

03 / 13 / 2015

State, market, and social order: Myanmar's political economy challenges

**Workshop “Asian emerging economies in the post crisis era:
growth trajectories, challenges and perspectives”**

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Structure of the presentation

Can Myanmar become a developmental state?

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1. Myanmar's transitions
2. Myanmar's economic structure and reforms
3. The challenge of a mature natural state
4. From a praetorian state to a developmental state?
5. Patronage and the future of Myanmar's political economy
6. Conclusion



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Myanmar's transitions

POLITICS, ECONOMY, AND PEACE

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- From military rule to civilian rule/'discipline-flourishing democracy'
 - 2015 elections
- From an (isolated) command economy to an (open) market economy
 - Liberalizations and opening up
- From domestic conflicts to peace
 - Ceasefires and peace agreements with ethnic armies

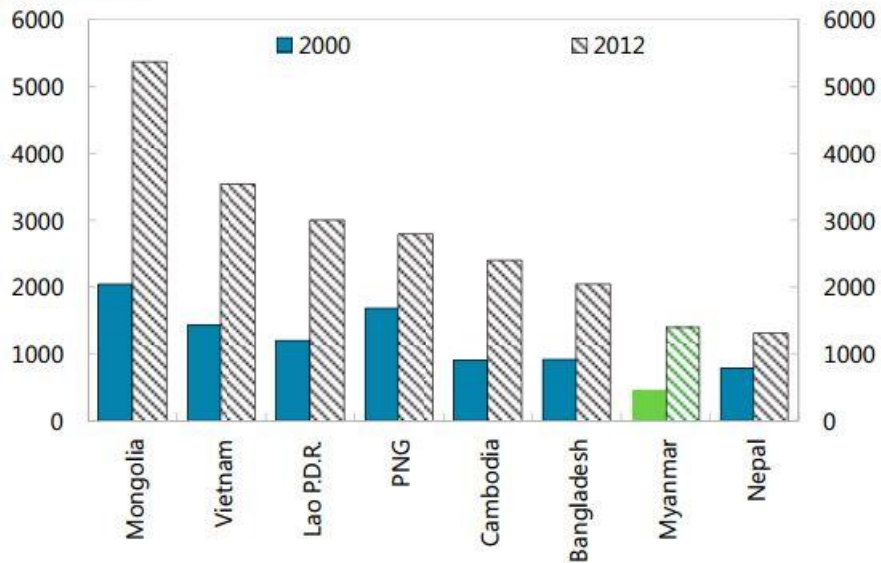
Myanmar's economic structure and reforms

ONE OF THE POOREST COUNTRIES IN ASIA

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Per Capita GDP (PPP)

(In U.S. dollars)



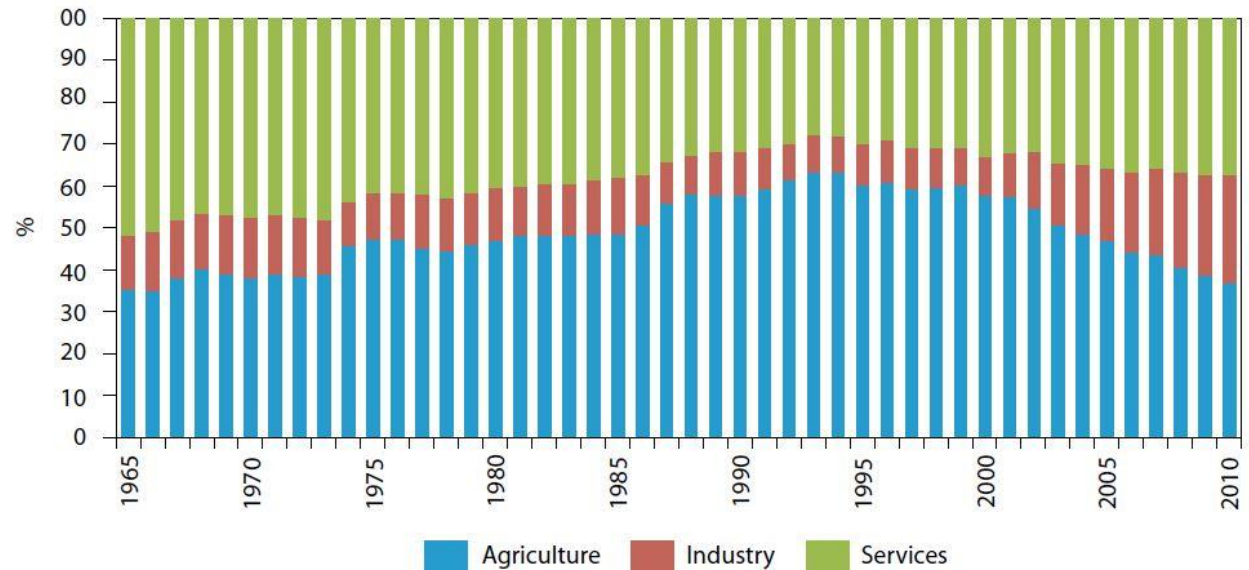
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Myanmar's economic structure and reforms

A PREDOMINANTLY AGRARIAN ECONOMY – BUT A TREND UNDER WAY?

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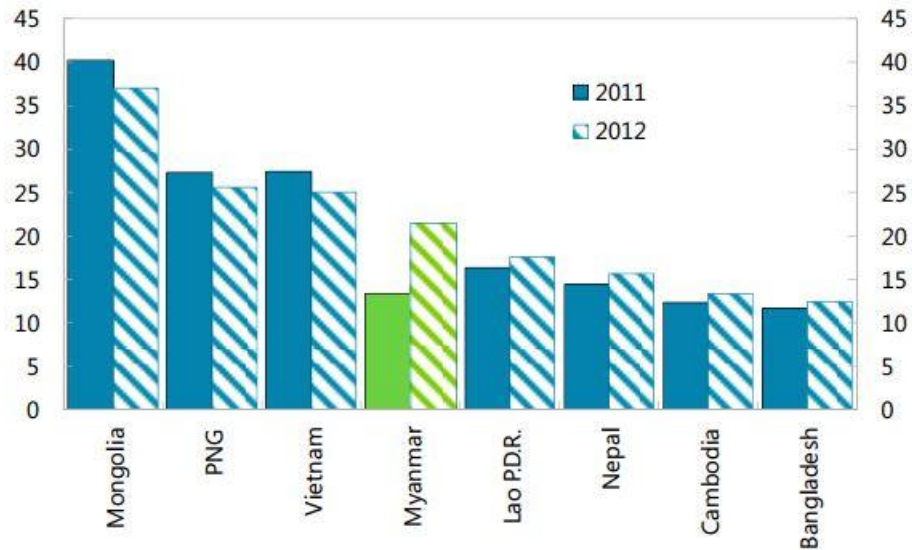
Myanmar's economic structure and reforms

A VERY WEAK FISCAL CAPACITY

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Government Revenue Excluding Grants

(In percent of GDP)



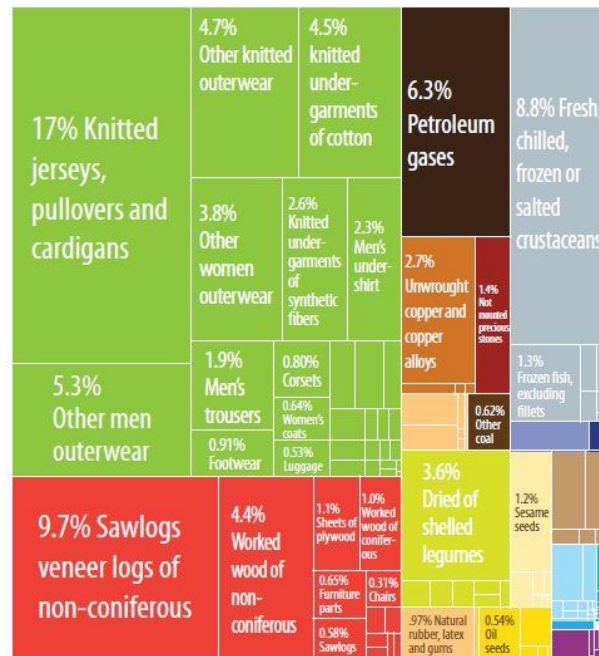
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Myanmar's economic structure and reforms

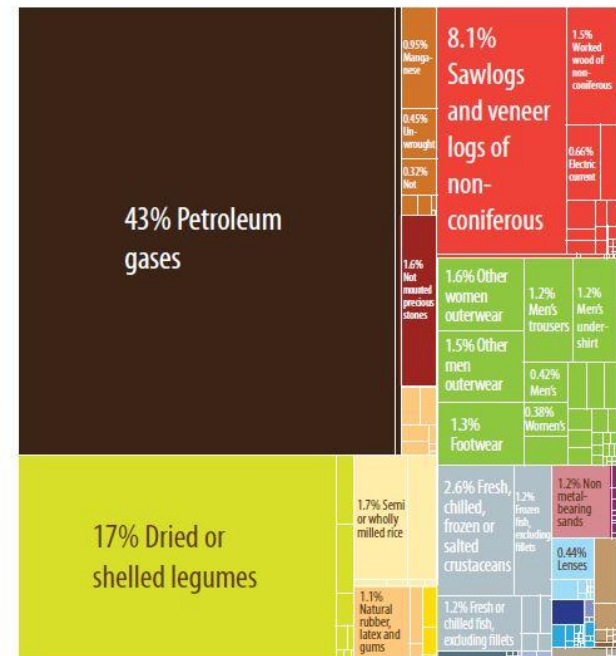
A COUNTRY RICH IN NATURAL RESOURCES

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2000



2009



Myanmar's economic structure and reforms

A NUMBER OF SIGNIFICANT MEASURES UNDER THE FRAMEWORK FOR ECONOMIC AND SOCIAL REFORMS
(FESR) 2012-2015

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- Abolition of multiple exchange rate
- Foreign Exchange Management Law
- Tax reforms
- Trade Union Law
- Farm Land Law
- Foreign Investment Law
- Special Economic Zone Law



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The challenge of a mature natural state

A FRAMEWORK FOR THE ANALYSIS

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- *Violence and social orders* (North, Wallis and Weingast 2009)
- A distinction between:
 - *Limited access orders* (or natural states), based on personal relationships among powerful individuals
 - *Open access orders*, revolving around impersonal categories of individuals, often called citizens



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The challenge of a mature natural state

CHARACTERISTICS OF LIMITED ACCESS ORDERS

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1. Slow-growing economies vulnerable to shocks
2. Politics without generalized consent of the governed
3. Relatively small numbers of organizations
4. Smaller and more centralized governments
5. A predominance of social relationships organized along personal lines, including privileges, social hierarchies, laws that are enforced unequally, insecure property rights, and a pervasive sense that not all individuals were created or are equal (North et al. 2009: 12)

The challenge of a mature natural state

A DISTINCTION WITHIN THE CATEGORY OF NATURAL STATES

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- *Fragile* natural states are unable to support any organization but the state itself.
- *Basic* natural states can support organizations, but only within the framework of the state.
- *Mature* natural state are able to support a wide range of elite organizations outside the immediate control of the state (North et al. 2009: 21).

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From a praetorian to a developmental state?

DIFFERENT DEGREES OF MILITARY INTERVENTION IN POLITICS

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- *Myanmar* not in transition to an open access order:
 - No impersonal relationships
 - No civilian control of the military
 - No separation between the military, politics and economics
- *Myanmar* yesterday: a fragile natural state
- *Myanmar* today: a basic natural state
- *Myanmar* tomorrow: a mature natural state?
- But 'progression' is not automatic -> 'regression' is possible: building state capacity is key

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From a praetorian to a developmental state?

DIFFERENT DEGREES OF MILITARY INTERVENTION IN POLITICS

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- the 'referee' -> the army is strong enough to choose which civilian group governs, but does not necessarily exert this power
- the 'guardian' -> the army more regularly displaces civilian governments as it has acquired the constitutional immunity and legitimacy to do so
- the 'participant-ruler' -> the army has legally secured direct political and legislative instruments to participate in policy-making along with civilians
- the ultimate 'praetorian ruler' -> a junta controls the whole political system and state structures (Alagappa 2001: 34, quoted in Egretau 2014: 263).

From a praetorian to a developmental state?

CHANGING ROLE OF THE *TATMADAW*

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- From 'praetorian ruler' to 'participant-ruler'
- Could the military contribute to build up a developmental state?

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From a praetorian to a developmental state?

CAN THE DEVELOPMENTAL STATE PARADIGM (DSP) BE APPLIED TO MYANMAR?

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- Issue One: The nature of the state
 - Does Myanmar have the capacity to embark upon developmentalist policies which require strong, committed and *plan-rational* (Johnson 1982) institutions?
- Issue Two: Phase of globalization
 - Has the developmental state become a thing of the past?
- Issue Three: Geographical location
 - Is the developmental state paradigm applicable only to North-East Asian countries, and – as such – irrelevant for Myanmar?

From a praetorian to a developmental state?

CAN THE DEVELOPMENTAL STATE PARADIGM (DSP) BE APPLIED TO A LARGELY AGRARIAN COUNTRY?

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- The role of agriculture in the developmental state has traditionally been neglected, as industrial policies have dominated the discourse (Ikpie 2013)
 - But in industrialized East Asia agriculture has played a fundamental role in channeling resources to the nascent industrial sector
- The 'resource curse': the risk for Myanmar to become a rentier state
 - But recent literature shows a renaissance of 'resource nationalism' and 'national ownership' talks and practice (Nem Singh and Bourgoin 2013) -> resources can be managed in a developmentalist way

From a praetorian to a developmental state?

WHAT IS THE ESSENCE OF A DEVELOPMENTAL STATE?

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- Robert Wade (2010): 'a system of coordination for the insider groups':
- The groups whose specific interests counted most in shaping the content of the 'national good' were incorporated in the coordination system, and their sustained interaction and negotiation in one or more 'focal points' encouraged them to mute their oligopolistic struggles for access to rents, to define convergent interests and thereby to forge a sense of common interest. (...) They interacted inside the focal point in the same way as in the wider society, using informal, personalized rules, *but now disciplined by the logic of repeated interaction in the focal point and the emerging sense of a common interest* (Wade 2010: 157)

From a praetorian to a developmental state?

WHAT IS THE ESSENCE OF A DEVELOPMENTAL STATE?

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- Robert Wade (2010 150; 158-9): four 'organizational features' of a developmental state:
 - (i) an even balance between the state and business groups
 - (ii) a public service mindset among state officials
 - (iii) delivery of patronage resources separately from the economic bureaucracy
 - (iv) an industrial extension service

Patronage and the future of Myanmar's political economy

THE ARMY AT THE CENTRE OF PATRON-CLIENT FRAMEWORKS

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- Patronage based on very personal loyalty -> an obstacle to the capacity of the government to adopt a successful transformational strategy for the whole nation
- Who are the possible 'losers'?
 - Business cronies
 - From monopolies to competition?
 - The military
 - Ongoing ownership of the Union of Myanmar Economic Holdings Limited (UMEHL) and the Myanmar Economic Corporation (MEC)
 - Members of the USDP (Union Solidarity and Development Party)
 - Wealth v. party loyalty

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Patronage and the future of Myanmar's political economy

THE LAND ISSUE

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- In basic natural states, landownership typically stabilizes, but control of land remains within the direct framework of the state. In mature natural states, landownership may move beyond the direct control of the state and perhaps become truly impersonal (North et al. 2009: 78)
- Land control is still in the hands of the dominant coalition, and land-grabbing could well go in an anti-developmental direction that, far from benefiting the people, could feed and reinforce existent patronage patterns

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Patronage and the future of Myanmar's political economy

BUILDING A VERTICAL AND HORIZONTAL STATE CAPACITY

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- The government has to grant effective autonomy to states and regions, combining leadership with a *vertical* coordination around the national goals that FESR has outlined very clearly
- Border territories have functioned according to a logic of political economy of violence which is not compatible with the focal point of a developmental state. If these groups of local rulers cannot be incorporated in a system of coordination for national development, the risk for Myanmar is to slide back to a condition of fragile state
- *Horizontal* dimension:
 - separation between military budget and civilian budget
 - a reconsideration of the ownership and management structure of the UMEHL and MEC
 - civilian bureaucracy must be strengthened in its capacity to run the country

Conclusion

A DEVELOPMENTAL STATE IN-THE-MAKING?

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- Huge progress towards a mature natural state but widespread risks to return to a fragile natural state
- There are favourable conditions for Myanmar to become a developmental state but building state capacity is key:
 - (i) *Vertically*, the government's actions will have to solve coordination problems with ethnic States and Regions
 - (ii) *Horizontally*, the military has to decide if it wants to maintain its economic privileges – regardless of the future destiny of the economy – or to cooperate to a national economic project set to bring benefits to all
- All three transitions must be coordinated in a holistic and comprehensive approach

Thanks!

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