipment, manpower, and resources to operate. In the 1970s, the Tatmadaw was too small and underfunded to defeat and contain the insurgency in these areas. With knowledge of the terrain and

¹⁶² Nicole Ball, "Third World Militaries and Politics: An Introductory Essay," *Cooperation and Conflict* 17, no. 1 (1982): 41–60 Retrieved from Sage Journals doi: 10.1177/001083678201700105.... 44.

¹⁶³ Smith, *Burma*, 202.

¹⁶⁴ *Ibid.*, 235.

¹⁶⁵ "The Burma 1974 Constitution," www.burmalibrary.org/docs07/1974Constitution.pdf, accessed December 31, 2015.

sympathy from the local inhabitants, the number of insurgents grew.¹⁶⁶ The insurgency occupied the Tatmadaw's effort and consumed Myanmar's revenue for the next three decades. In 1960, Myanmar's military expenditure as a percentage of combined education and health expenditures was 241 percent compared to 207 percent for Indonesia and 96 percent for Thailand. By 1990, the military's expenditures remained high at 222 percent, whereas expenditures had declined to 49 percent for Indonesia and 71 percent for Thailand.¹⁶⁷ The high expenditures are evidence of the Tatmadaw's considerable influence and priority in Myanmar's economy.

C. THE DECLINE OF LIBERAL MARKET INSTITUTIONS

Of the many explanations of why socialism was favored by Myanmar's nationalists, one traced back to the circumstances surrounding the ethnic Burman's colonial experience—the view that capitalism was associated with the economic tyranny of colonialism. Even though Myanmar's government started formulating plans for a planned economy as early as 1947, its political economy after independence and up to the 1962 coup still contained a strong private sector. Only after the 1962 Tatmadaw coup did Myanmar become a full-fledged authoritarian socialist state—a process that would include the destruction of liberal market institutions.

1. Myanmar's Economic Policies and Institutions after the Coup

With the 1962 coup, the RC overthrew the parliamentary government and embarked on massive political and economic reforms. The Tatmadaw and its political instrument, the BSPP, altered the fundamental incentive structure of Myanmar's political economy with the initiation of socialism. The Myanmar's government nationalized the banking sector and much of the private sector, banned imports in 1963, and prohibited exports in 1964.¹⁶⁸ The start of any new private businesses was halted.¹⁶⁹ With a state-

¹⁶⁶ Andrew Selth, *Transforming the Tatmadaw: The Burmese Armed Forces since 1988* (Canberra, Australia: Australian National University, 1966), 131.

¹⁶⁷ MyatThein, *Economic Development*, 118.

¹⁶⁸ Jared Bissinger, "Myanmar's Economic Institutions in Transition," *Journal of Southeast Asian Economics* 31, no. 2 (2014): 243, doi:10.1355/ae31-2f.

¹⁶⁹ Josef Silverstein, *Burma: Military Rule and the Politics of Stagnation*, (Ithaca: NY: Cornell University Press, 1997), 156.

run central bank, the government made decisions on capital allocation vice potential return and risks.¹⁷⁰ Funds were channeled to state-owned enterprises (SOE) and cooperatives based on the previous year, consequently perpetuating status quo administrative routines instead of encouraging innovative new business practices.¹⁷¹ The nationalization of farmland, directed cultivation, and government procurement that was initiated in 1948 intensified after 1962.¹⁷² The increase in government intervention in the agriculture sector and the government's prerogative to keep prices of basic commodities low had destroyed the farmers' incentives to produce and innovate.¹⁷³ The direct result of nationalization was the depletion of incentives for production, efficiency, and innovation in all affected sectors that led to the decline of the entire economy.

The economy deteriorated rapidly. By 1966/67, rice exports had declined to 0.64 million tons from 1.6 million tons in 1962/63.¹⁷⁴ The self-reliant socialist economic policy also drastically hurt Myanmar's revenue. From 1962 to 1965, Myanmar's average annual GDP growth was 4.9 percent. From 1966 to 1969, GDP growth decreased to 2.2 percent and further dipped to 1.3 percent in 1970 and 1973.¹⁷⁵ The economic decline alarmed the Myanmar's government and forced its attention to the struggling economy.

2. Myanmar's Economic Policies and Institutions in the 1970s

In the 1970s, a shift in Myanmar's economic institutions was marked by an increase in pragmatism embraced by the Myanmar's government with regard to economic policies. The BSPP released businessmen who had been imprisoned as "economic insurgents" and allowed foreign investment to return.¹⁷⁶ The party also softened some of its self-reliant policy by accepting more foreign aid.¹⁷⁷ Recognizing

¹⁷⁰ Timothy J. Yeager, *Institutions, Transition Economies, and Economic Development: The Political Economy of Global Interdependence* (Boulder, CO: Westview Press, 1999), 82.

¹⁷¹ Ibid.

¹⁷² "The Myanmar Economy: Its Current Status and Future Challenges," Overseas Economic Cooperation Fund Research Papers No. 13 (Tokyo, Japan, 1996), 5.

¹⁷³ Ibid.

¹⁷⁴ Myat Thein, *Economic Development*, 55.

¹⁷⁵ Ibid.

¹⁷⁶ Stifel, "Burmese Socialism," 73; Taylor, *General Ne Win*, 421.

¹⁷⁷ Myat Thein, *Economic Development*, 55.

that the state cannot control all aspects of the economy, the RC enacted the Cooperative Societies Law that introduced cooperatives as a means to improve the inadequate distribution system through decentralization of authority to the township level.¹⁷⁸ The party also expelled the old architects of the BWS, General Tin Pe and U Ba Nyent, and openly admitted the shortcomings of the BWS through a 1971 publication of new economic reforms titled “Long-Term and Short-Term Economic Policies of the Burma Socialist Programme Party” (LTSTEP).¹⁷⁹

LTSTEP was built on four foundations: using natural resources such as agriculture, fisheries, and mining; promoting import-substitution industrialization (ISI) that focused on processing domestic commodities for domestic consumption; building material incentives into the economic structure; and accepting foreign aid and foreign loans.¹⁸⁰ Working within the confines of the four foundations, executing LTSTEP was problematic. The acceptance of aid was a major deviation from Myanmar’s socialist ideology and may have been the lifeline of Myanmar’s struggling economy for years to come. However, the import-substitution policy limited the availability of advanced heavy machinery and raw materials, and that retarded the industrialization progress. Even though some technical assistance accompanied foreign aid and loans, without direct foreign investments fueled by commercial interests, the development of technical capability was slow.¹⁸¹

At the Second BSPP Party Congress in 1973, the BSPP issued a Twenty-Year Plan (TYP) that was meant to stretch from 1974/75 to 1993/94. The goal of the TYP was to turn Myanmar from an agriculture-based to an agro-industrial economy and to develop “socialist production relations.”¹⁸² The TYP consisted of five Four-Year Plans (FYPs). The first FYP was curtailed to two years and only lasted from 1971/72 to 1973/74. The

¹⁷⁸ Stifel “Burmese Socialism,” 73; Jon A. Waint, “Burma: Loosening up on the Tiger’s Tail,” *Asia Survey* 13, no. 2 (1973): 185, www.jstor.org/stable/2642734.

¹⁷⁹ Brown, *Burma’s Economy*, 147; Tin Maung Maung Than, *State Dominance*, 165.

¹⁸⁰ Brown, *Burma’s Economy*, 147–149.

¹⁸¹ Brown, *Burma’s Economy*, 149.

¹⁸² Tin Maung Maung Than, *State Dominance*, 167.

second FYP stretched from 1974/75 to 1977/78, the third FYP from 1978/79 to 1981/82, the fourth FYP from 1982/83 to 1985/86, and the fifth from 1986/87 to 1989/90.¹⁸³

Myanmar's economy in the 1970s was dominated by the first and second FYPs. GDP growth under the shortened first FYP was about 1 percent due to the inefficiencies of the SOEs, stagnant export growth, and adverse weather.¹⁸⁴ The failures of the first FYP would lead to the early implementation of the second FYP, which was designed to rectify production inefficiencies, stressed export, and reduced waste.¹⁸⁵ With the second FYP, Myanmar's government started to shift away from socialist ideology and embraced practicality by modifying its self-sufficient policy by accepting more foreign aid and investment and by attempting to create formal property rights institutions.

The formulation of the World Bank's Burma Aid Group in 1976 brought a dramatic increase in foreign loans and aid. By 1979, Myanmar's annual gross receipts quadrupled from about \$75 million in 1976 to \$359 million in 1979.¹⁸⁶ Overseas development aid (ODA) became Myanmar's primary source of foreign exchange earnings. As a consequence, Myanmar maintained a modest 4.7 percent average annual GDP growth from 1974 to 1977 and a 6.5 percent growth from 1978 to 1981.¹⁸⁷ Since aid and loans did little to solve poor management and the lack of production incentives issues, the growth figures hid true signs of economic trouble, some of which emerged in full force in the mid-1980s.

In 1977, the Myanmar's government passed the Rights of Private Enterprise Law, which gave legal status to private enterprises (Myanmar citizens) to engage in specific economic activities such as the cultivation of certain crops, fishing, fish breeding, transport, and the trade of some commodities not reserved for SOEs and cooperatives.¹⁸⁸ The law also offered protection against nationalization until 1994 and carried severe penalties for causing price instability, restructuring, and relocating without

¹⁸³ Tin Maung Maung Than, *State Dominance*, 165–174.

¹⁸⁴ *Ibid.*, 173.

¹⁸⁵ *Ibid.*

¹⁸⁶ *Ibid.*, 209.

¹⁸⁷ Myat Thein, *Economic Development*, 55.

¹⁸⁸ Tin Maung Maung Than, *State Dominance*, 190.

authorization.¹⁸⁹ On the surface, the law seemed to lower institutional barriers for individuals to engage in trade; however, SOE exclusivity was preserved. In sum, little was changed to reform Myanmar's incentive structure to favor the growth of private enterprises and increase the efficiency and production of the SOEs.

The tax system outlined in the TYP severely limited the incentives for innovation and entrepreneurship. In 1976, tax on business profit was 90 percent on profits of more than 300,000 kyat. The Union of Burma Bank, also established in 1976, was meant to facilitate financial resources for SOEs and the small private sector. In 1977, the 24 percent interest rate on small-scale personal loans and 9 percent rate on car purchase loans meant only a small pool of government employees and property owners could afford to borrow, while the bank made huge profits.¹⁹⁰ The Myanmar tax system under the BSPP penalized profitability and destroyed the incentive for private enterprise to grow or to increase production efficiency.

Since the goal of the 1970s reforms was to increase state revenue rather than promote development, Myanmar's economy continued to be plagued by the prevalence of inefficiencies and distorted market incentives. Without formal market institutions such as property rights and courts, Myanmar's economy relied on informal institutions. In the official economy, patronage and government connections required to gain permits and contracts became incentives for profit.¹⁹¹ In the black market, personal relationships with trusted conveyors became the incentives for profit. Leaving the 1970s, Myanmar had missed opportunities to make meaningful economic reforms. Although signs of pragmatic changes had emerged, Myanmar's leadership remained steadfast in its socialist ideals.

3. Myanmar's Economic Policies and Institutions in the 1980s

Myanmar's economy limped along in the early 1980s. The third FYP, which started in 1978/79 and concluded in March 1982, achieved some success. The Myanmar's government announced that the 6.7 percent GDP growth had exceeded the third FYP

¹⁸⁹ Tin Maung Maung Than, *State Dominance*, 190.

¹⁹⁰ *Ibid.*, 185–186.

¹⁹¹ Bissinger, "Myanmar's Economic Institutions," 244.

target of 6.6 percent (see Table 1).¹⁹² The introduction of chemical fertilizer and a high-yielding variety of paddy increased the average yield of 36.8 baskets in 1976/77 to 57.06 baskets in 1981/82.¹⁹³ Although the paddy yield increased, the overall rice export in 1981/82 of 905,000 tons was still historically low compared to 1.676 million tons in 1961/62 and 3.123 million tons in 1940/41.¹⁹⁴

Myanmar reported an increase in rice production in the late 1970s to early 1980s, but the incentive behind the increase was government coercion. The government threatened the farmers to conform to government cultivation programs or risk forgoing their agricultural rights. Little improvement in growing technology was made during this period. Draft cattle continued to be the dominant source of power to till the land (government shortages, maintenance problems, and fuel shortages had led the farmers to favor cattle).¹⁹⁵ Myanmar's government expressed its appreciation of the role of the farmers in increasing production by establishing rural projects (such as supplying water, health care, and cattle insurance).¹⁹⁶ As a result of government efforts, the status of the farmer was elevated to a respectable class in society—a stark difference from its “exploited” status during the colonial era.¹⁹⁷ Regardless, the government's practice of controlling the price of rice continued to embitter many farmers as they saw great increases in prices of other non-government-controlled agricultural products but only modest increases in theirs.

¹⁹² David I. Steinberg, “Burma in 1982: Incomplete Transitions,” *Asian Survey* 23, no 2 (1983): 167, www.jstor.org/stable/2644348 165–171.

¹⁹³ Steinberg, “Burma in 1982,” 167; Khin Win, *A Century of Rice Improvement in Burma* (Manila: Philippines: International Rice Research Institute, 1991), 60, www.burmalibrary.org/docs4/A_Century_of_Rice_Improvement_in_Burma.pdf.

¹⁹⁴ Steinberg, “Burma in 1982,” 168.

¹⁹⁵ Khin Win, “A Century of Rice Improvement,” 78.

¹⁹⁶ *Ibid.*, 127.

¹⁹⁷ *Ibid.*, 78.

Table 1. Financial Plan, Plan Targets, and GDP Growth (1971–1988)

Fiscal Year	Financial Plan	Plan Targets GDP Growth ^B	GDP Growth claimed by the government ^B	GDP Growth government
1971/72	First Five- Year Plan		Goals not met	
1972/73				
1973/74				
1974/75	Second Four- Year Plan	Average 4% GDP growth	Goal met with 4.5% average GDP growth	
1975/76				
1977/78				
1978/79	Third Four- Year Plan	Average 5.5% GDP growth	Goal met with 6.6% average GDP growth	6.5 ^C
1979/80				5.2 ^C
1980/81				7.9 ^C
1981/82				6.4 ^C
1982/83	Fourth Four- Year Plan	Average 6% GDP growth	Goal met with 6.2% average GDP growth	5.7 ^C
1983/84				4.8 ^C
1984/85				
1985/86				
1986/87	Fifth Four- Year Plan	Average 6.1% GDP Growth	Unmet goal with 4.5% average GDP growth	-1.7
1987/88				-4.0
1988/89				
1989/90				

Adapted from Tin Maung Maung Than, *State Dominance*, 174–175; Hal Hil and Sisira Jayasuriya, “An Inward-Looking Economy in Transition: Economic Development in Burma since the 1960s” (Occasional Paper No. 80, Institute of Southeast Asian Studies, Singapore, 1986), 25.

With the state setting prices and production targets, Myanmar private, cooperatives, and SOEs were not incentivized to make improvements. Consequently, after nearly two decades, Myanmar’s firms fell behind their global and regional competitors, leaving Myanmar’s economy vulnerable to trade deficits. Myanmar’s ISI strategy continued to protect the SOEs while creating a bias against new export ventures. In the early 1980s, the world market price for Myanmar’s chief exports such as teak and rice remained low.¹⁹⁸ After 1983, the increase in rice production started to level off.¹⁹⁹ Myanmar’s rice production in 1984/85 was particularly low and as a consequence, Myanmar’s foreign reserves fell to about \$50 million.²⁰⁰

¹⁹⁸ Hugh C. MacDougall and John A. Wiant, “Burma in 1985: Consolidation Triumphs over Innovation,” *Asian Survey* 26, no. 2 (1986): 188, www.jstor.org/stable/2644454.

¹⁹⁹ Khin Win, “A Century of Rice Improvement,” 65.

²⁰⁰ MacDougall and Wiant, “Burma in 1985,” 188.

The 1985 and 1987 demonetization (the act of removing a currency unit of its status as legal tender) of the kyat catalyzed the collapse of the socialist economy. During both instances of demonetization, U Ne Win supposedly acted without consulting his senior officials or the BSPP central committee.²⁰¹ Demonetization served two purposes: to decrease money supply and limit inflation and to weaken those who held large amounts of currency.²⁰² In line with the latter purpose, some scholars argued that the 1985 demonetization was meant to target the *hmaung-kho* or illegal traders, but many of these black-market merchants evaded the state control measures through a loophole in the demonetization policy.²⁰³ The 1987 demonetization was a second attempt to target the *hmaung-kho*.²⁰⁴ Another explanation was that the demonetization was an attempt to achieve “a more sensible balance between money output and prices.”²⁰⁵ The Myanmar public widely believed that General Ne Win’s fascination with astrology and numerology—especially the number nine—led to the creation of the 45- and 90-kyat notes.²⁰⁶ Regardless of the reason, the inclusion of medium-size 35- and 25-kyat notes (in addition to the 75-kyat note) in the demonetization and the absence of the option to trade the demonetized notes for new notes in different denominations or of other forms of tender made the 1987 demonetization extremely unpopular since people’s savings were wiped out overnight.²⁰⁷ The demonetization exacerbated the widespread economic hardship felt by the majority of the population.

What would become known as the 8888 (8 August 1988) uprising was ignited by a seemingly irrelevant squabble between several youths over music played in a teahouse.²⁰⁸ Regardless of how the 8888 uprising materialized, the event was a culmination of societal grievances that included more than two decades of economic

²⁰¹ Brown, *Burma’s Economy*, 155.

²⁰² Gregg Huff and Shinobu Majima, “The Challenge of Finance in South East Asia during the Second World War,” *War in History* 22, no. 2 (2015): 200, doi:10.1177/09683445114522998; John B. Haseman, “Burma in 1987: Change in the Air?,” *Asian Survey* no. 2 (1988): 224, www.jstor.org/stable/2644823.

²⁰³ Steinberg, *Future of Burma*, 22.

²⁰⁴ Brown, *Burma’s Economy*, 155.

²⁰⁵ Myat Thein, *Economic Development*, 70.

²⁰⁶ Steinberg, *Future of Burma*, 22; Haseman, “Burma in 1987,” 224.

²⁰⁷ Brown, *Burma’s Economy*, 157; Myat Thein, *Economic Development*, 70; Haseman, “Burma in 1987,” 224.

²⁰⁸ Brown, *Burma’s Economy*, 158.

failure. The continued downward spiral of rice exports (and overall export earnings), imports, savings, and investments; the constant shortages of goods and rationing; and the expansion of the black market economy had pointed to a crumbling economy.²⁰⁹ The aggregate negative effect of centralization, nationalization, and poor management of the economy came to an apex in 1988.²¹⁰ The uprising also signified a turning point in Myanmar's political economy. General Ne Win was replaced by a new military junta—the SLORC—the new leadership that officially changed Myanmar's economic trajectory from that of socialism to a liberalized market economy.

D. MYANMAR AND THE DEVELOPMENTAL STATE MODEL

Myanmar's road toward socialism diverged from the successful developmental state model adopted by many of its East and Southeast Asian neighbors. Centralized decision-making associated with socialism's planned economic system insulated Myanmar's economy from market incentives. As a result, the development of fundamental developmental state institutions, such as cooperative norms between the public and private sectors, was hindered or obstructed. This section discusses Myanmar's deviation from the developmental state model in terms of the nature of state intervention, the character of the bureaucracy, human capital investment, and macroeconomic policy.

1. State Intervention

The emergence of the developmental state is predicated on the existence of “developmentally oriented” elites who are motivated by “the desire to break out of the stagnation of dependency and underdevelopment.”²¹¹ These elites turned to the market mechanism to accomplish their goal in the recognition that “socialist displacement of the market threatens its goals by generating bureaucratism, corruption, loss of incentives and an inefficient allocation of resources.”²¹² Assuming that the Myanmar military government with its military elites would prefer to rule over a prosperous country rather

²⁰⁹ Brown, *Burma's Economy*, 158; Myat Thein, *Economic Development*, 160.

²¹⁰ Myat Thein, *Economic Development*, 240.

²¹¹ Johnson, “Political Institutions,” 140.

²¹² *Ibid.*

than a bankrupt one is not a stretch—yet, while the developmental state turns to the market, Myanmar’s government turned to socialism.

A plausible explanation behind General Ne Win’s pursuit of socialism relates to his personal experience. With the background of an oppressive colonial experience, the communal ownership principles advocated by socialism had a strong appeal to General Ne Win and other Myanmar nationalist leaders who were fighting for independence. After independence, the struggle and consequent failure of the U Nu parliamentary government to resolve ethnic differences that threatened to disintegrate the union gave added appeal to the centralization aspects of socialism. General Ne Win’s commitment to socialism was likely to stem from the culmination of these factors in addition to his own experience leading the Tatmadaw. In the 1940s and the 1950s, the Tatmadaw too experienced its share of mutinies and rebellions. To General Ne Win, the survival and emergence of the Tatmadaw as a disciplined national institution in the 1960s provided the blueprint for unifying a group of people under an ideology. Since the military’s organizational culture (strong hierarchy, discipline, order, commitment, uniformity, and sacrifice) drew many parallels with socialism, General Ne Win’s commitment to socialism strengthened. Arguably, in General Win’s eyes, given the political situation in 1962, the fractionalization and disintegration of the union was a more pressing problem than bureaucratic inefficiency.

On the surface, Myanmar’s government during the socialist period fit the concept of “soft authoritarianism,” often associated with the developmental state.²¹³ When General Ne Win launched the 1962 coup, he was the head of the most legitimate and organized institution in Myanmar. The only political entity that had the power to contest the legitimacy of the coup was the elected U Nu government. As part of the coup, General Ne Win dissolved and disbanded Myanmar’s unicameral parliament and had premier U Nu, his cabinet, and several parliament members arrested.²¹⁴ From 1962 to 1974, Myanmar was an authoritarian state under General Ne Win and the RC.

²¹³ Johnson, “Political Institutions,” 137.

²¹⁴ Taylor, *General Ne Win*, 50.

Yet Myanmar's authoritarian regime lacked a key characteristic of the developmental state model's soft authoritarian government: the ability to provide a stable environment that reduced risk for business investment. From 1974 to the end of socialism, Myanmar was a one-party socialist state dominated by the BSPP cadre. Although the BSPP had centralized political power, insurgencies were an everyday occurrence outside the central region. Myanmar's border regions stayed insecure, with frequent illegal crossings between the Myanmar–Chinese and the Myanmar–Thai borders. Although the Tatmadaw-dominated BSPP had political control, the Tatmadaw did not have full territorial control, and security remained a contentious issue.

The regime also fell short in terms of key economic characteristics associated with the developmental state. Government intervention makes the economy susceptible to rent-seeking problems. State intervention distorts the market mechanism by providing advantages to interest groups and creating rent values or returns that are higher than those achieved through competition.²¹⁵ The developmental state governments avoided inefficiencies of rent-seeking behaviors by introducing policies that fostered competition among the private sector for access to limited rent-seeking advantages. By creating contests for entry into protected status and limiting the terms of protection, developmental state governments provided incentives for participants to improve their capabilities rather than through patronage, bribery, or lobbying.²¹⁶

Socialist Myanmar did not have incentives for state-owned firms or cooperatives to compete for government protection. Additionally, the Myanmar's government did not place limits on the length of the time the SOE and cooperatives would enjoy government protection. The East Asian developmental states exercised strong control over rent-seeking activities along with strong control over social interest groups such as ethnic

²¹⁵ Masahiko Aoki, Kevin Murdock, and Masahiro Okuno-Fujiwara, "Beyond the East Asian Miracle: Introducing the Market-Enhancing View," in *The Role of Government in East Asian Economic Development: Comparative Institutional Analysis*, eds. Masahiko Aoki, Hyung-Ki Kim, and Masahiro Okuno-Fujiwara (Oxford, UK: Oxford University Press, 1997), 13.

²¹⁶ Hyung-Ki Kim and Jun Ma, "The Role of Government in Acquiring Technological Capability: The Case of the Petrochemical Industry in East Asia," in *The Role of Government in East Asian Economic Development: Comparative Institutional Analysis*, ed. Masahiko Aoki, Myung-ki Kim, and Masahiro Okuno-Fujiwara (Oxford, UK: Oxford University Press, 1997), 129.

groups or wealthy families.²¹⁷ The situation for Myanmar after the 1962 coup was the opposite. Since the BSPP relied on the Tatmadaw for its core cadre, the party was tied to the interest of the military. The appointment of Tatmadaw commanders as ministers further entrenched the Tatmadaw in Myanmar's political economy. The Tatmadaw members did not need to compete for rent-seeking advantages in post-coup Myanmar; they were given these favors as routine practice.

2. Technocrats and Economic Bureaucracy

The developmental state also relies on a meritocratic bureaucracy, with core economic policy decisions being made by technocratic elites insulated from political demands. When General Ne Win came into power, it was expected that some senior military officers would be posted as ministers. General Ne Win went beyond this expectation and replaced even the most experienced upper-level civilians with military officers with little to no experience.²¹⁸ As a consequence, policy decisions were either rashly made or passed up the chain. Additionally, in the tradition of rotating officers between the field and Rangoon, officers who gained enough experience in the capital were moved elsewhere and replaced by inexperienced officers.²¹⁹ The unintended side effect of this practice was the creation of new norms within Myanmar's civilian appointments system. The perception that the military preferred loyalty rather than ability started to spread among the civil servants. The few trusted and capable civilians stopped thinking and "behaved much like their military counterparts."²²⁰ Increasingly, administrative decisions started to be made based on personal favors rather than on efficiency. In Myanmar's bureaucracy, the direct appointment of military officers in ministerial positions and the practice of rotating officers created new norms that incentivized personal relationships rather than merit or efficiency.

Under the BSPP, Myanmar's economic bureaucracy was expanded to fulfill the task of executing a planned economy. The new bureaucracy was staffed with Tatmadaw

²¹⁷ Kim and Ma, "The Role of Government," 129.

²¹⁸ Myat Thein, *Economic Development*, 62.

²¹⁹ *Ibid.*, 63.

²²⁰ *Ibid.*

members holding ministerial positions with a new generation of Soviet- or Eastern Europe-educated people under the supervision of senior bureaucrats who weathered the coup by pledging new allegiance to the RC.²²¹ Although the economic bureaucracy may have grown in size, its authority and competence in managing the economy remained diminished—an indication that the expansion was the result of the growth of the BSPP’s political power rather than a move toward economic development.²²² Since Myanmar’s technocrats were placed under leaders who swore loyalty to Myanmar’s only political party, the technocrats’ incentives to perform became tied to political connections and the whims of the BSPP. Additionally, the centralization of the country’s decision-making authority (with General Ne Win, the RC, and later the BSPP senior cadre) grew to be an institution in and of itself. The monopolization of state power and structural rigidity bred complacency and passivity that served to drain innovation and outward thinking. In contrast, the developmental state governments shielded their technocrats from political repercussions and incentivized them to use their authority to plan and execute industrial policies toward the goal of development. Myanmar’s version of the state’s involvement in the economy was thus far removed from the developmental state.

3. Getting the Fundamentals Right

The successes of the East Asian developmental states included the development of policies that “encourage macroeconomic stability, high investment in human capital, stable and secure financial systems, limited price distortions, and openness to foreign technology and agriculture development.”²²³ Before the 1962 coup, Myanmar’s stage of underdevelopment was comparable to that of Indonesia.²²⁴ The transformation of Myanmar into a one-party Socialist state meant that “getting the fundamentals right” would elude the Myanmar’s government for more than twenty-five years.

The socialist military government seemed to constantly get the fundamentals wrong. The three demonetizing policies in 1964, 1985, and 1987 created civil unrest and

²²¹ Tin Maung Maung Than, *State Dominance*, 313.

²²² Tin Maung Maung Than, *State Dominance*, 313.

²²³ Aoki, Murdock, and Okuno-Fujiwara, “Beyond the East Asian Miracle,” 3.

²²⁴ Myat Thein, *Economic Development*, 54.

destroyed the population's trust in the currency. Through nationalization of education, Myanmar's government boasted doubling the number of primary schools from 1962 to 1987 and tripling the number of primary school teachers—yet the quality of education did not improve as student-staff ratios declined and poor salaries hampered teacher motivation.²²⁵ The decline in the quality of education also applied at the university level.²²⁶ The enforcement of Burmese as the instruction language created a shortage of textbooks as English was the standard language. Along with the government's policy of rejecting scholarships from Western democratic countries, English proficiency declined, and higher education professors left Myanmar, leaving a vacuum in higher learning curricula.

Additionally, Myanmar's government did not enact an aggressive policy to promote savings and investment. In the 1970s and 1980s, Myanmar was saving and investing around 15 percent of its GDP, while South Korea, Taiwan, Singapore, and Hong Kong (or newly industrialized countries) were saving and investing at twice that rate.²²⁷ While Japan had the postal savings system and Singapore had the Central Provident Fund, Myanmar's government did not enact any major programs to encourage savings. The low rates of savings and investment also point to the underdevelopment of Myanmar's financial sector.²²⁸

Because of the self-reliance policy, the Myanmar's government closed the country and significantly decreased the amount of foreign aid, technical assistance, and loans (until a shift in policy in 1974). The government's investment in agricultural development was low. The government's policy of maintaining stable consumer prices by keeping agricultural product prices low also hurt production incentives, which resulted in the decline of the sector.²²⁹

²²⁵ Myat Thein, *Economic Development*, 115.

²²⁶ *Ibid.*

²²⁷ *Ibid.*, 70; South Korea, Taiwan, Singapore, and Hong Kong are all considered Newly Industrialized Countries (NIC).

²²⁸ *Ibid.*, 71.

²²⁹ *Ibid.*, 88.

The stark differences between the developmental state model and Myanmar's political economy accounted for the near-bankrupt state of the Myanmar's economy in the late 1980s. From 1962 onward, the inward-looking, self-sufficient mantra preached by General Ne Win and the highly centralized decision-making norms had placed self-imposed constraints on the possibility of reforms. As Myanmar's neighbor Thailand grew and expanded its economy, Myanmar's economy was on the verge of imploding.

E. CONCLUSION

The emergence of the socialist state mechanism centered on the party, the state, and the military. These three institutions “shared a common ethos in their military heritage.”²³⁰ The party relied on military support to meet its goal via controlling state functions and in return absorbed the military in its structure. The party-state-military trinity created an environment in which the party and military politics dominated all aspects of state economic and social policy.²³¹ The influence of the Tatmadaw on the political and economic trajectory of Myanmar during the socialist period is undeniable.

The colonial experience shaped the perceptions of the people of Myanmar and those of the Tatmadaw leadership. The resentment toward the exploitative colonial economic system that was synonymous with an outward-looking market strategy steered Myanmar's leaders, including the Tatmadaw's General Ne Win, toward socialism. The early Myanmar's government's failure to resolve factionalism provided the Tatmadaw with an opportunity to rule as a legitimate organization. After the return and another failure of the civilian government to reconcile political differences, political space in Myanmar was open to the military to unify the country.

Since General Ne Win was the main actor in the shaping of Myanmar's socialist political economy, his military training and involvement in the independence movement were instrumental in the formulation of the BWS and the creation of the BSPP as a political vehicle for reform. The Tatmadaw was instrumental in promulgating socialist economic politics because it was the insurer of the BSPP's political control. The Tatmadaw's transformation of Myanmar's mixed economy into a purely socialist system

²³⁰ Tin Maung Maung Than, *State Dominance*, 162.

²³¹ *Ibid.*; Steinberg, *Future of Burma*, 16.

in 1962 included the introduction of rent-seeking norms into Myanmar's bureaucracy, creating a system where civilian and military bureaucracies are incentivized by personal relationships rather than by merit or efficiency. Numerous personal purges within the Tatmadaw reinforced the placement of loyalty over job performance or innovation. As the state economic mechanism grew through nationalization of private sectors and the expansion of SOE, rent-seeking norms permeated Myanmar's political economy.

The failures of the BWS were many. On the eve of independence, Myanmar lacked the necessary pool of professionals (such as doctors, engineers, and high-level civil servants) to capably manage the country's economy and government.²³² Compounded with U Nu's policy goal of removing foreign interests from Myanmar's economy and the exodus of Indian merchants and foreign businesses after the promulgation of BWS, Myanmar in the mid-1960s was left with little business expertise and private capital.²³³ Also, the BWS was an economic strategy that relied heavily on a government capable of making sound economic decisions based on good knowledge of micro- and macroeconomic fundamentals. Myanmar had little state capacity to perform the functions required to execute the BWS's strategy—and the economy steadily declined.²³⁴

In the remote hill regions far from the reach of the centralized state and SOEs, the ethnic insurgency incentivized the illegal trade in the border areas. Insurgents, cut off from Myanmar's planned economy, resorted to financing their operations through informal markets such as smuggling activities or the sale of drugs.²³⁵ The failures of the military government to quiet the insurgency and manage the social economic system paved the path for the development of a dual economy: an official socialist economy and a black market economy. Toward the end of the socialism period, the importance of socioeconomic incentives as a tool in the Tatmadaw's counterinsurgency tactics, along with other domestic political developments, led the military government to embrace political economic changes toward market liberalism.

²³² Brown, *Burma's Economy*, 95.

²³³ Ibid.

²³⁴ U Tun Wai, "The Myanmar Economy at the Cross Roads," in *Myanmar Dilemmas and Options: The Challenge of Economic Transition in the 1990s*, eds. Mya Than and Joseph L. H. Tan (Singapore: Institute of Southeast Asian Studies, 1990), 21–22.

²³⁵ Taylor, *General Ne Win*, 420.

IV. MARKET LIBERALIZATION PERIOD (1988–2010)

This chapter traces the trajectory of Myanmar's political economy during the market liberalization period. The first section captures the political reform under the SLORC and later the SPDC. The second section elaborates on Myanmar's economic reforms during the country's transition from socialism to capitalism. The third section compares Myanmar's political economy during the market liberalization period with that of the developmental state model.

A. POLITICAL CHANGES FROM 1988–2010

The political unrest in 1988 provided a catalyst for changes in Myanmar's political economy. Although the Tatmadaw continued to hold a monopoly of force, decades of economic underdevelopment and repression had hurt the regime's ability to unilaterally exercise violence and coercion. The size and scale of the 1988 protest were unprecedented, and to the junta, the threat of the disintegration of the union was immediate. Maintaining the legitimacy to rule and internal security were the primary factors that compelled the regime to make drastic political moves. The resignation of General Ne Win, the end of the Socialist Party, the introduction of pluralism (and the return to military rule), and the first relatively free general election in 1990 were designed to placate the population. While the passage of the 2008 constitutions and the continued state monopolization of lucrative economic sectors (despite market liberalization announcement) represented the junta's top-down approach to institutionalize the Tatmadaw interest in politics and the economy.

Transitioning to capitalism had a special implication on the Tatmadaw. Market liberalization freed the Tatmadaw from the responsibilities of maintaining the socialist distribution mechanism and offered new opportunities for the military elites and their families to legally collaborate with foreign and domestic firms.²³⁶ Upon the official end of socialism in 1989, Tatmadaw regional commanders became responsible for raising

²³⁶ James F. Guyot and John Badgley, "Myanmar in 1989: Tatmadaw V," *Asian Survey* 30, no. 2 (February 1990): 190.

funds for the repair and maintenance of state-owned factories in their regions.²³⁷ To compensate for inflation, local and regional Tatmadaw units started to engage in business activities to earn income for troop welfare.²³⁸ As these business activities spread, corruption worsened and many military officers became unusually wealthy. With this head start, the military elites secured economic interests that would later serve as a legitimate foundation to fund their political aspirations.

Starting in 1989/90, the Tatmadaw intensified its attempt to quell the ethnic civil war. The withdrawal of Chinese support of the CPB in March 1989 provided an opportunity for the Tatmadaw to move forward with negotiations with several groups. The initial ceasefire agreements, such as one with the Communist Wa insurgents, were reached as early as the autumn of 1989. Although the terms of the ceasefires allowed the insurgents to keep their weapons and some autonomy over the areas they controlled, the ceasefires improved the overall Tatmadaw position by enabling the military to conserve and rechannel resources to more troublesome areas.²³⁹

Throughout the market liberalization period, the SLORC/SPDC used its control of the legislature to pass laws that perpetuated the junta's authority, legitimated the Tatmadaw's status, and continued to repress Myanmar's society. In 1988, the Law Safeguarding the State from Danger of Destructionist Elements was amended, and the period of detention without trial increased from 180 days to five years.²⁴⁰ Politically, the Tatmadaw continued to use nationalism rhetoric to shield its dereliction of the people's will, divert attention from lackluster economic development, and justify its policies toward the insurgency. The fall of the BSPP and the CPB, coupled with the accidental elevation of Aung San Suu Kyi as a new nucleus of political power, shaped Myanmar politics into a trifecta of the NLD, the Tatmadaw, and the ethnic groups.²⁴¹ Aung San Suu Kyi's status as a Nobel Laureate opened a dialog for democratic change and garnered

²³⁷ Maung Aung Myoe, *Building the Tatmadaw*, 189.

²³⁸ *Ibid.*

²³⁹ Tom Kramer, "Twenty Years on, The Wa-Burmese Cease-Fire Looks Shakier," Transnational Institute, April, 24 2009, www.tni.org/en/archives/act/19424 accessed 16 January 2016; Smith, *Burma*, 441.

²⁴⁰ Steinberg, *Burma*, 80.

²⁴¹ Smith, *Burma*, 421.

international attention to the junta's human rights abuses and Aung San Suu Kyi's prolonged house arrest. From the 1990s to the early 2000s, the United States and its allies' attempts to use sanctions to bargain for Aung San Suu Kyi's freedom and to change the regime's oppressive ways were broadly ineffective since Myanmar largely traded with its neighbors and regional partners. The violent crackdown of the 2007 Saffron Rebellion was proof of the regime's continued willingness to exercise its monopoly of force.

In 2008, a national referendum passed a new version of Myanmar's constitution. Many scholars consider the validity of the 2008 constitution questionable since the government has not provided a logical explanation for how so many voters could cast their ballots on 10 May 2008 despite massive flooding and infrastructure damage inflicted by Cyclone Nargis's landfall only eight days earlier.²⁴² A notable feature of the 2008 constitution was a provision that reserved a quarter of the seats in the lower and upper houses of representative for military appointees.²⁴³ Since amending the constitution requires a supermajority of 75 percent of all representatives, the Tatmadaw's interests would always be represented in the highest levels of Myanmar's government, so the longevity of the Tatmadaw was virtually guaranteed.²⁴⁴

Approaching 2010, the government finally had the opportunity to address the democracy question. The ceasefire agreement signed with several insurgent groups in the 1990s allowed the Tatmadaw to conserve some military resources. Legalization of border trade and the free-trade agreement with the ASEAN increased tax revenue and the flow of goods and capital into Myanmar. Newly found offshore gas discoveries in 1998 and 2000 meant a comfortable stream of revenue for years to come. For decades, military-associated trade conglomerates benefited from their monopoly and secured their positions

²⁴² "Myanmar Tries to Get out the Vote as Aid Deliveries Languish," CNN, updated May 10, 2008, www.cnn.com/2008/WORLD/asiapcf/05/10/myanmar.vote/; "Myanmar: Cyclone Nargis 2008 Facts and Figures," International Federation of Red Cross and Red Crescent Societies, May 3, 2011, www.ifrc.org/en/news-and-media/news-stories/asia-pacific/myanmar/myanmar-cyclone-nargis-2008-facts-and-figures/.

²⁴³ Constitution of the Republic of the Union of Myanmar, September 2008, Chapter IV, 109 (b) and 141 (b).

²⁴⁴ Constitution of the Republic of the Union of Myanmar, September 2008, Chapter XII, 439 (b).

in the marketplace. Free trade would allow these conglomerates to benefit from their economy-of-scale advantage and superior market position.

Other scholars point to the increased influence of China as the motivation for the regime's move toward economic independence.²⁴⁵ Over the years, Chinese interests and investments in Myanmar have grown to include a gas pipeline and start of the Myitsone Dame construction.²⁴⁶ Regardless of what political party was in charge, the idea of another nation's extracting from Myanmar called into question the ability of the government to maintain sovereignty. So the perception of China extracting from Myanmar endangered the Tatmadaw's legitimacy as the protector of the country. Diversifying Myanmar's strategic trade option through market liberalization would lessen the dependence on China.

B. THE CHALLENGE OF TRANSITIONING TO CAPITALISM

Signs of Myanmar's economic transition arguably materialized before the 1988 unrest. In 1987, the government legalized cross-border trade and lifted some agricultural restrictions, such as the prohibition of farmers' selling their crops at market prices.²⁴⁷ The Tatmadaw leadership did, to a degree, welcome Myanmar's placement on the UN's least developed countries list in 1987, since doing so meant access to more loans and aid. To the public, being on this list was a national embarrassment.²⁴⁸ Coupled with a persistent shortage of essential goods, the expanding black market, and inflation, the least-developed status added to the stack of evidence pointing to the Tatmadaw's lackluster economic management.

Entering 1990, Myanmar's economic landscape was grim. The country's fiscal and monetary performance showed that Myanmar's financial sector in the 1990s was

²⁴⁵ Sun Yun, "China and the Changing Myanmar," *Journal of Current Southeast Asian Affairs* 31, no. 4 (2012): 52, <http://journals.sub.uni-hamburg.de/giga/jsaa/article/viewFile/582/580>.

²⁴⁶ Ibid.

²⁴⁷ Paul Cook, "Privatization and Private-Sector Development in a Transitional Economy: The Case of Myanmar," in *The Move to the Market? Trade and Industry Policy Reform in Transitional Economies*, eds. Paul Cook and Frederick Nixon (New York: St. Martin's Press, 1995), 171.

²⁴⁸ Taylor, *General Ne Win*, 508–509, 518.

“less developed in many aspects” when compared with the pre-Ne Win years.²⁴⁹ The overvalued foreign exchange restrained imports of essential products for both the private and the state-owned manufacturing sectors.²⁵⁰ The economic reforms in the mid-1970s and the increase in external borrowing gave lifelines to the SOEs; but persistent poor management of the SOEs had caused the state to accumulate large deficits (approximately 7 to 8 percent from 1983 to 1986) that became the leading source of economic imbalances.²⁵¹ The regime’s intervention in the rice industry (Myanmar’s leading export commodity) during the socialist years had destroyed the farmers’ incentives to increase production or improve efficiency.²⁵² Although agriculture was Myanmar’s largest GDP-earning sector, the sector had been underinvested and underproductive for decades.

Under socialism, private enterprises were depleted of raw materials and capital and limited in their access to the external market. As a result, private firms in Myanmar remained small, and they largely traded among themselves.²⁵³ The 1977 Private Enterprise Law was an attempt by the government to provide some security to private firms via a registration mechanism and security in purchasing inputs.²⁵⁴ But persistent shortages in the government distribution system turned private firms to the black market for raw material. With high uncertainty and a constant fluctuation of the prices of inputs in the black market, Myanmar private-sector development was insignificant prior to 1988.

In 1989, the SLORC formally announced that the government was liberalizing its economy “for the allocation of resources and distribution of goods and services, [to] encourage private investment and entrepreneurial activities at home, and [to] open the economy to foreign direct investment and to promote exports.”²⁵⁵ Myanmar continued to

²⁴⁹ Mya Than and Joseph L. H. Tan, “Introduction: Optimism for Myanmar’s Economic Transition in the 1990s?,” in *Myanmar Dilemmas and Options*, eds. Mya Than and Joseph L. H. Tan (Singapore: Institute of Southeast Asian Studies, 1990): 9.

²⁵⁰ *Ibid.*, 10.

²⁵¹ Cook, “Privatization and Private-Sector,” 176; Mya Than and Tan, “Optimism for Myanmar,” 9.

²⁵² Mya Than and Tan, “Optimism for Myanmar,” 10.

²⁵³ Cook, “Privatization and Private-Sector,” 186.

²⁵⁴ *Ibid.*

²⁵⁵ Myat Thein, *Economic Development*, 123.

face daunting challenges in transitioning to a capitalist economy. The government needed to achieve macroeconomic stabilization (control of inflation), liberalize prices, privatize SOEs, and create new structure for private firms and market activity.²⁵⁶

a. *Macroeconomic Stability and Price Liberalization*

In the two months after the SLORC assumed leadership, the junta made sweeping reforms. The government liberalized the import-export trade and ended planned procurement of rice and eight other crops.²⁵⁷ By January 1989, the regime reopened its border trade with China, resumed acceptance of foreign tourists, and passed the Foreign Investment Law (FIL).²⁵⁸ Immediately after the government lifted its control over prices and production, inflation rates soared.

Several factors contributed to inflation following market liberalization. First, under socialism, basic commodities prices were kept artificially low by the government to appease the population and prevent revolts. When the control mechanisms were lifted, prices returned to their higher market rates. Second, Myanmar had been printing money to pay for its debts. This practice caused inflation since more money was in circulation than the amount of goods available for purchase. Third, the production of many consumables, such as beef, lagged behind population growth. The shortages of commodities in the market also contributed to inflation.²⁵⁹ Fourth, inflation depreciated the kyat and raised the price of imports. Once imports became more expensive, production that relied on imports fell. With less goods being produced, prices increased. The consumer price index for Myanmar in the ten years following market liberalization is provided in Table 2.

²⁵⁶ Koji Kubo, "Myanmar's Two decades of Partial Transition to a Market Economy: A Negative Legacy for the New Government," (Discussion Paper no. 376, Institute of Developing Economies, (Chiba, Japan, 2012), 2.

²⁵⁷ Myat Thein, *Economic Development*, 123.

²⁵⁸ "Myanmar Economy," 37.

²⁵⁹ Myat Thein, *Economic Development*, 150.

Table 2. Consumer Price Index and Market Rate of US\$ (1987–2000)

Fiscal Year	CPI (1986 base year)	Market Rate of US\$ (in kyat)
1987/88	126.53	30
1988/89	155.00	42
1989/90	191.73	50
1990/91	233.73	58
1991/92	301.80	84
1992/93	369.09	99
1993/94	492.99	120
1994/95	603.66	113
1995/96	735.51	117
1996/97	882.81	149
1997/98	1182.10	222
1998/99	1762.22	327
1999/2000	1963.47	344

Adapted from Myat Thein, *Economic Development*, 149.

Macroeconomic stability is tied to the exchange rate. For more than twenty years, the kyat was pegged to the IMF’s special drawing right that was around 6 kyat per U.S. dollar. The parallel (black market or unofficial) exchange rate varied widely (from 120 kyat to 1,300 kyat per U.S. dollar in 2007).²⁶⁰ Among other countries that functioned with parallel exchange rates, Myanmar was the worst case in terms of the disparity between the official and the parallel exchange rates.²⁶¹

From 1988 to 2010, the government maintained tight control on foreign exchange. In Myanmar, export earnings in foreign currency had to be deposited in one of two state banks. In 1990, the government initiated a tax on export revenue and policy changes that allowed exporters to keep or use their foreign-currency earnings for their imports.²⁶² This policy resulted in the separation of foreign exchange income earned via private exports and that earned by the state. Private businesses worked exclusively with the parallel exchange rate while the state used the official rate. In this arrangement, the overvalued

²⁶⁰ Koji Kubo, “Determinants of Parallel Exchange Rate in Myanmar,” *ASEAN Economic Bulletin* 24, no. 3 (2007): 289.

²⁶¹ *Ibid.*

²⁶² Koji Kubo, “Foreign Exchange Market Reform in Myanmar: Achievements and Challenges,” *Journal of Southeast Asian Economies* 31, no. 2 (2014): 212, doi: 10.1355/ae31-2d.

official exchange rate did not deter exports.²⁶³ As the parallel exchange rate fluctuated independently of the official rate, the large differences between the official and the parallel exchange rates had not been a major factor in influencing private-sector prices.²⁶⁴ Instead, inflation and depreciation of the kyat were due largely to the government's practice of monetizing its fiscal deficit.

After the 1997 Asian Financial Crisis, Myanmar's government tightened control on imports. To secure import licensing, importers must have sufficient export earnings in foreign currency deposits (FCD).²⁶⁵ In March 1998, the government revoked foreign exchange licenses held by private banks. Also, the government started to classify goods into essential and nonessential categories and mandated that importers of essential goods make up to 60 percent (later increased to 80 percent) of the import value.²⁶⁶ To the end of 2010, no formal channel for private exporters and importers to exchange foreign earnings into kyat existed.²⁶⁷ Private businesses had to work with informal brokers, risking fraud and scams. Government policies and the lack of institutions to facilitate foreign exchange increased the transaction costs of import and export trade, which hampered the growth of the private sector.

b. Transitioning SOEs and Creating New Structures for Private Enterprises

Myanmar's time-phased approach to the transition to capitalism had many institutional and structural challenges. Myanmar faced a proliferation of informal institutions that the country had cultivated during the socialist era. Widespread corruption and the reliance on patronage undermined the government's role in creating new institutions to facilitate fair competition.²⁶⁸ The proliferation of the black market also counteracted the government's credibility and its effort to create formal institutions.²⁶⁹

²⁶³ Kubo, "Determinants of Parallel Exchange," 302.

²⁶⁴ Ibid.

²⁶⁵ Kubo, "Foreign Exchange Market Reform," 212.

²⁶⁶ Ibid.

²⁶⁷ Ibid., 216; In 2011, foreign exchange counters and exchange licenses were granted by the Central Bank of Myanmar.

²⁶⁸ Yeager, *Institutions*, 64.

²⁶⁹ Ibid., 64–65.

By magnifying the perception that economic policies taxed the general population while those who evaded the law profited, the black market directly challenged the legitimacy of Myanmar's market institutions.

In 1995, Myanmar's government formalized the privatization process by creating the Privatization Commission with the purpose of coordinating and supervising the transfer of SOEs to private firms.²⁷⁰ The commission had very little success. Many factors made the SOEs unattractive to private investors. First, since the SOEs were failing and overvalued, they were not good investments.²⁷¹ The government's mandate that the new owners maintain existing staff meant that the introduction of new management would be difficult.²⁷² Financing and acquiring an SOE was problematic because of the lack of capital in the market and the underdeveloped banking sector.²⁷³ As a result, privatization of SOEs proceeded at a painstakingly slow pace.

Although the end of socialism was announced, many SOEs stayed under state control, such as Myanmar's oil and gas sector.²⁷⁴ Under state protection, the ways oil and gas revenues entered the country or were managed remained undisclosed to the public. There have been speculations that the revenues were disbursed to third-party foreign accounts for the purchases of military equipment and payments to sustain the lavish lifestyles of senior Tatmadaw commanders.²⁷⁵ With vetted personal interests, it is unlikely that highly profitable SOEs will be privatized in the near future.

The privatization of small to medium businesses held more promise. After the government liberalized the export and import trade, the number of private import/export traders increased from 986 at the end of 1989 to 7,325 by the end of 1994.²⁷⁶ The 1987 modification of the 1947 Transfer of Immovable Property Restriction Act made space for

²⁷⁰ Myat Thein, *Economic Development*, 151.

²⁷¹ *Ibid.*, 153.

²⁷² *Ibid.*

²⁷³ *Ibid.*

²⁷⁴ Myanmar Ministry of Energy "Myanmar Oil and Gas Enterprise," accessed 29 December 2015. www.energy.gov.mm/eng/index.php/about-ministry/myanma-petrochemical-enterprise/2015-09-12-01-02-55; Andy Racey and M.F. Ridd, *Petroleum Geology of Myanmar: Geological Society Memoir No. 45*, (London, UK: The Geological Society, 2015), 19.

²⁷⁵ "Burma's Resource Curse: The Case for Revenue Transparency in the Oil and Gas Sector," Arakan Oil Watch, March 2012, 11, www.burmacampaign.org.uk/images/uploads/Burmas-Resource-Curse.pdf.

²⁷⁶ "Myanmar Economy," 75.

private businesses to obtain a thirty-year lease from the government (with ten-year incremental extensions).²⁷⁷ The limitation placed on the activities of the Myanmar Union of Chamber of Commerce and Industries during the socialist era was lifted in 1989.²⁷⁸ Where the Tatmadaw had less to benefit (such as in small- to medium-scale businesses), state intervention eased.

Still, expansion of the private sector was hindered by many factors. First, government exchange policy and macroeconomic policies constrained foreign exchange operations for private enterprises. Second, despite tax exemptions, private-sector taxes were high, representing a large expense for entrepreneurs and giving competing SOEs an advantage. Third, although infrastructure in Myanmar had improved, many problems remained. A 2010 survey found that the availability of electricity continued to be an issue. Fourth, the persistent lack of confidence in the legal system and the enforcement of contracts bled to the financial sector. Weak supervision of Myanmar's banking sector (as evidenced by the 2003 banking crisis) hampered the development of the financial market.²⁷⁹ Without a robust financial market to facilitate movement of capital, accelerated private-sector growth is unlikely.

2. Foreign Investment and Banking Reforms

In 1988, the Myanmar's government passed the FIL, making foreign investment possible in the sectors that required large sums of investment and in sectors that could generate foreign exchange earnings for the state.²⁸⁰ To manage the new investments, the FIL created the Myanmar Investment Commission with the authority to approve proposals and grant tax relief along with other exemptions, such as accelerated equipment depreciation. Despite the incentives created by the FIL, other factors discouraged foreign investments. First, all foreign earnings would have to be converted to kyat at the

²⁷⁷ *Ibid.*, 76.

²⁷⁸ "Myanmar Economy," 76.

²⁷⁹ Yin Yin Mya, "Establishment of a Capital Market in Myanmar: Perspectives and Problems," in *Financial Resources for Development in Myanmar: Lessons for Asia*, ed. Mya Than and Myat Thein, (Singapore: Institute of Southeast Asian Studies, 2000), 69–70.

²⁸⁰ Stephen McCarthy, "Ten Years of Chaos in Burma: Foreign Investment and Economic Liberation under the SLORC-SPDC, 1998 to 1988," *Pacific Affairs* 73, no. 2 (2002): 235, doi: 10.2307/2672179.

extremely overvalued official rate of exchange (up to sixty times the market rate).²⁸¹ Second, although Myanmar had plenty of cheap labor, skilled labor and professional services were not as abundant. Years of closures of the University of Rangoon and the abandonment of English and other foreign language education during the socialist years hurt worker skills and education. Third, infrastructure problems such as the availability of electricity and a high capacity of port and transport capability posed additional challenges to operating a business in Myanmar.²⁸² Last, Myanmar's bureaucracy was riddled with inefficiencies and arbitrary policy making.²⁸³ The lack of normalized bureaucratic processes and procedures became sources of uncertainty and risks for business ventures.

Although Myanmar had shortcomings, foreign direct investments (FDI) into the country more than quintupled from 1990 to 2010 (see Figure 1). However, these investments were small compared to inflows to Thailand. Most of the FDI was directed to the natural resource extraction sector. For example, nearly \$450 million of FDI in 1989/90 reflected ten new oil exploration projects.²⁸⁴ The amount of foreign investment decreased sharply from 1992 to 1995 due to the SLORC's refusal to transfer power to the NLD after the 1990 election. After 1995, FDI steadily flowed in Myanmar. Starting in 2007, the amount increased dramatically, reaching the one-billion-dollar mark in 2009.

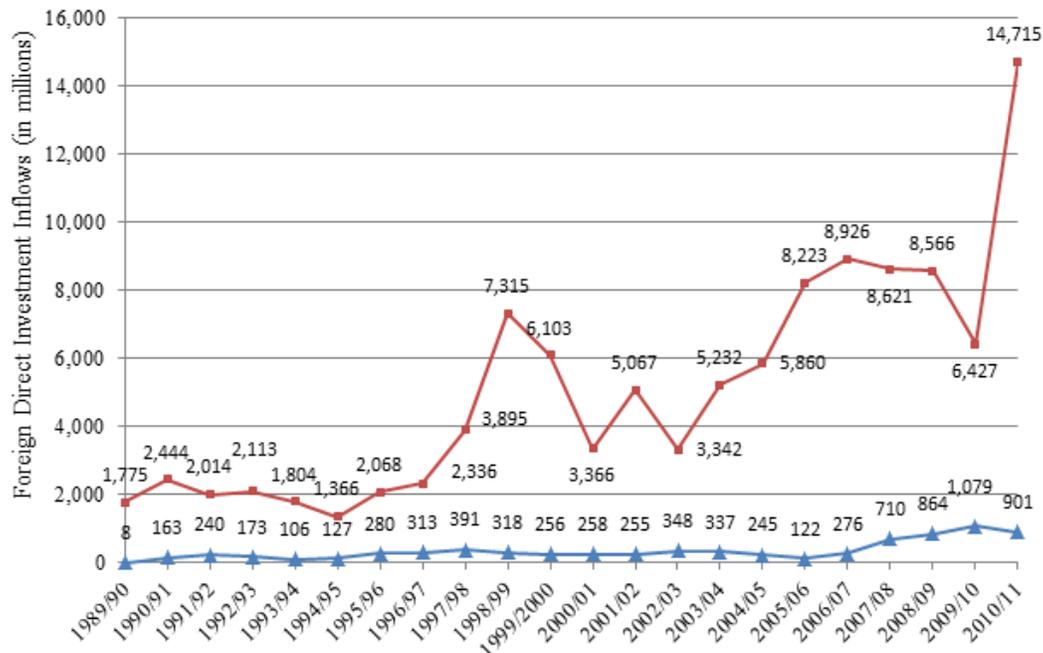
²⁸¹ The Union of Myanmar Foreign Investment Law (1988), section 26, www.burmalibrary.org/docs11/Foreign-Investment-Law-of-Myanmar-1988.pdf; McCarthy, "Ten Years of Chaos," 240.

²⁸² McCarthy, "Ten Years of Chaos," 242.

²⁸³ Jared Bissinger, "Myanmar's Economic Institutions," 241.

²⁸⁴ McCarthy, "Ten Years of Chaos," 247.

Figure 1. Myanmar vs. Thailand Foreign Direct Investment, Net Flows in Current U.S. Dollars



Adapted from “Foreign Direct Investment, Net Inflows (Balance of Payments, Current US\$),” The World Bank, accessed 1 February 2016, <http://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD?page=1>

Myanmar’s banking reforms began with the 1990 Financial Institutions of Myanmar Law (FIML), which legalized private banks. Myanmar’s government licensed the first private bank in 1992. The ease of services offered by private banks contrasted to that of state banks helped the sector grow.²⁸⁵ By 1998, the total deposits held in private banking institutions exceeded those held in state banks.²⁸⁶

Establishing sound financial institutions to manage the increasing flow of capital due to market liberalization proved to be a daunting task for the SLORC. The stability and growth of the financial sector required, at minimum, a defined role of the central bank, competition in the banking system, and strong institutions to regulate and supervise new banks to reduce depositors’ risk.²⁸⁷ To create a well-functioning stock and bond market, Myanmar would need strict enforcement of exchanges and market institutions

²⁸⁵ Kubo, “Myanmar’s Two Decades,” 13.

²⁸⁶ Ibid.

²⁸⁷ Yeager, *Institutions*, 82.

that defined property rights.²⁸⁸ Until such institutions become a reality, realizing a financial market will remain beyond the government's reach.

Ten years after the FIML was passed, five large banks dominated Myanmar's banking industry.²⁸⁹ Although these banks were private, the government set the ceiling on interest rates for loans and deposits.²⁹⁰ Despite this limitation, the banking industry grew. Entering 2001, almost two-thirds of savings in Myanmar resided in private banks.²⁹¹ In late 2002, several private finance companies revealed that they had been running Ponzi schemes that made high-interest payments to existing members while sourcing these payments from new members' deposits.²⁹² When the number of new recruits slowed and eventually dropped to zero, the scheme fell apart, robbing the participants of their investments and savings. The failure of these scheming private finance companies resulted in the public's loss of confidence in banks. Even with the government-imposed maximum withdrawal of one million kyat per account per week, the flood of bank customers withdrawing their deposits created a shortage of kyat in the economy. Banks ran out of notes to meet the demands of their customers and started to indiscriminately recall loans without regard for the business's or individual's ability to repay them.²⁹³ Employers became short of cash to pay their employees, and the crisis ballooned.

In terms of domestic savings, Myanmar made almost no improvements during the market liberalization period (see Table 3). Although FDI and loans are viable avenues whereby the state can derive some of its revenue, the surest way to sustain economic growth is by mobilizing domestic resources.²⁹⁴ Two leading factors contributed to the low rate of savings in Myanmar. First, inflation after market liberalization made it more difficult for households to increase their savings. Second, the overvalued exchange rates

²⁸⁸ Ibid., 83.

²⁸⁹ Sean Turnell, "Myanmar's Banking Crisis," *ASEAN Economic Bulletin* 20, no. 3 (2003): 273, <https://muse.jhu.edu/> (accessed January 6, 2016).

²⁹⁰ Ibid.

²⁹¹ Ibid.

²⁹² Brown, *Burma's Economy*, 188–89; Turnell, "Myanmar's Banking Crisis," 273.

²⁹³ "Burmese Bank Kyatastrophe: A Bank Run in Myanmar," *The Economist*, March 30, 2003, accessed January 6, 2016, www.economist.com/node/1650080.

²⁹⁴ Mya Than and Myat Thein, "Mobilization of Financial Resources for Development in Myanmar," in *Financial Resources for Development in Myanmar: Lessons from Asia* eds. Mya Than and Myat Thein (Singapore: Institute of Southeast Asian Studies, 2000), 4.

and the low bank interest rates provided disincentives to depositing savings in banks. The combination of these two factors amounted to a lack of formal economic institutions to translate savings into productive economic investment.

Table 3. Gross Domestic Savings as Percent of GDP (1992–2000)

Fiscal Year	Myanmar	Thailand	Singapore	Republic of Korea
1992/93	12.8	35.2	45.6	35.2
1993/94	11.4	35.6	46.3	35.4
1994/95	11.7	36.0	48.8	36.5
1995/96	13.4	33.6	51.0	36.8
1996/97	14.0	33.7	51.2	35.2
1997/98	14.6	31.0	51.8	34.5
1998/99	--	31.4	50.0	34.9
1999/2000	--	32.0	50.0	33.9
2000/01	--	30.7	47.2	35.0
2001/02	11.5	29.3	44.0	33.1
2002/03	10.2	29.1	43.1	32.4
2003/04	11.0	30.2	45.2	34.0
2004/05	12.1	30.2	49.5	35.9
2005/06	--	29.4	51.2	34.6
2006/07	--	30.3	52.2	33.5
2007/08	--	33.4	53.9	33.7
2008/09	--	30.6	51.3	33.0
2009/10	--	30.0	51.2	33.2
2010/11	--	30.9	54.3	35.2

Adapted from “Gross Domestic Savings (% of GDP),” The World Bank, accessed 1 February 2016, <http://data.worldbank.org/indicator/NY.GDS.TOTL.ZS>.

3. Agricultural Reforms

Agriculture is the backbone of the Myanmar’s economy. The market liberalization included two basic reforms for the agricultural sector: liberalization of agricultural product trade and agricultural product expansion.²⁹⁵ The initial reform took place in the late 1980s when the government reduced rice procurement levels and permitted the farmers to sell and trade the excess.²⁹⁶ The compulsory delivery system was abolished and the farmers were free to sell to whomever (including the international

²⁹⁵ “Myanmar Economy,” 66.

²⁹⁶ Takashi Kurosaki, “Crop Choice, Farm Income, and Political Control in Myanmar,” *Journal of the Asia Pacific Economy* 13, no. 2 (2008): 183, doi:10.1080/13547860801923582.

market) and at whatever price they chose.²⁹⁷ Whatever the policies were, in reality, the government did not allow private export of rice.²⁹⁸ The state continued to maintain ownership of all the land leaving farmers with tillage privileges and the government continued to enforce the procurement system for rice and other crops under the guise of the “crop plan.”²⁹⁹

The degree of enforcement of the crop plan varied from region to region and crop to crop. Politically sensitive crops such as rice, cotton, and sugarcane were under closer supervision than less sensitive crops such as pulses.³⁰⁰ Since rice accounted for the majority of the sown area, the government linked political security to food security. The tightened control on paddy production; the introduction of summer paddy in the 1990s coupled with government investment in irrigation and increased fertilizer credit and diesel fuel subsidies for water pumps reflected the priority the regime placed on rice.³⁰¹ Other crops with lower political value, such as sesame, were less regulated. For these crops, transactions became more commercialized and domestic government procurement prices started to match world market prices. As the market expanded to include export possibilities, farmers and cultivators found profitable incentives to increase their efficiency. While the increase in rice output was largely due to an increase in the net sown area, the boom in the production of crops such as sesame and green gram was due to increased demand and farmer productivity (sesame productivity jumped from around 57 tons per acre in 1988/89 to about 223 in 2010, a four-fold increase).³⁰² The selective application of the market liberalization policy revealed that the profit and market competition are powerful production incentives, in this case, more powerful than government mandates.

²⁹⁷ Ikuko Okamoto, *Economic Disparity in Rural Myanmar: Transformation under Market Liberalization* (Singapore: National University of Singapore Press, 2008), 18–19.

²⁹⁸ *Ibid.*, 20, 29.

²⁹⁹ *Ibid.*

³⁰⁰ *Ibid.*, 20.

³⁰¹ *Ibid.*, 26.

³⁰² “Myanmar: Agriculture, Natural Resources, and Environment Initial Sector Assessment Strategy, and Roadmap,” Asian Development Bank, April 2013, www.themimu.info/sites/themimu.info/files/documents/Report_Myanmar_Agriculture_Environment_Assessment_and_Road_Map_Apr2013.pdf; “FAOSTAT,” Food and Agriculture Organization of the United Nations, accessed December 26, 2015, <http://faostat.fao.org/site/339/default.aspx>.

Although liberalization brought an abrupt increase in prices of agricultural products in the late 1980s and early 1990s, rural income did not dramatically increase. The price of rice in 1994 was 8.7 times the 1987 price, while prices of sesame and peanuts increased by 2.7 times as much and the price of pegyi (Myanmar white bean) increased by 6.0 times as much. Since paddy constituted the majority of the land sown and labor, the near-stagnant increase of productivity meant the majority of agricultural income associated with paddy did not rise.³⁰³ The increases of prices and transition to capitalism did not translate to large aggregate improvements to the livelihoods of farmers. In 1988, fertilizers that had been under government control for decades were opened to private companies and foreign interests, and in the 1990s, government subsidies for fertilizer ended.³⁰⁴ The result was an increase in the cost of inputs to farmers. Government policy for the procurement quota for paddy was approximately 20 percent of gross production regardless of the acreage dedicated to paddy or the paddy output.³⁰⁵ The quotas were purchased at a lower price than the black market or world market prices. Additionally, the government dictated planting patterns and threatened to revoke the farmers' tillage privileges if they deviated from the government's plans.³⁰⁶

Despite the market liberalization announcement, the building of property-rights institutions in Myanmar's largest private sector, agriculture, proceeded slowly. In 1997/98, agriculture employed 62.7 percent of the population, a small change compared to 62.5 percent in 1988/87.³⁰⁷ As late as 2010, the agricultural sector remained plagued by price and production control as well as export restrictions.³⁰⁸ Since many farmers still had no secure title to their land, they faced tenure issues such as sudden eviction due to land

³⁰³ Kurosaki, "Crop Choice," 200.

³⁰⁴ S. Htay Win, "Improving Plant Nutrient Management for Better Farmer-Livelihood, Food Security and Environmental Sustainability" (proceedings of the Food and Agriculture Organization of the United Nations Regional Office for Asia and the Pacific Workshop Beijing, China, 12–16 December 2005), <ftp://ftp.fao.org/docrep/fao/010/ag120e/ag120e00.pdf>.

³⁰⁵ Kurosaki, "Crop Choice," 183.

³⁰⁶ Ibid.

³⁰⁷ Tin Maung Maung Than, *State Dominance*, 368.

³⁰⁸ Marie Ditlevsen, "Economic Fundamentals, Ongoing Challenges," in *Burma/Myanmar—Where Now?* eds. Mikael Gravers and Flemming Ytzen (Copenhagen: Nordic Institute of Asian Studies, 2014), 342.

grabs for large infrastructure projects such as hydroelectric dams.³⁰⁹ Landless agricultural workers in rural areas also remained impoverished.³¹⁰

4. Myanmar's Economic Strategy and Performance from 1988 to 2010

After the 8888 uprising, the SLORC concentrated its efforts on ending the economic disruption caused by the political unrest. From 1989 to 1992, Myanmar's economy slowly recovered from an equivalent of an economic stall caused by the political unrests in 1988. Economic policy during these short few years consisted of annual plans, or Stabilization Programme, that leaned toward solving the severe deficit and foreign exchange problems through netting FDI and liberalizing the agriculture and trade sectors.³¹¹ After 1992, government economic strategy consisted of a succession of four five-year plans that spanned from 1992/93 to 2010/11. In 1992/93, the SLORC executed the First Short-Term Four-Year plan (1992/93–1995/96) with a focus on production and export and a goal of long-term growth and economic stability.³¹²

The opening of the private sector and the inflow of FDI initiated in 1988/89 started to yield dividends in the 1990s. From 1992 to 1996, Myanmar's GDP per capita steadily increased. In the last year of the plan, GDP per capita was 13,516.5 kyat (see Table 4). Parallel to the First Short-Term Plan, Myanmar's government passed new Tariff, Savings Bank, Myanmar Hotel and Tourism, Myanmar Citizens Investment, Myanmar Mines, and Myanmar Insurance Laws.³¹³ Additionally, the SLORC established four private banks, introduced a new savings bank law, licensed representative offices of eleven foreign banks, and opened a foreign exchange center.³¹⁴ These developments represented the emergence of nascent market institutions in Myanmar's foreign exchange sector.

³⁰⁹ Ibid.

³¹⁰ Okamoto, *Economic Disparity*, 21.

³¹¹ Tin Maung Maung Than, *State Dominance*, 363.

³¹² Steinberg, *Burma*, 124; Tin Maung Maung Than, *State Dominance*, 363.

³¹³ Than, *State Dominance*, 356.

³¹⁴ Ibid.

Table 4. Myanmar GDP Per Capita in Kyat, GDP Growth

Fiscal Year	Economic Plans and Strategy	Per Capita Income in Kyat (1985/86 Constant Prices) ¹	GDP Per Capita at Current Prices (in Kyat) ²	GDP Per Capita USD in Current Prices	GDP Growth Reported by Myanmar's government) ³¹⁵	GDP Growth Percentage
1985/86		1,510	n/a	171	2.9 ^G	2.9
1986/87		1,466	n/a	127		-1.1
1987/88		1,380	n/a	123		-4
1988/89		1,200	1,940.5	111		-11.4
1989/90	Stabilization Programme	1,221	3,114.3	118		3.7*
1990/91		1,232	3,725.9	123	2.8 ^G	2.8
1991/92		1,202	4,495.6	124		2.8*
1992/93	First Short-Term Plan	1,293	5,891.3	138		9.7 ^A
1993/94		1,347	8,357.0	147		6.0 ^A
1994/95		1,421	10,763.9	159		7.5 ^A
1995/96		1,492	13,516.5	172		6.9 ^A
1996/97	Second Short-Term Plan	1,559	17,379.4	183	6.4 ^G	6.1 ^A
1997/98		1,619	24,126.3	194		5.3 ^A
1998/99		1,650	33,425.6	125		6.1 ^A
1999/2000		1,794	44,579.4	137	10.9 ^G	6.5 ^A
2000/01		n/a	50,927.3	150	13.7 ^G	5.8 ^C
2001/02	Third Short-Term Plan	n/a	69,390.1	156	11.3 ^G	5.5 ^C
2002/03		n/a	107,823.4	210	12.0 ^G	5.0 ^C
2003/04		n/a	114,983.8	200	13.8 ^G	4.5 ^C
2004/05		n/a	167,204.8	206	13.6 ^F	3.2 ^C
2005/06		n/a	221,782.8	238	13.6 ^F	4.5 ^D
2006/07		Fourth Short-Term Plan	n/a	298,173.4	274	13.1 ^F
2007/08	n/a		405,845.4	359	11.9 ^F	5.5 ^D
2008/09	n/a		500,767.0	537 H	10.1 ^F	3.6 ^D
2009/10	n/a		573,212.0	596 H		5.1 ^E
2010/11	n/a		801,418.0	759 H		5.3 ^E

Adapted from Myat Than, *State Dominance*, 127, 367; "Statistics For Dynamic Policy Making," Asian Development Bank, accessed December 26, 2015, <https://sdbs.adb.org/sdbs/>; Mya Than and Myat Thein, ed., *Financial Resources for Development in Myanmar: Lessons from Asia* (Singapore: Institute of Southeast Asian Studies, 2000), 34–35; Myat Than, *Economics*, 131; Danis Hew, "Southeast Asian Economies: Toward Recovery and Deeper Integration," *Southeast Asian Affairs* 2005, (2005): 46, https://muse.jhu.edu/journals/southeast_asian_affairs/v2005/2005.hew.pdf; Regional Outlook: Southeast Asia 2006–2007, 119; Organization of Economic Co-operation and Development, *Southeast Asian Economic Outlook 2010* (OECD Publishing) <http://dx.doi.org/10.1787/9789264096004-en>, 26; Asian Development Bank, *Outlook 2011 Update: Preparing for Demographic Transition* (Manila, Philippines, 2011) www.adb.org/sites/default/files/publication/29086/adu2011.pdf; Sean Turnell, "Fundamentals of Myanmar's Macroeconomy: A Political Economy Perspective," *Asian Economic Policy Review* 6, no. 1 (2011), 137, doi:10.1111/j.1748-3131.2001.01190.x; Takashi Kurosaki, "Crop Choice, Farm Income, and Political Control in Myanmar," *Journal of the Asia Pacific Economy* 13, no. 2 (2008): 180–203, doi:10.1080/13547860801923582; "Myanmar in Transition: Opportunity and Challenges," Asian Development Bank, August, 2012, www.adb.org/sites/default/files/publication/29942/myanmar-transition.pdf.

³¹⁵ According to a 2007 ASEAN Economic Bulletin written by Mya Than and Myat Thein, the International Monetary Fund, the Asian Development Bank, and Economist Intelligence Unit have deemed official GDP figure provided by the Myanmar's government as unrealistic.

After the 1990 election, the United States enthusiastically embraced the changes in Myanmar.³¹⁶ Aung San Suu Kyi's 1991 Nobel Prize increased her appeal in the United States.³¹⁷ However, by the mid-1990s, the SLORC's intention to ignore the election results and maintain power became clear. In protest, the United States launched its first batch of economic sanctions in 1995, effectively barring U.S. contribution to programs in Myanmar. U.S. sanctions generated no reaction in Myanmar's economic direction as the government moved forward by launching its next five-year plan (1996/97–2000/01, or the Second Short-Term Plan).

In 1997, the Clinton administration's second batch of sanctions against Myanmar banned new U.S. investments in Myanmar and prohibited the export of financial services.³¹⁸ In the same year, some of the biggest U.S. private companies ceased their operations in Myanmar. Pepsi announced its disengagement from Myanmar's market effective 15 January 1997 and stopped distributing products by the end of May.³¹⁹ Pepsi had been under pressure from human rights organizations, though the company claimed the reason was based on the "assessment of current U.S. foreign policy."³²⁰ The sanctions had their greatest impact on Myanmar's garment industry, but overall, they did little to change the junta's policies.

Myanmar joined ASEAN in 1997 with hopes of gaining economic benefits from the other Southeast Asian economies. But the 1997 Asian Financial Crisis (AFC) created a large impediment to this plan. Since Myanmar did not have a developed capital market, the negative and contagious effects of the AFC were somewhat tempered. The greatest impact seemed to be the dramatic decrease in the flow of aid to Myanmar.³²¹ Despite the

³¹⁶ Rieffel, "The Moment," 21.

³¹⁷ Ibid.

³¹⁸ "PepsiCo Announces Myanmar Distribution Agreement with Diamond Star," Pepsico, August 9, 2012, www.pepsico.com/live/pressrelease/PepsiCo-Announces-Myanmar-Distribution-Agreement-with-Diamond-Star08092012; "Pepsi Ends Burma Business British Burma Campaign Gathers Momentum," Burma Campaign UK, January 27, 1997, <http://burmacampaign.org.uk/pepsi-ends-burma-business-british-burma-campaign-gathers-momentum/>; Thant Myint-U, *River of Lost Footsteps: Histories of Burma* (New York: Farrar, Straus and Giroux, 2006), 343.

³¹⁹ "PepsiCo Announces Myanmar Distribution Agreement"; "Pepsi Ends Burma Business."

³²⁰ "PepsiCo Announces Myanmar Distribution Agreement"; "Pepsi Ends Burma Business."

³²¹ Thant Myint-U, *River of Lost Footsteps*, 344.

sanctions and the AFC, Myanmar’s economy grew from 1996 to 2001 (see Table 5), mainly from the discoveries of offshore natural gas fields that were reportedly valued at “tens of billions of dollars.”³²²

Table 5. Myanmar GDP Per Capita in Kyat and Percentage Growth in Constant Prices

Fiscal Year	GDP per capita in Kyat	Growth % constant prices
1988/89	1,940.5	-11.4
1989/90	3,114.3	3.7
1990/91	3,725.9	2.8
1991/92	4,495.6	2.8
1992/93	5,891.3	9.7
1993/94	8,357.0	6.0
1994/95	10,763.9	7.5
1995/96	13,516.5	6.9
1996/97	17,379.4	5.8
1997/98	24,126.3	5.7
1998/99	33,425.6	5.8
1999/2000	44,579.4	10.9
2000/01	50,927.3	13.7
2001/02	69,390.1	11.3
2002/03	107,823.4	12
2003/04	144,983.8	13.8
2004/05	167,204.8	13.6
2005/06	221,782.8	12.2
2006/07	298,173.4	13.1
2007/08	405,845.4	5.5
2008/09	500,767.0	3.6
2009/10	801,418.0	5.1
2010/11	923,406.0	5.3

Adapted from “Statistics For Dynamic Policy Making,” Asian Development Bank, accessed December 26, 2015, <https://sdbs.adb.org/sdbs/>; Myanmar in Transition: Opportunity and Challenges,” Asian Development Bank, August, 2012, www.adb.org/sites/default/files/publication/29942/myanmar-transition.pdf; Mya Than and Myat Thein, ed., *Financial Resources for Development in Myanmar: Lessons from Asia* (Singapore: Institute of Southeast Asian Studies, 2000), 7, 9.

At the end of 2001, Myanmar’s government once more announced that the economy had exceeded the goals of the Five-Year Plan and began work on the next five-year plan (2001/02–2005/06, or the Third Short-Term Plan).³²³ Whether Myanmar’s

³²² Ibid.

³²³ Tin Maung Maung Than, *State Dominance*, 364.

government attained the goals set in each subsequent short-term plan is debatable. Fisheries production, extraction of forest products, and paddy acreage did increase; however, trade, rate of savings and investment, foreign aid, the 2003 banking crisis, the 2004 batch of new U.S. sanctions, and FDI figures presented a contradiction.³²⁴ Despite the government-reported GDP growth, Myanmar's per capita GDP in U.S. dollars (at the market exchange rate of around 900 kyat per dollar) was roughly \$180 in 2003—low compared to global figures. Inflation continued to plague Myanmar's economy. An average household expenditure in Yangon City estimated at around 2,000 kyat in 1989 had risen to over 37,000 in 2001.³²⁵

By the end of 2005, the private sector was improving despite obstacles imposed by government policies. The 1988 FIL that disadvantaged local businesses by providing three-year tax exemptions for foreign investors was rectified by the 1994 Myanmar Citizens Investment Law. By the mid-1990s, investor rights were more defined and economic enterprises were protected from nationalization.³²⁶ The number of registered business enterprises grew from 4,873 in 1991 to 39,133 in 2005.³²⁷ In 2006, Myanmar launched the Fourth Short-Term Plan (2006/07–2010/11). Contrary to the SLORC's claim of 12.6 percent growth in 2004/05, the Economist Intelligence Unit (EIU) assessed that "GDP growth in Myanmar stayed sluggish, and the junta's estimates of robust growth are unrealistic."³²⁸ The decline of agricultural sector output and other inputs such as power and fertilizer pointed to an actual growth rate that was much lower.³²⁹ The EIU estimated that for 2005/06 and 2006/07, Myanmar's GDP growth was approximately 1.5 and 2.2 percent respectively.³³⁰

³²⁴ Ibid., 365–397; Myat Thein, *Economic Development*, 178–195; Thant Myint-U, *River of Lost Footsteps*, 343.

³²⁵ Tin Maung Maung Than, "Mapping the Contours of Human Security Challenges in Myanmar," in *Myanmar: State, Society, and Ethnicity*, ed. N. Ganesan and Kyaw Yin Hlaing, (Singapore: Institute of Southeast Asian Studies, 2007), 178. 172–218.

³²⁶ "The Myanmar Economy," 32; Tin Maung Maung Than, *State Dominance*, 388.

³²⁷ "The State Law and Order Restoration Council: The Myanmar Citizens Investment Law No. 4/94 March, 31 1994, retrieved from www.wipo.int/edocs/lexdocs/laws/en/mm/mm014en.pdf.

³²⁸ Russell Hiang-Khng Heng and Rahul Sen, eds., *Regional Outlook: Southeast Asia 2006–2007* (Singapore: Institutes of Southeast Asian Studies, 2006), 111.

³²⁹ Ibid., 112

³³⁰ Ibid., 117

When Cyclone Nargis struck Myanmar in 2008, more than 77,000 people were killed and another 20,000 injured.³³¹ With storm-related damages amounting to 2.7 percent of the 2008 GDP, the cyclone wrecked the economy; GDP per capita growth dropped from 5.5 percent in 2007 to 3.6 percent in 2008 (see Table 5).³³² Recovering from the disaster was difficult. Drought in the central region and lingering soil salinity from the flood hindered rice production.³³³ In December 2008, when Thailand's trading prices for rice dropped more than 45 percent from the record high in April–May, Myanmar's domestic rice prices remained stable.³³⁴ The lack of farm credit and the declined rice production due to the cyclone placed a large group of landless laborers in poverty. No longer able to afford rice, these laborers consumed taro and low-grade rice meant for animal feed.³³⁵ When demand dropped along with supply, prices remained stable.

Because of its nascent financial market, the negative effect of the 2009 global recession was largely attenuated in Myanmar. Myanmar did experience a drop in export and domestic consumption since its neighboring economies and trading partners were deeply connected to world financial markets, but conditions were slowly improving. Agricultural lands were gradually rehabilitated after the cyclone. The construction of Naypyidaw contributed to growth. Inflation that had been higher than 20 percent was lowered to 8.2 percent in 2009 and 7.3 percent in 2010. Increases in the production and sale of natural gas were expected to continue, and demand from Thailand was expected to increase.

Saying Myanmar's attempt to liberate its economy since the late 1980s was a total failure would be an overstatement; the reforms yielded minor successes. The middle class was expanding, albeit through crony capitalism. Some of the UN and World Bank

³³¹ Asian Development Bank, *Asian Development Outlook 2009* (Mandaluyong City, Philippines: Asian Development Bank, 2009), 246, www10.iadb.org/intal/intalcdi/PE/2011/08604.pdf.

³³² Ibid.

³³³ Asian Development Bank, *Outlook 2010: Macroeconomic Management beyond the Crisis* (Mandaluyong City, Philippines: Asian Development Bank, 2010), 215.

³³⁴ Nathan Childs and James Kaiwu, "Factors behind the Rise in Global Rice Prices in 2008," United States Department of Agriculture, RCS-09D-01, May 2009, 2–3, www.ers.usda.gov/media/257445/rcs09d01_1_.pdf.

³³⁵ Ibid., 78.

development indicators, such as infant mortality, were improving. Since banks started to take deposits from “uncertain” origins as long as proper taxes were paid, money poured into the banking sector.³³⁶ The Rangoon and Mandalay housing markets boomed. With the Kokang Chinese, the Wa ethnic group started expanding its commercial empire: from owning Mitsubishi Electric’s franchise in Myanmar to selling Myanmar gin. Additionally, old warlord and insurgent leaders such as Lo Hsing-Han and Khun Sa propelled themselves into the new market.³³⁷

None of Myanmar’s reforms between 1988 and 2010 focused exclusively on establishing or strengthening a legal framework of property rights or promoting fair and open competition. The fundamental workings of military rule during the socialist era remained. Even after 1988, the prevalence of informal methods to settle disputes and client-patron relationships persisted. The uncertainties associated with an “unpredictable” and “predatory” government barred long-term investments that required predictability as a risk reduction factor.³³⁸ The operating business norm in Myanmar continued to concentrate on short-term gains of the rat-race nature.

C. MYANMAR AND THE DEVELOPMENTAL STATE

From 1988 to 2010, Myanmar’s economic policy started to shift toward that of the developmental state. More than during its socialist period, Myanmar was motivated to break through the malaise of underdevelopment that was exacerbated by decades of autarkic policies. Myanmar began to adopt some developmental state strategies such as shifting from ISI to export-oriented industrialization (EOI). Beyond these fundamentals, by the end of 2010, Myanmar was still far from resembling a developmental state.

1. The Growth Strategy

The core strategy of shifting from ISI to EOI enabled the developmental states to rapidly industrialize and grow. Post Korean War, the South Korean government placed tight restrictions on imports and selectively used foreign exchange and trade protection to

³³⁶ Thant Myint-U, *River of Lost Footsteps*, 327.

³³⁷ *Ibid.*

³³⁸ Turnell, “Fundamentals of Myanmar’s Macroeconomy: A Political Economic Perspective,” *Asian Economic Policy Review* 6, no. 1 (2011): 139. doi: 10.1111/j.1749-3131.2011.01190.x.

grow domestic industries.³³⁹ South Korea had a low rate of savings, and investments were largely funded by foreign aid.³⁴⁰ Korea's shift to EOI took place under Park Chung-hee. Since Park had the support of the army and the population, this shift was apolitical and driven by the need for an independent economy. Because Korea was resource poor, the only solution was to build industries to export manufactured goods. To build its industries, the government raised the interest rates to promote savings. The government also directly engaged the industrial sector and provided targeted subsidies to promote export sector growth.³⁴¹ The won (Korea's currency) was kept undervalued compared to the market rate to provide blanket protection to all domestic producers. When South Korea shifted its focus to heavy industries in the 1970s, Korea's GDP grew.

Myanmar attempted to follow a similar strategy. Arguably, the inward-looking policy was recognized as restricting growth when, in the 1970s, Myanmar started to accept foreign aid and loans. Myanmar became officially outward oriented after the SLORC abandoned socialism in 1989. Where South Korea needed to build a manufacturing sector to generate exports, Myanmar was resource rich, so it continued rely on its natural endowment to earn foreign exchange. The Korean and Taiwanese governments supported their domestic export entrepreneurs in the early stages of EOI by providing property security, financial aid, and fiscal assistance; but competition remained the major drive for innovation and efficiency. Although Myanmar became increasingly outward-looking, the government's reliance on its natural resources assuaged the imperative to develop its export industries. Since the Myanmar's government dominated the majority of the industrial sector, competition never became a serious motivator for productivity.

³³⁹ Perkins, *East Asian Development*, 70.

³⁴⁰ *Ibid.*

³⁴¹ *Ibid.*, 72.

2. Technocrats and Economic Bureaucracy

The success of the developmental states was associated with bureaucrats who enjoyed a degree of freedom from political capture.³⁴² Although the country was no longer under General Ne Win, the bureaucracy remained plagued with ineffective micromanagement practices. Myanmar's civil servants and ministers were entrenched in politics and concentrated their efforts in unquestioningly adhering to top-down instructions to the minute details.³⁴³ The economic growth during the first Four-Year Plan (1992/93–1995/96) masked Myanmar's deeper institutional problems by falsely reinforcing the effectiveness of centralized decision making. It was a common norm in the government that anyone who questioned the policies or provided different ideas was labeled as “unpatriotic, foolish, or a saboteur.”³⁴⁴ Under this condition, bureaucratic performance continued to be motivated by personal loyalty rather than innovation.

The developmental states politically insulated their technocrats so they could execute industrial policies without fear of political reprisal. From 1988 to 2010, Myanmar's technocrats remained embedded in the highly politicized bureaucracy. Fearing the loss of rents, revenues, employment, and prestige, many ministers and senior civil servants resisted liberalizing the SOEs.³⁴⁵ Although the government created new bureaucracies to manage the transition to capitalism, these new bureaucracies were staffed by retired military officers or people who were loyal to the military. Despite change, the old norm of politics over pragmatism and loyalty over prudence perpetuated.

3. Cooperation between Public and Private Sectors

The developmental state model argues that government intervention in economics can result in economic growth. In South Korea, Japan, and Taiwan, the developmental

³⁴² Stephan M. Haggard, “Business, Politics and Policy in East and Southeast Asia,” in *Behind East Asian Growth: The Political and Social Foundations of Prosperity* ed. Henry S. Rowen (London, UK: Routledge, 1998), 81.

³⁴³ Myat Thein, *Economic Development*, 128.

³⁴⁴ *Ibid.*

³⁴⁵ Lee Jones, “The Political Economy of Myanmar's Transition,” *Journal of Contemporary Asia* 44, no. 1 (2014): 148–149. doi: 10.1080/00472336.2013.764143.

structure is one of a close alliance between the state and the producer class.³⁴⁶ With developmental-oriented leaders, this structure holds the potential for action that generates growth.³⁴⁷ The socialist years transformed Myanmar's economic structure. Nationalization of private enterprises eliminated the capitalist class, allied the state with farmers, and marginalized the working classes. Decades of shortages, economic stagnation, the 1987 placement on the UN's Least Developed Nation list, and the 8888 uprising were counterrevolutionary forces that reversed the socialism by returning Myanmar to state-mediated capitalism.

Socialism had skewed the development of the cooperative relationships between the state and the private sector. Although the government claimed to liberalize the economy, it constrained private-sector growth via licensing and bureaucratic procedures. Small private enterprises such as restaurants and local retailers could acquire licenses relatively quickly; however, for lucrative businesses such as a large hotel, entrepreneurs had to lobby various ministers, file countless applications for permits, and pay enormous processing fees. While private entrepreneurs encountered difficulties, Tatmadaw-associated (but not state-owned) Union of Myanmar Economic Holdings Limited (UMEHL) and the Myanmar Economic Corporation (MEC) enjoyed unimpeded operations in banking, tourism, trade, heavy industries, gems, and commodities.³⁴⁸

The developmental state model conceptualized government-business relationships as ongoing negotiations where the government wants investment and support and companies want a stable business environment.³⁴⁹ This notion is almost impossible to conceive in the context of Myanmar's economic structure. As long as the government-private-sector relationship was centered on personal politics, Myanmar's business environment would perpetually lack the predictability necessary for long-term investment.³⁵⁰ Until the political institutions undergo changes, economic growth

³⁴⁶ Vu, *Paths to Development*, 4.

³⁴⁷ *Ibid.*, 5.

³⁴⁸ Jones, "Political Economy of Myanmar's Transition," 149.

³⁴⁹ Haggard, "Business, Politics, and Policy," 83.

³⁵⁰ David I. Steinberg, "Democracy, Power, and the Economy in Myanmar: Donor Dilemmas," *Asian Survey* 31, no. 8 (1991): 734, doi: 10.2307/2645226.

resulting from the developmental state's context of government-business relationships will elude Myanmar.

D. CONCLUSION

During the market liberalization period, Myanmar attempted to correct the economic problems caused by decades of autarkic socialist policies. The ruling elites responded to the 8888 uprising with short-term economic and political reforms to appease the masses. The lack of follow-through and long-term planning suggests that the reforms were not motivated entirely by development goals but included a strategy for the military leadership to maintain its political position. Threatened, Myanmar's political elites reinforced their power base by increasing the size and strength of the Tatmadaw. Even though the Myanmar's government introduced political pluralism and hosted a relatively fair election in 1990, democracy eluded Myanmar. The junta held a monopoly on the use of force that allowed it to maintain power for nearly twenty-seven more years.

Although the government enacted many reforms during the market liberalization period, the economy that grew under repressive conditions was not one that promotes a strong middle class and progressive change.³⁵¹ The number of small- and medium-size private enterprises had increased; however, the sectors, such as heavy industry, that generate large profits continued to be monopolized by a small oligarchy of elites with close ties of the military. Despite the end of socialism, government policies from 1998 to 2010 remained inadequate to create institutions that foster fair market competition. Since Myanmar economic reform seemed to target immediate regime problems such as political unrest, genuine commitment to build deeper institutions, such as strengthening the rule of law or controlling corruption, had lower priorities.

³⁵¹ Thant Myint-U, *River of Lost Footsteps*, 344.

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V. COMPARATIVE ANALYSIS

The following presents a comparison of socialist and capitalist Myanmar in order to build a generalization about the Myanmar political economy. The approach centers on using institutions as the unit of analysis to examine linkages between incentives, economic activities, and policy. Since understanding the dynamics of the development and sustainment of social, political, and economic institutions is crucial to comprehending the mechanisms that enabled the successes of the developmental states, the first section discusses the Tatmadaw, how it became a political actor, and the institutional shifts that occurred under its dominance. After the state of institutions development has been defined, the second section assesses Myanmar's institutions in the context of the developmental state model.

A. THE TATMADAW AS AN ACTOR AND AN ORGANIZATION

From the viewpoint of the Tatmadaw as a political actor, the adaptation of socialism in Myanmar was a result of the dynamics between the political conditions and the Tatmadaw's militaristic goals. Since the prioritization of collectivism over private entrepreneurship was conducive to militarization of the state, the Tatmadaw's organization norms permeated the government decision-making institutions. The subsequent move toward capitalism was motivated by the declining legitimacy of the Tatmadaw to govern the state. Although an underlying security threat accompanied wide-scale social unrest, politics was the leading factor that drove market liberalization.

Since the development of the indigenous Myanmar officer corps was not a priority for Britain during colonial rule, the development of the Tatmadaw was greatly influenced by the politics of the Thakin movement.³⁵² Two examples that show the link between politics of the Thakin movement and Tatmadaw were Aung San and General Ne

³⁵² Morris Janowitz, *Military Institutions and Coercion in the Developing Nations* (Chicago: University of Chicago Press, 1977), 91.

Win.³⁵³ The extension of the Tatmadaw's deep connection and involvement in politics from the pre-independence era cemented the organization and its members as the most relevant political actors in independent Myanmar.

Weak parliamentary institutions and disorganized civilian political organization in the 1950s created a favorable political environment for General Ne Win to launch a coup in 1962. After taking power, the Tatmadaw institutions started to override existing Myanmar political institutions.³⁵⁴ With the Tatmadaw under his command, General Ne Win exercised the military's monopoly of force to uproot the parliamentary political structure and installed his vision of a one-party socialist state.³⁵⁵ Resistance from ethnic minority groups, students, and other activists was repressed with brutality. The Tatmadaw began supplying national leaders by reorganizing the cabinet and ministries.³⁵⁶ Many bureaucrats and civil servants of the old regime kept their jobs, but their positions and authority were deeply marginalized by the new leadership. Personal loyalty and connection to the military became requirements for advancement. Gradually, the importance of merit and productivity as the basis for career progression diminished.

Under the Tatmadaw, government decision-making authority became more hierarchical, with seemingly minor decisions requiring the approval of the minister or high-ranking officers. The practice of appointing and rotating military members in ministerial positions significantly reduced the autonomy and authority of the bureaucracy. Avenues for technocrats and the academic community to influence policy dwindled since close personal relationships with senior military members were required for ideas to get heard. The creation of the BSPP from a core membership of Tatmadaw officers directly injected military norms and institutions into Myanmar's changing political system.

³⁵³ Taylor, *General Ne Win*, 31, 45–74; Aung San was a member of the Thakin movement, the founder of independent Myanmar, and a general in the independence army. General Ne Win was also a member of the Thakin movement, the Thirty Comrades, a group commander of the Burma Independence Army, and Myanmar's head of state.

³⁵⁴ *Ibid.*, 255–273.

³⁵⁵ *Ibid.*, 276.

³⁵⁶ *Ibid.*, 279–280.

The ability of the Tatmadaw to maintain power after 1962 reflected the military's maturity as the state's apparatus of violence. Through the use of force, the Tatmadaw expelled its capitalist class, eliminated foreign interests, suppressed any political opposition, and drove the minority groups into the peripheral areas. Without any political opposition to champion market-oriented policies, the Tatmadaw consolidated political power under General Ne Win's authoritarian rule. As Tatmadaw officers were gaining political power, the military regime used socialist ideology to manipulate the masses to concede to the regime's rule.³⁵⁷ In the manner in which formal rules increase the efficacy of informal constraints, the promulgation of the 1974 Constitution created a one-party socialist state and legitimated the political consensus that cooperating with the Tatmadaw and the BSPP was the only option for political survival.³⁵⁸ By formalizing its place in politics and the government, the Tatmadaw shaped Myanmar's governance to conform to its organizational ideals.

Scholars have argued that strong "ruled-base public administration and institutional respect for private investment and property rights" have failed to develop due to the "primacy of political consideration" and a state apparatus that was permeated with corruption and mismanagement.³⁵⁹ The separation of the military from the government enabled the military to channel individual self-interest through military promotions. After the Tatmadaw took over the government, this separation disappeared. When military leaders became political leaders, political rent-seeking behaviors became an avenue to fulfill self-interests. Since private investments, property rights, and market competition institutions were attenuated under socialism, the merging of the military into the government meant that military connections were crucial in the competition for access to resources within the state distribution network.

At the individual level, what little incentives the Tatmadaw had to develop economic institutions arguably stemmed from individuals' propensity to "truck and

³⁵⁷ Ibid.

³⁵⁸ North, *Institutions*, 46.

³⁵⁹ David Pick and Htwe Htwe Thein, "Development Failure and the Resource Cures: The Case of Myanmar," *International Journal of Sociology and Social Policy* 30, no. 5–6 (2010): 274, <http://dx.doi.org/10.1108/01443331011054235>.

barter.”³⁶⁰ Ruling a bankrupted country was not an attractive situation for the Tatmadaw leaders who claimed to be Myanmar’s liberators. General Ne Win’s request for economic options was evidence that although the organization and professional qualities of the Tatmadaw may have eased the takeover, the junta recognized that different qualities were needed to govern a state.³⁶¹ The plans provided by Ne Win’s advisors included a trade-and-export-oriented strategy and an autarkic socialist strategy.³⁶² General Ne Win chose socialism because he believed the ideology was compatible with the public’s “philosophical outlook” and that a version of self-sufficiency would strengthen Myanmar’s sovereignty.³⁶³ Along with the prevailing military necessity to maintain security and the integrity of the union, socialism was easy for the masses to accept since it had been ideologically associated with the late Aung San. Politically and militarily motivated reasons for a centrally controlled economy overrode all other alternatives.

The NIE framework assumes that agents are autonomous, rational actors. As each actor tries to maximize utility, institutions are developed from the incentives to normalize the exchange structure to reduce the transaction costs paid by the actors.³⁶⁴ In this context, a single-actor economy that is isolated from market exchanges has little incentive to develop institutions to facilitate interactions with others. This was the case for Myanmar during the socialist period. As the military took control over industrialization, opportunities for the autonomous indigenous trader and entrepreneur class to grow were severely limited.³⁶⁵ Since the development of autonomous social, political, and market institutions threatened the regime’s survival as well as the personal survival of the Tatmadaw’s leaders (especially General Ne Win), the Tatmadaw and the BSPP would politically benefit if they exercised the monopoly on force to suppress other actors.

³⁶⁰ In the *Wealth of Nations*, Adam Smith postulated that the “propensity to truck, barter, and exchange one thing for another” is inherent in human nature.

³⁶¹ Janowitz, *Military Institution*, 77.

³⁶² Taylor, *General Ne Win*, 225–226.

³⁶³ *Ibid.*, 257.

³⁶⁴ North, *Institutions*, 3–10, 19.

³⁶⁵ Robert Taylor, “The Military in Myanmar: What Scope for a New Role?” in *The Military, the State, and Development in Asia and the Pacific*, ed. Viberto Selochan (Boulder, CO: Westview Press, 1991), 139–152, 143.

Blaming bad governance as the source of Myanmar's economic failures under socialism is too simplistic and too general. Political repression has the power to skew the economic feedback mechanism that should provide information about the actual state of the economy.³⁶⁶ Just as the Chinese Communists discovered the unpopularity of agricultural collectivization only after they abandoned it; similarly, the many vulnerabilities of the Tatmadaw's rule, such as the true source of inflation, falling national revenue, and the impact of the black market economy, were hidden by the violent suppression of dissent.³⁶⁷ Compounded by the limited accurate statistics available to the government (none at all in the insurgent-controlled areas), nepotism, and the isolation of the military elites, misinformation was especially acute for Myanmar.

Entering the 1970s, the decline of the economy after the introduction of socialism is indicative of the Tatmadaw's failure to adapt and find solutions to resource-allocation problems. The end of colonialism, the rise of nationalism, and the ethnic factionalism may have led General Ne Win toward socialism as the unifying ideology, but the reasons General Ne Win believed military-led socialism could succeed came from his experience. The relatively stable economy during the Tatmadaw's caretaker period (1958–1960) was arguably due not to the Tatmadaw's leadership but to Myanmar's vibrant private sector and a cadre of capable bureaucrats who had appropriate decision-making authority.³⁶⁸ Socialism ushered the exodus of the Indian and Chinese capitalists and the marginalization of civil servants. With the old foundations gone, when the Tatmadaw put the same officers (who were in charge during the caretaker period) in leadership position, the officers could not replicate previous economic successes.

One of the reasons the Tatmadaw could not solve market problems was related to the fact that military leaders were not trained to be economists or bureaucrats. To a greater degree of severity than other societal organizations, the military necessitates institutional rigidity and hierarchical structure for the sake of discipline and efficiency in

³⁶⁶ Ronald Wintrobe, *The Political Economy of Dictatorship* (Cambridge: Cambridge University Press, 1998), 335.

³⁶⁷ *Ibid.*

³⁶⁸ Myat Thein, *Economic Development*, 92, 111–112.

execution.³⁶⁹ When faced with market challenges, the Tatmadaw applied its institutional experience by changing leadership and heightening centralized decision making to reduce uncertainties and risks. In this fashion, the military-related institutions hampered the Tatmadaw's ability to develop innovative solutions.

Insulated under socialism, lack of exposure to the free-market economy slowed the ability of the Tatmadaw government to recognize the symptoms of economic maladies. It took more than a decade for Myanmar to initiate the first set of reforms to correct the deterioration of its economy under socialism. In 1973, the Tatmadaw issued new policies that nearly doubled the state procurement price for rice and formally accepted foreign aid and loans.³⁷⁰ This act symbolized two learning points. The first is the recognition that farmers were incentivized to increase productivity by profit and not nationalism. The second is that the decline of export earnings from rice was a symptom of poor policy in the management of the rice sector. A summary of the institutions analysis of the socialist period is presented in Table 6.

³⁶⁹ Janowitz, *Military Institutions*, 120.

³⁷⁰ Myat Thein, *Economic Development*, 64–65, 115.

Table 6. Institutions Analysis of the Socialist Period (1962–1988)

Conditions	Tatmadaw's Incentives and drivers	Methods and Means	Impact on Political Economic Institution
Legacy of Aung San's socialist ideology	Nationalism, state building	Removal of foreign business interest, marginalization of capitalist class, promulgation of socialism	Elimination of property rights institutions eliminated; market competition reduced to competition for access to resources in socialist distribution system
Lesson learned from the military operations to gain independence	Freedom of military operations	Amending old laws and passing new legislation, using the coup to remove the old government	The military became synonymous with the rule of law,
Failure of parliamentary institutions, weak political institutions, legitimacy of the Tatmadaw as the defender of the union	National security (prevention of the disintegration of the union)	Imposed centralized authoritarian government	Institutionalization of the exercise of force, repression of dissent created misinformation and decreased innovation
The Tatmadaw's success in managing the country during the caretaker period	Centralized, hierarchical, decision-making norms	Creating the Revolutionary Council and appointing military officers in ministerial positions	Military-centric and rigid decision norms overrode bureaucratic autonomy, preference of personal politics over pragmatism, reduced state capacity as military leaders replaced key bureaucrats and civil servants
Stagnation of the socialist economy	Maintaining legitimacy to rule the country	Accepting foreign aid and loans, economic reforms, introduction of monetary incentives	Slow shift toward market incentives

The international environment in the 1990s was full of signs that embracing the market was the strategy for economic growth. Reforms in China, perestroika and glasnost in the Soviet Union and Eastern Europe, and the success of the export-oriented strategy of Singapore, Taiwan, and South Korea had the effect of “uplifting the aspirations of the Myanmar people and determining the decisions of their leaders.”³⁷¹ Although Myanmar was autarkic, senior leadership were not isolated from the world. General Ne Win and other military members made frequent trips to Europe and other destinations. Akin to military professionals in other least-developed countries, the Tatmadaw officers were acutely aware of their nation's backwardness through foreign contacts and their

³⁷¹ Myat Thein, *Economic Development*, 123.

involvement in internal affairs.³⁷² The constraints of centralized decision making and the emphasis on unquestionable loyalty have limited the officers' ability to address the deteriorating economic and political conditions around them. Economic factors alone did not bring an end to socialism.

Although Tatmadaw maintained its monopoly of force, by the 1990s, its ability to unilaterally exercise this monopoly had declined due to many endogenous factors. Compared to 1988, Myanmar's economy performed better in 1962 due to the growth contribution from its private sector.³⁷³ In 1962, the Tatmadaw enjoyed public approval from its management of the country during the caretaker period that had ended two years earlier. In 1988, the Tatmadaw had been fighting a costly insurgency for twenty-six years. The socialist economy was on the verge of bankruptcy and had become a source of national embarrassment. Military brutality toward civilians during the U Thant protest, the maltreatment of the Rohingya ethnic group, and repression of other ethnic minorities had decreased the Tatmadaw's symbolic value.³⁷⁴ The demands of economic growth and modern statehood necessitated more bureaucratic power and empowered technocrats to manage welfare and other state functions—more so than having a military running the country.³⁷⁵ The unforeseen political rise of Aung San Suu Kyi, the NLD founding, and pluralism provided the population with viable alternatives to the Tatmadaw for the first time in more than twenty-five years. The gradual shift in domestic conditions created incentives for change.

Economic reforms during the socialist period were indications that the Tatmadaw leadership conceptualized their immediate environment in relation to the world around them and attempted to adapt. The inability of exogenous factors (the failure of

³⁷² Gi-Wook Shin, "The Military, State Involvement in the Economy, and Economic Growth (1960–1975): A Cross-National Analysis," *Sociological Perspectives* 33, no. 2 (1990), 221, www.jstor.org/stable/1389044; Janowitz, *Military Institutions*, 143.

³⁷³ Myat Thein, *Economic Development*, 92.

³⁷⁴ "The Rohingya: The Most Persecuted People on Earth?" *Economist*, June 13, 2015, www.economist.com/news/asia/21654124-myanmars-muslim-minority-have-been-attacked-impunity-stripped-vote-and-driven; Vincent Boudreau, *Resisting Dictatorship: Repression and Protest in Southeast Asia*, (Cambridge: Cambridge University Press, 2004), 93–97.

³⁷⁵ Peter Lyon, "Introduction: Back to Barracks?" *Third World Quarterly* 17, no. 1 (1985): 13, www.jstor.org/stable/3992118.

communism, Chinese economic reforms, the success of the newly industrialized countries, the economic growth of some Southeast Asia countries, and the security challenge posed by Myanmar's growing dependence on China) to end socialism attributed to their inadequate value function; to the Tatmadaw, the social and political price for change was not worth the switch.³⁷⁶ However, when the 1988 civil unrest raised the stakes, domestic conditions along with exogenous factors created an imperative, either the Tatmadaw change or it will risk civil war.

The marketization process involved the creation of new institutions.³⁷⁷ For Myanmar, post socialist development of property rights was mostly top-down rather than organically developed from a response to exchange and individuals' search for utility.³⁷⁸ Under socialism, Tatmadaw leaders and well-connected elites captured the benefits of state property via control of the state distribution system and access to resources. This group of individuals was incentivized to define property rights to maintain their exclusivity to the benefits of the resources while limiting the opportunities for others to compete for access or control of the same resources. With their hold of the government, the Myanmar elites influenced property rights institutions by passing laws that created legal barriers.³⁷⁹ The slow pace of SOE privatization, the growth of the UMEHL and MEC, and the continued state monopolization of the resource extraction sector during market liberalization period were examples of the state-associated elites retaining exclusivity of resources.³⁸⁰ An example of top-down creation property rights was the

³⁷⁶ Toshihiro Kudo, "Myanmar's Economic Relationship with China: Can China Support the Myanmar Economy?" (Discussion Paper no 66, Institutions of Developing Economies, Chiba, Japan, 2006), 17. www.ide.go.jp/English/Publish/Download/Dp/pdf/066.pdf; Svetozar Pejovich, *Economic Analysis of Institutions and Systems* (Netherlands: Kluwer Academic Publishers, 1995), 34.

³⁷⁷ Mo Yamin and Stephen Bastone, "Institutional Obstacles to Marketization in Post-Socialist Economies," in *The Move to the Market? Trade and Industry Policy Reform in Transitional Economies*, eds. Paul Cook and Frederick Nixon (New York: St Martin's Press, 1995), 58.

³⁷⁸ Pejovich, *Economic Analysis*, 72.

³⁷⁹ The Law Amending the State-Owned Economic Enterprise Law, March, 4 1997. The amendment allowed the military to own 100 percent of a business enterprise.

³⁸⁰ Li Chenyang, "The Policies of China and India towards Myanmar," in *Myanmar/Burma: Inside Challenges, Outside Interests*, ed. Lex Rieffel (Washington, DC: Brookings Institution Press, 2010), 127.

1994 Myanmar Citizens Investment Law that protected businesses from nationalization.³⁸¹

In an ideal setting, complex institutions are crucial to creating an environment in which all of the participating actors enjoy low-cost transactions through self-enforcing commitments to honest and open exchange behaviors.³⁸² In reality, a substantial amount of resources is devoted to measuring, policing, and enforcing agreements.³⁸³ During the socialist era, the Tatmadaw's control of the government meant that resources and institutions created to measure, police, and enforce agreements were biased toward furthering the Tatmadaw's interests. Actors looking to engage in economic exchanges with the state or within its borders could not count on fair and open transactions. The belief among Myanmar's government officials that they must grab and profit as much as possible while in powerful positions reflected the realities of a high-risk economic environment.³⁸⁴ Since propriety could not be expected, short-term gains tend to triumph over long-term ones.

From 1988 to 2010, changing domestic conditions increased the political liabilities associated with exercising violence. Incentivized to conserve political capital, the Tatmadaw resorted to manipulating formal institutions. The trend started with the suspension of the 1974 Constitution, followed by numerous new laws and amendments.³⁸⁵ The capstone was the 2008 Constitution that expanded the Tatmadaw's judiciary authority by giving the military-endorsed president the power to appoint supreme court judges.³⁸⁶ As the criminal justice system became institutionalized, the law apparatus gradually became an expression of the regime's confidence.³⁸⁷ By the late 1990s, an innocent man could expect to be illegally detained, brought to court, afforded a

³⁸¹ The Myanmar Citizens Investment Law (31 March 1994).

³⁸² North, *Institutions*, 58.

³⁸³ *Ibid.*, 31.

³⁸⁴ Pick and Htwe Htwe Thein, "Development Failure," 274.

³⁸⁵ Steinberg, *Burma*, 80.

³⁸⁶ Constitution of the Republic of the Union of Myanmar, September 2008, Chapter IV, 299 (c) (ii).

³⁸⁷ Chessman, "Thin Rule of Law of Un-Rule of Law in Myanmar?" *Pacific Affairs* 82, no. 4 (2010): 612. www.jstor.org/stable/25608966.

chance to express his defiance, and jailed.³⁸⁸ The courts were integrated into the Tatmadaw-dominated government modality to the point where extrajudicial killings and disappearances were no longer necessary.³⁸⁹ Although Myanmar's legal system had matured beyond vigilante justice to afford some certainty to society, it was far from providing adequate constraints on the elites' self-interested behaviors.³⁹⁰

The Tatmadaw countered the decline in its ability to unilaterally exercise force by using the continuing counterinsurgency operation to validate the military's existence and to justify force modernization efforts. Although the government signed ceasefires with several insurgent groups in the 1990s, many others continued their operations against the Tatmadaw. The political unrest in 1988 caused the Tatmadaw to recall troops from the periphery areas to reinforce those in the capital; this action created room for the insurgents to regroup, resupply, or launch counterattacks. The Tatmadaw commanders remedied this weakness by modernizing and expanding the Tatmadaw. From a force of fewer than 200,000 in 1988, the Tatmadaw numbers grew to 320,000 in 1995.³⁹¹ By 2010, Myanmar's arms inventory included modern battle tanks, aircraft, and helicopters.³⁹² In the sense that an enlarged force required a larger budget to equip and operate, the Tatmadaw had institutionalized its budget as a state necessity.

By the end of the market liberalization period, Myanmar became less of a praetorian state.³⁹³ The Tatmadaw responded to the gradual shift from its role as a forefront political agent to a more reserved position by increasing the military's institutionalization, its necessity, and its ideology in the government apparatus. The events in 1988 were perceived by the junta as signs that a military-dominated one-party

³⁸⁸ Ibid.

³⁸⁹ Ibid.

³⁹⁰ Ibid.

³⁹¹ Jack Fong, *Revolution as Development: The Karen Self-Determination Struggle Against Ethnocracy (1949-2004)* (Boca Raton, FL: Universal Publishers, 2008), 182.

³⁹² Jane's Sentinel Security Assessment-Southeast Asia, 9 December 2015. <https://janes.ihs.com/Janes/Display/1305053>.

³⁹³ Amos Perlmutter, "The Praetorian State and the Praetorian Army: Toward a Taxonomy of Civil-Military Relationship in Developing Polities," *Comparative Politics* 1, no. 3 (1969), 383; a praetorian state is one in which the government structures and institutions are dominated by the military.

socialist state could no longer meet the demands of a socialist form of governance.³⁹⁴ If the junta's concession to pluralism was interpreted as an indication the military's waning confidence in its ability to govern, then the flurry of new economic reforms initiated by the SPDC was evidence of the motivation of the Tatmadaw leaders to shape the market liberation process in their favor while they still possessed the means to do so.³⁹⁵ A summary of the institutions analysis of the market liberalization period is presented in Table 7.

³⁹⁴ S. E. Finer, "The Retreat to the Barracks: Notes on the Practice and the Theory of Military Withdrawal from the Seats of Power," *Third World Quarterly* 7, no. 1 (1985), 24, www.jstor.org/stable/3992119.

³⁹⁵ Ibid.

Table 7. Institutions Analysis of Market Liberalization Period (1988–2010)

Conditions	Tatmadaw's Incentives and Drivers	Methods and Means	Impacts on Political Economic Institutions
Stagnation of the economy due to socialist policy	Maintaining legitimacy to rule the country by distancing the Tatmadaw from the failure of socialism	U Ne Win's retirement, dissolving the BSPP, installation of the SLORC and SPDC, separation of the Tatmadaw members from political organization, introduction of capitalism	Decreased reliance on the socialist state distribution system, introduction of market competition and privatization
Protracted insurgency	Maintaining legitimacy to rule the country, quell insurgency either by force or through negotiations	Cease fires with various insurgent groups, co-opt insurgent groups into the state apparatus, modernize the force (continue counterinsurgency operations) , entrenching the Tatmadaw's necessity	Co-opted insurgent groups became border patrols, legalization of border trade, institutionalization of military expenditures
Chinese reforms, perestroika and glasnost, success of the export-oriented strategy	Maintaining legitimacy to rule the country preserving the union	Self-reflection (impacts of underdevelopment caused by socialism)	Created an drive toward capitalism and economic prosperity
Political dissent and criticism of the regime's repressive methods	Maintenance of the legitimacy of the Tatmadaw, the union, and the ability to exercise force, quell dissent	Pluralism, 1990 election, U Ne Win's retirement, installation of the SLORC/SPDC, manipulation of judicial institutions (2008 Constitution), embedding the Tatmadaw's ideology in the government apparatus, institutionalization of the Tatmadaw's expenditure as legitimate government spending	Rule of law biased toward the Tatmadaw (inadequate to constrain self-interest behavior), lack of propriety created a biased toward short-term gain causing government elites to grab and profit while in power, the regime became less praetorian
Increasing necessity for enable bureaucracy and technocrats to run a modern state	Tatmadaw-associated bureaucrats, senior civil servants, and elites maintaining their rents and access to state resources	Some elites form coalitions with new private businesses, slowed SOE privatization, continued state monopoly on some economic sectors	Some changes to decrease barrier to market entry, greater autonomy at the lowest level, skewed market competition (reserving lucrative industries as state monopoly and top-down creation of property rights to preserve the elites' advantages)
Centralized decision-making norms, emphasis on loyalty, preference of personal politics over pragmatism	Maintaining control of state decision-making modalities to perpetuate Tatmadaw interests	Manipulation of formal institutions	Limited growth of innovation and problem solving options
Rise of Aung San Suu Kyi and pluralism	Maintain relevance and prestige in the face of political opposition	House arrested Aung San Suu Kyi, marginalized other political groups, used formal institution (2008 Constitution) to ensure representation of military interests, created of a new political party	State decision-making norms continued to be dominated by Tatmadaw interests, vetted Tatmadaw interests at the highest level of governance

1. Findings

By using institutions as a unit of analysis and the Tatmadaw as an actor/agent, a comparative analysis of the socialist and market liberalization periods revealed that the socialist trajectory was driven largely by military-associated factors. Nationalism, state building, freedom of military operations, and national security factors vectored Myanmar toward socialist authoritarianism. By choosing collective over private enterprises, the socialist state catered to the bureaucratization of the most rudimentary of collective efforts—national defense.³⁹⁶ Militarism of the socialist state was self-enforcing as the state relied on coercion to carry on its collective system.³⁹⁷ As the military became synonymous with the rule of law via its monopolization of force, militaristic organization norms (such as hierarchical and rigid decision-making norms with emphasis on loyalty) became infused into the government decision-making apparatus. While socialist institutions distorted the structure of the economy and incentivized clustering in certain sectors, personal exchanges became the preferred method of exchange in Myanmar's political economy.³⁹⁸

The market liberalization period (from 1988 to 2010) was driven largely by political factors and less so by militaristic factors. Large-scale civil unrest had hurt the Tatmadaw's organizational credibility to rule. Rather than abdicating, maintaining the legitimacy to rule became an overriding incentive. The Tatmadaw commanders placated the population by making short-term concessions such as conceding to pluralism and then reverting on their position in the long term (military rule was re-imposed after 1990).

When Myanmar's government tried to reestablish the market in the late 1980s, the development of market institutions collided with existing socialist institutions. Socialist norms of strict controls, arbitrary policy making, and lack of standardization clashed with the market's demand for autonomy, consistency, orderliness, and stability that reduced

³⁹⁶ Thomas R. Dye and Harmon Zeigler, "Socialism and Militarism," *Political Science and Politics* 22, no. 4 (1989): 812, www.jstor.org/stable/419471.

³⁹⁷ Ibid.

³⁹⁸ Bissinger, "Myanmar's Economic Institutions," 241.

business risk.³⁹⁹ Since top-down creation of institutions such as the rule of law, competition, and property rights institutions are timelier in execution than bottom-up (or organic) development, the Tatmadaw and Tatmadaw-associated elites used their positions in the government to situate themselves in advantageous positions. Although market institutions had materialized in Myanmar, they were skewed. Where the institutions were genuine, they existed only in small scale. It will be some time before Myanmar's market institutions mature to the point where they can deliver their intended benefits to the entire economy.

B. MYANMAR AND THE DEVELOPMENTAL STATE

The previous section established the foundations of how the Tatmadaw, as a political actor, shaped the development of Myanmar's institutions; the following section uses the previous section's findings and applies them in the analysis of Myanmar's political economy within the developmental state framework. The lack of collaborative norm between the state and private enterprises, the political marginalization of the bureaucracy and the technocrats, and the politic-centric patterns of policy development were characteristics of the socialist period. Although the state was increasing taking cues from businesses during the market liberalization period, the preference of short- over long-term gains and politics over pragmatism had hampered the development of healthy cooperative norms.⁴⁰⁰

1. On the Political Origins of Economic Institutions

The interplay between domestic coalition dynamics, scarcity of natural resources, and severe security threats (collectively called systematic vulnerabilities) has been identified as the political origins of the economic institutions that necessitate the emergence of the developmental state.⁴⁰¹ Although Myanmar's political environment seemed to validate this model, being resource rich had circumvented the necessary

³⁹⁹ Ibid., 241.

⁴⁰⁰ Myat Thein, *Economic Development*, 122.

⁴⁰¹ Richard F. Doner, Bryan K. Ritchie, and Dan Slater, "System Vulnerability and the Origins of Developmental States: Northeast and Southeast Asia in Comparative Perspective," *International Organization* 59, no. 2 (2005): 329. www.jstor.org/stable/3877907.

developmental imperatives to form. The socialist junta needed the population's support, so it paid rents to the public sector via artificially depressed commodities prices and subsidies.⁴⁰² Since the 1962 coup, the government in Yangon (and later Naypyidaw) faced a wide-scale insurgent threat in the border areas. Prolonged devotion of resources to fight the insurgents constrained the government's budget.

Since Myanmar has natural resources, deep ties between the military and the resource extraction companies, such as the Petroleum Authority of Thailand, had been filling the military's coffers since the beginning of the socialist period.⁴⁰³ However, profits from resource extraction and other means to generate revenue could not meet the government's expenditures and rent requirements, and Myanmar's national deficit grew.⁴⁰⁴ Consequently, the government increased its reliance on foreign firms to extract more resources; a vicious cycle that arguably compromised Myanmar's economic sovereignty.⁴⁰⁵

Although Myanmar lacked the systematic vulnerabilities to motivate its leaders to invest in development-oriented economic institutions, Myanmar was not entirely doomed to dwell in underdevelopment. Although Singapore is the only developmental state in Southeast Asia, it was not the only country that grew. From 1962 to 2010, Myanmar functioned under authoritarianism in which the military's monopoly of force acted as a disincentive for the Tatmadaw to co-opt any other social and political groups, including popular voters. But Myanmar's political landscape was rapidly changing. Political reforms under President Thein Sein made great strides toward democratization. The transfer of political power from the Tatmadaw leaders to the NLD (following the party's

⁴⁰² Myat Thein, *Economic Development*, 87–88.

⁴⁰³ Maung Zarni, "An Inside View of Reconciliation," in *Myanmar/Burma: Inside Challenges, Outside Interests*, ed. Lex Rieffel (Washington, DC: Brookings Institution Press, 2010), 72.

⁴⁰⁴ Jan Gottschalk, "Overview: Fiscal Sector in Myanmar," International Monetary Fund, June 4, 2014, www.imf.org/external/region/tlm/rr/pdf/m3.pdf; Masato Miyazaki and Dhaneshwar Ghura, "Myanmar: Staff Report for the 2011 Article IV Consultation—Debt Sustainability Analysis," International Monetary Fund, 2 March 2012, www.imf.org/external/pubs/ft/dsa/pdf/2012/dsacr12104.pdf; Tin Maung Maung Than, *State Dominance*, 139, 194–195, 370.

⁴⁰⁵ Chenyang, "Policies of China and India," 72.

victory in the relatively fair and open 2015 general election) marked the first time in fifty years that the military was not in charge of Myanmar's government.⁴⁰⁶

If Myanmar is capable of such a drastic shift in political institutions without foreign intervention, a massive uprising, or widespread civil war, it is possible that development-oriented economic institutions would emerge in Myanmar. A structural approach such as the system vulnerability model is useful in predicting whether a country will someday become a developmental state. However, to create a picture of how or why an actor such as the Tatmadaw is incentivized to create, perpetuate, or destroy development-oriented economic institutions, a close examination of the interacting mechanisms is required.

2. Leadership, the Government, and the Bureaucracy

Two complementary characteristics of the developmental state are a soft authoritarian government and the existence of development-oriented elites.⁴⁰⁷ From 1948 to 1962, Myanmar had a cadre of Indians and Chinese capitalists who were oriented toward economic development.⁴⁰⁸ But U Nu's preoccupation with religion (such as designating Buddhism as Myanmar's national religion) widened social cleavages.⁴⁰⁹ Ethnicity and religion became a heated issue in politics; little room was left for economic development debates.

After the 1962 coup, socialist policies caused the exodus of Myanmar's capitalist class and destroyed incentives for entrepreneurship. The absence of elites who favored development did not imply that the Tatmadaw leaders wanted to govern a country that existed in perpetual poverty; rather, the Tatmadaw leaders had other imperatives that overrode development. The post-independence ethnic factionalism issues had turned into a large insurgency. In the minds of many Tatmadaw leaders, the threat of the disintegration of the union was more immediate than addressing economic issues.

⁴⁰⁶ Sara Perria and Oliver Holmes, "Aung San Suu Kyi's Party Takes Seats in Historic Session of Myanmar Parliament," *Guardian*, February 1, 2016, www.theguardian.com/world/2016/feb/01/aung-san-suu-kyi-leads-party-into-myanmar-parliament-to-claim-power.

⁴⁰⁷ Johnson, "Political Institutions," 137–140.

⁴⁰⁸ Tin Maung Maung Than, *State Dominance*, 308.

⁴⁰⁹ *Ibid.*, 309.

The Myanmar state coalesced in 1974 after the new constitution officially established a socialist unitary party state under the BSPP. Arguably, the BSPP's TYP was evidence that many of the BSPP leaders were developmentally oriented and that the Tatmadaw leaders understood the link between economic prosperity and national security. Regardless, in economic policy making, this link was inadequate to overcoming the "primacy of politics over economics" and the regime's "emphasis on political expediency and short-term results" to dismiss political discontent.⁴¹⁰ Consequently, Myanmar remained an inward-looking socialist state for fourteen more years before the unrest in 1988 catalyzed a change.

The colonial experience had bred the military's distrust in government administrators. Once in power, Myanmar's civil service was damaged by "repeated purges, politicization, absurdly low wages, and unchecked corruption."⁴¹¹ As military officers were appointed to senior bureaucrats and ministerial posts (some officers had management experience from the caretaker period, but most lacked the skills and experience to perform the duties of those they replaced), Myanmar's state capacity declined. For decades, the government experienced problems accomplishing simple administrative tasks such as collecting revenue and maintaining logistics for the army.⁴¹² Where the developmental state insulated its technocrats and trusted its bureaucracy to carry out tasks, the Tatmadaw discriminated them.

3. State-Private Enterprise Cooperation

The government-business relationship in the developmental state model is characterized by state intervention via cooperative relationships with private businesses. Under socialism, Myanmar's private enterprises virtually disappeared, and the government's priority shifted toward state security rather than economic development. When the Tatmadaw superimposed military norms, government-business relationships

⁴¹⁰ Myat Thein, *Economic Development*, 122.

⁴¹¹ Neil A. Englehart, "Is Regime Change Enough for Burma? The Problem of State Capacity," *Asian Survey* 45, no. 4 (2005): 622, doi:10.1525/as.2005.45.4.622.

⁴¹² *Ibid.*

became defined by personal politics and loyalty.⁴¹³ Autonomy and innovation were constrained by strict centralized hierarchical decision-making norms. Nationalization of private enterprises eliminated entrepreneurship. With an insignificant private sector to provide cues, Myanmar's socialist government made a blunder out of its economy for more than twenty years.

After the Myanmar's government abandoned socialism in 1989, various measures were enacted to promote the private sector. The government liberalized much of the agriculture and import/export sector, opened its borders, and attempted to privatize the SOEs.⁴¹⁴ Although the reforms contributed to a significant growth of the number of small to medium-sized enterprises, institutional inefficiencies carried over from the socialist period continued to hamper the development of fair market competition.

An example in which state security overrode market and business signals (and caused the stagnation of a business sector) was Myanmar's rice policy. The objective of Myanmar's rice policy was to control and keep the prices of basic commodities low and to sustain SOE's investments.⁴¹⁵ Myanmar has always been an agrarian society with many small farmers dominating the private sector. During the socialist years, Myanmar's private trade and manufacturing sector existed in limited capacity. Although the state nationalized land, agriculture was not collectivized in large scale as in China, Vietnam, or the Soviet Union.⁴¹⁶ Myanmar farmers were given tillage rights as "tenants" to the state land.⁴¹⁷ Private sale of crops was forbidden, and farmers had to deliver a quota of crops to the government at a fixed price.

For political stability and internal security purposes, strong fears of losing control of the rice sector provided the government with justification to continue to pursue its

⁴¹³ Myat Thein, *Economic Development*, 122.

⁴¹⁴ *Ibid.*, 123, 151; "Myanmar Economy," 37.

⁴¹⁵ Koichi Fujita and Ikuko Okamoto, "Overview of Agriculture Policies and the Development in Myanmar," in *The Economic Transition in Myanmar after 1988: Market Economy versus State Control*, eds, Koichi Fujita, Fumiharu Mieno, and Ikuko Okamoto (Singapore: National University of Singapore Press, 2009), 209.

⁴¹⁶ Ikuko Okamoto, *Economic Disparity*, 16.

⁴¹⁷ *Ibid.*, 13–14.

policy even if the cost was a virtual stasis of agricultural innovation.⁴¹⁸ Socialist policies created disincentives for farmers to increase their investment or productivity. Since the farmers were not allowed to take advantage of the economy-of-scale or market incentives, it was difficult for Myanmar to achieve the necessary comparative advantage in rice. And without the benefits of comparative advantage, self-sufficiency in agriculture would be difficult to achieve since the Myanmar's government would always spend more to produce the same commodities than other countries with the advantage.⁴¹⁹

4. Growth Strategy

While the developmental state model's industrial strategy includes a combined effort between the government and the private sector toward upgrading human capital to fulfill the requirements to shift the country's comparative advantage toward industrial and services sectors, Myanmar had no comparable strategy.⁴²⁰ Economic policies passed during the market liberalization period may have allowed the private sector to develop. And to a small degree, the private sector did benefit from the government's attempt to provide low-cost infrastructure and basic services.⁴²¹ While the developmental state's private sectors reaped long-term benefits from government intervention, extensive and prolonged government intervention had weakened Myanmar's SOE and the rice sector. In terms of the type and scale of government intervention, Myanmar's form of government intervention differed in intent and character from that of the developmental states.

Socialism is an almost polar opposite to the developmental state model. While socialism was inward looking, the developmental state policies were outward oriented. The developmental state relied on a global comparative advantage while socialism relied on self-sufficiency. Although the ISI phase of the developmental state strategy shared an inward-looking character with socialism, there are differences between ISI and socialism.

⁴¹⁸ Ibid., 17.

⁴¹⁹ Fujita and Okamoto, "Overview of Agriculture Policies," 210.

⁴²⁰ Perkins, *East Asian Development*, 98–99.

⁴²¹ Toshihiro Kudo, "Industrial Policies and the Development of Myanmar's Industrial Sector in the Transition to a Market Economy," in *The Economic Transition in Myanmar after 1988: Market Economy versus State Control*, eds. Koichi Fujita, Fumiharu Mieno, and Ikuko Okamoto (Singapore: National University of Singapore Press, 2009), 97.

Private enterprises were protected under ISI but were severely marginalized or eliminated via nationalization under socialism.⁴²² Socialism in Myanmar was motivated by the Tatmadaw's goal to prevent the political disintegration of the state and the alignment of self-sufficiency with nationalism.⁴²³

At the general level, there are similarities in Myanmar's social and political structure during both the socialist and the market liberalization periods. First, there was a lack of a strong and independent capitalist class. From 1962 to 1988, Myanmar's Indians, Chinese, and other capitalists left the country, and the state concentrated on growing and developing SOEs at the expense of whatever was left of the private sector. When socialism was abolished by the SLORC, small and medium-sized private enterprises did expand but they came nowhere close to the strength of the capitalist class that existed before nationalization. Large capital-intensive industries and companies were under the ownership of the state (like those in oil and gas sector), belonged to one of the two military-related giant conglomerations, were under joint ownership with foreigners, or belonged to prominent military families. In a social structure that lacked a strong independent capitalist class, alternatives to government-derived ideas and policies were severely limited.

The shift from ISI to EOI was the turning point for the developmental state model. While Latin American economies stagnated from their continuation of ISI policies, the Asian NICs boomed because they switched.⁴²⁴ Since Myanmar abandoned socialism and liberalized its economy, technically the shift from ISI toward EOI had occurred. Since changing the orientation of a sovereign state's economy occurred over time, from 1988 to 2010, Myanmar's economy arguably fell between ISI and EOI.

The release of socialist-imposed pent-up demand for consumer goods, the lack of industrialization of production facilities, and the low-hanging-fruit nature of the domestic

⁴²² Myat Thein, *Economic Development*, 114–115.

⁴²³ Haggard, *Pathways*, 97.

⁴²⁴ *Ibid.*, 23–48, 161–188.

market were favorable conditions for ISI.⁴²⁵ Yet, the opening of new markets turned many domestic businesses into exporters.⁴²⁶ The simultaneous development of export-oriented and import-substitutions-based firms indicated the transitional nature of Myanmar's political economic environment. It is possible that once the domestic demand becomes saturated, more firms will turn outward. Myanmar's government had been attenuating the competition between private firms and SOEs by using formal institutions to restrict the growth of the private sector. But this strategy is only effective in the near and immediate timeframe. As Myanmar becomes more integrated into the world market, the numbers of domestic economic agents will likely increase and so will the pressure for economic reforms. A summary of the comparative between the socialist and the market liberalization periods in relation to the developmental state model is provided in Table 8.

⁴²⁵ Koichi Fujita, Fumiharu Mieno, and Ikuko Okamoto, "Introduction," in *The Economic Transition in Myanmar after 1988: Market Economy versus State Control* eds. by Koichi Fujita, Fumiharu Mieno, and Ikuko Okamoto (Singapore: National University of Singapore Press, 2009), 3; Kudo, "Industrial Policies," 72.

⁴²⁶ Kudo, "Industrial Policies," 72–73.

Table 8. Analysis of the Developmental State Model, the Socialist Period (1962–1988), and the Market Liberalization Period (1988–2010)

	Developmental State Model	Socialist Period	Market Liberalization Period
Leadership	Developmentally oriented elites with the desire to break out of underdevelopment	Military elite (shaped by colonial and independence experience) with the desire to prevent the disintegration of the state of Myanmar	<ul style="list-style-type: none"> – Military elites responding to decline organization legitimacy – Military elites motivated to hold on to political power and prestige
Systemic Vulnerabilities	<ul style="list-style-type: none"> – Resource constraints – Serious threats demanding large defense expenditure – Elites needed broad coalition; rents required to maintain the coalition 	<ul style="list-style-type: none"> – Resource rich: state monopolization of resource extraction – Threats from insurgency – Artificially depressed commodities prices and subsidies became the state’s rents for the population 	<ul style="list-style-type: none"> – State maintained the monopoly on resource extraction sector; emphasis on economic sovereignty aspects of national security – Attenuated insurgency through ceasefire agreements
Growth Strategy	Import Substitution follow by export-oriented industrialization	<ul style="list-style-type: none"> – Autarky and centralized socialist economy – Nationalization of the private sector 	Outward oriented in general, mixture between indigenous private sector development and government-sponsored SOE
Technocrats and the Bureaucracy	Technocrats and the bureaucracy enjoyed relative freedom for political capture	<ul style="list-style-type: none"> – Technocrats/bureaucrats marginalized by the military – Senior bureaucratic positions replaced by military members; politicization of ministers position – Military-imposed centralized decision making – Bureaucratic performance motivated by personal relationships and patronages 	Two opposing groups: bureaucrats and technocrats who resisted liberalization of SOE for fear of losing rents, revenues, employment, and prestige vs. those who became more enabled by requirements to run a modern state
Cooperation between Public and Private Sector	<ul style="list-style-type: none"> – Alliance between the state and the producer class – Government create a stable business environment – The state takes market cues from businesses – Competition incentivize production, efficiency, and innovation 	<ul style="list-style-type: none"> – Nationalization of private enterprises – Government-business relationship defined by personal politics and constrained by centralized decision-making norms – State-directed procurement system, no feedback from businesses, limited feedback from the market – State became synonymous with producer class 	<ul style="list-style-type: none"> – The state increasingly take market cues from businesses but government monopolies and prevalence of personal politics continued to hamper the development of fair and open competition institutions – Business environment remain uncertain due to prevalence of personal politics – State and producer class are dominated by the Tatmadaw-associated elites

5. Findings

Overall, Myanmar's political economy has more differences than similarities with the developmental state model. If the core insight of the developmental state is that government intervention can solve market failures, then Myanmar had the intervention part somewhat right with regard to the way economic decisions became centralized under socialist ideology.⁴²⁷ Myanmar's outward orientation after abandoning socialism is also similar with the developmental state's outward-looking strategy. Beyond these two broad generalities, Myanmar greatly diverges from the developmental state model. While the developmental state's approach focused on solving the coordination problem, the Myanmar's government focused on national security (at the onset of socialism) and later national security and politics (at the onset of market liberalization).⁴²⁸ Myanmar is resource rich; however, its inability to fully exploit its natural resources had led to heavy reliance on foreign interests. This dependency is a direct threat to Myanmar's economic sovereignty, but one that is not serious enough to the drive Myanmar toward industrialization the way severe cuts in foreign aid did for South Korea and Taiwan. The lack of direct state support for private-sector industrialization and the continued monopoly of various sectors by the SOE are evidence that a strong coordinated effort to push Myanmar toward industrialization is still lacking.

C. CONCLUSION

The clash between socialist institutions and the demands for market institutions resulted in a mixture of conditions. To a degree, socialist norms persisted in the continued existence of state monopolies in many economic sectors. And to a degree, the increased number of small and medium-sized businesses indicated that market institutions were working to promote entrepreneurship. The demands for enabled bureaucrats and technocrats to run a modern state had, to a small degree, decentralized government decision making at the lowest levels. Since the Tatmadaw elites in government were

⁴²⁷ Stephan M. Haggard, "The Developmental State is Dead: Long Live the Developmental State!" paper presented at the annual meeting of the American Political Science Association, Chicago, Illinois, August 29–September 1, 2013, <http://dx.doi.org/10.2139/ssrn.2312104>.

⁴²⁸ Alice H. Amden, *Asia's Next Giant: South Korea and Late Industrialization* (New York: Oxford University Press, 1989), 139–147.

responsible for the top-down formalization of institutions, they had placed themselves in advantageous market positions. The judicial system in which verdicts were expected to be in favor of the state, the barriers of entry for lucrative markets, and the rule of law that was unable to deter self-interest behaviors were manifestations of the distortions in Myanmar's political economic institutions at the end of the market liberalization period.

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VI. CONCLUSION

A comparative analysis of the socialist period (1962–1988) and market liberalization period (1988–2010) revealed that the Tatmadaw was a political actor and an organization that brought sociopolitical changes to Myanmar via its monopoly of force. Since the Tatmadaw leadership consisted of a small cadre of individuals, the cadre's experiences, perceptions, values, and norms became imbedded in the informal and formal government institutions that were developed under the military regime. As a result, Myanmar's institutions became infused with those of the military.

Militaristic organizational norms such as close adherence of a hierarchical structure of authority, top placement of security as a priority, and the emphasis on personal loyalty were amplified in Myanmar's state formal institutions. This was evidenced in the 1974 Constitutions and various laws and legislations passed by the socialist junta under General Ne Win. The blend of military-centric institutions superimposed on Myanmar's traditional political, social, and economic institutions resulted in a prevailing norm of personal politics over pragmatism. The disjointed and sometimes contradictory nature of Myanmar's economic policies from 1962 to 2010 was an unfortunate materialization of a government and a society that operated under such *modus operandi*.

The Tatmadaw's connection to politics was rooted in the historical involvement of its leaders in Myanmar's independence movement. In the late 1950s to early 1960s, fragile parliamentary government institutions combined with political chaos that threatened to tear the fledgling state apart gave the Tatmadaw an existential reason to intervene. In 1962, the Tatmadaw used its status as a national institution and its monopoly of force to launch a coup and to direct a shift of Myanmar's institutional structure toward socialism.

Under socialist ideology, militaristic norms such as hierarchical decision making and rigid adherence of rules were informally imposed onto the government. As military members became political leaders, personal loyalty and connection to the military

eclipsed merit and productivity as requirements for advancement in the government sector. The BSPP's cadre and its military members formalized the Tatmadaw as the epicenter of Myanmar's government. While nationalization of private enterprises eliminated Myanmar's capitalist class, the planned socialist distribution system insulated Myanmar's economy from market forces. With the bureaucracy and the business class marginalized, political power became concentrated on a small group of senior military leaders who, in turn, became Myanmar's new elite. As the masses were buying into self-sufficiency and unity under the socialist banner, the Tatmadaw was institutionalizing itself into Myanmar's state structure.

Since socialism hampered the development of the institutions of exchange that are crucial to the success of a developmental state, the decline of Myanmar's economy can be explained in terms of missing institutions and their corresponding developmental state features. Top-down militaristic hierarchical decision making meant the Myanmar's government was not taking economic and allocation cues from the private sector or the market. The majority of Myanmar's bureaucrats were restricted and faced political repercussions for expressing ideas and views that were contrary to the military's socialist vision. Without market competition, Myanmar's economy was plagued with transactional inefficiencies and shortages. For political reasons, the Myanmar's government was focused on artificially controlling prices of basic commodities. The regime manipulated foreign exchange and created a monopoly of the resource-extraction sector. Distorted government priorities caused the absence of developmental state characteristics in Myanmar's political economy.

The military regime's abrupt official embracing of capitalism in 1989 was an example of the Tatmadaw's position as a political actor with the power to bring drastic social changes to Myanmar. In 1988, the Tatmadaw still had a monopoly of force, albeit growing public dissent over poor economic conditions and political repression had degraded the regime's ability to unilaterally exercise its monopoly. Unlike the introduction of socialism, market liberalization was motivated more by politics than by militaristic or nationalistic goals. The scale of the 1988 protest posed an existential threat to the nation (in terms of a potential civil war) and to the Tatmadaw's primacy in politics.

Although pluralism and an election endangered the Tatmadaw's dominance by creating political opponents, the Tatmadaw ceded to these actions because they were short-term means to appease the public. The regime's return to power in 1990 under the guise of the SLORC/SPDC was an indication that the junta was not ready to give up its role as a political actor.

To a lesser degree, other forces pushed Myanmar toward capitalism. Increasingly, the requirements to run a modern state had moved the regime to recognize the importance of a more empowered bureaucracy in strengthening the state's governance capacity. Economically, during the socialist era, the competition between military elites for access to resources in the socialist state structure gave birth to military-run business conglomerates and the crony capitalist class. To a degree, military businesses and a small group of elite capitalists welcomed market liberalization because of the possibility of new markets and the opportunity to profit from their advantageous domestic economic position. Typically, the development of capitalism is a gradual process that at minimum requires a middle class, a supply of labor, and an industrious attitude.⁴²⁹ For Myanmar, the shifts to socialism in 1962 and to capitalism in 1988 were relatively abrupt because they were top-down directed: a result of the authoritarian nature of the Tatmadaw's control of the government and the organization's control over means of coercion.

During the market liberalization period, Myanmar's government moved closer to creating conditions that are conducive to the development of healthy market institutions, such as property rights and the rule of law. The liberalization of trade had allowed grassroots business to bloom. In some sectors, government intervention was reduced to issuing relatively speedy permits for small to medium-sized businesses (as long as they did not compete with state-run sectors). Where domestic businesses were allowed unhampered access to new markets, productivity soared. Contrarily, sectors where the government maintained production and pricing control (such as of rice) continued to encounter roadblocks to increasing production efficiencies.

⁴²⁹ Pejovich, *Economic Analysis*, 14.

The gains that Myanmar's government made were offset by some setbacks. The state remained reliant on exploitation of its natural resources for revenue. Because the resource-extraction sector is under state monopoly, transparency on deals, profit sharing, and streams of revenue were limited. Myanmar's dependence on foreign investment to extract resources had become a recognized national liability especially concerning its contractual relationship with China. While in control, the Tatmadaw had institutionalized its interest in the judicial system. As a result, true fairness in the rule of law had not been instituted. To a large degree, businesses still rely on personal relationships, patronages, and clientele advantages vice bona fide candid and open competition. Property rights remain a problem for Myanmar's farmers, as many still grow crops under tillage privileges. The overall business environment in Myanmar has improved since 1988; but pockets of uncertainty where entrepreneurial risk remains high still exist.

At the end of 2010, Myanmar had a long way to go to develop the necessary institutions and structures to undergo the developmental state transformation. Myanmar is a newcomer to the world market compared to other Asian economies. In 2010, Myanmar's industries were mostly labor-intensive light manufacturing (such as garments and other consumer goods). In this sector, Myanmar faced fierce competition from other Asian economies, especially from China, which had been engaging in labor-intensive industries since the late 1940s. To replicate the developmental state's industrialization strategy, Myanmar first needed to develop the necessary heavy industries; given the current configuration of Myanmar's economy, this is an achievable milestone only in the long term.

Under socialism, Myanmar seemed to validate findings that militaristic institutions do not necessarily lead to the state playing a positive role in hastened economic growth, especially in less developed countries.⁴³⁰ The rise of the NLD presents an opportunity for Myanmar to put some distance between the state and militaristic

⁴³⁰ Gi-Wook Shin, "Military, State Involvement, 228.

institutions.⁴³¹ But it would be premature to believe that with the NLD, Myanmar's economic problems will be instantly solved. From a democratic viewpoint, the NLD may have been a welcome challenger to the Tatmadaw's monopoly of political power. Nevertheless, the NLD's inexperience in governance has the potential to become a source of tension between the old regime and the new. Given that Myanmar's bureaucrats and technocrats are still recovering from decades of marginalization under military rule, the NLD's administration still risks encountering problems that stem from a weakened state capacity. Along with unresolved political issues, such as what to do about the minority ethnic groups, the NLD faces daunting political challenges. We can logically infer that, under the NLD's leadership, building market economic institutions may not be Myanmar's top priority in the short term.

Although well-designed institutions can compensate for poor leadership performance, perversely bad leadership can destroy an otherwise well-organized division of labor.⁴³² Capable leadership can occasionally make the most of shaky institutions, but institutions can be so poor that even the best leadership cannot compensate for their deficiencies.⁴³³ In sum, it will take time for Myanmar's market institutions to mature. As ownership rights and contractual freedom become institutionalized, incentives are generated for individuals to engage in activities that move resources from low to high utility.⁴³⁴ As complex exchanges become less costly, attaining growth and development goals shifts closer to reality.

There are promising signs that Myanmar's middle class is growing and barriers to market entry for small and medium-sized businesses have largely eroded. Regardless, there are many areas for improvement. As Myanmar and the United States begin to formulate an economic relationship, the United States is in a position to incentivize the development of market institutions. Rather than concentrating investments in building

⁴³¹ "Myanmar's 2015 Landmark Elections Explained," BBC, retrieved January 29, 2016, www.bbc.com/news/world-asia-33547036; in November 2015, the NLD won the general election and gained approximately 80 percent of all contested seats.

⁴³² Chalmers Johnson, *Revolutionary Change* 2nd ed. (Stanford, CA: Stanford University Press, 1982), 91.

⁴³³ *Ibid.*

⁴³⁴ Pejovich, *Economic Analysis*, 121.

roads and other infrastructures, tailoring aid and building a relationship that rewards Myanmar for playing by the rules would reinforce the value of property rights, fair competition, transparency, and unbiased rule of law.

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