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MILITARY CAPITALISM IN MYANMAR: EXAMINING THE ORIGINS, CONTINUITIES AND EVOLUTION OF "KHAKI CAPITAL"

GERARD McCARTHY

ISEAS YUSOF ISHAK INSTITUTE

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FOREWORD

The economic, political, strategic and cultural dynamism in Southeast Asia has gained added relevance in recent years with the spectacular rise of giant economies in East and South Asia. This has drawn greater attention to the region and to the enhanced role it now plays in international relations and global economics.

The sustained effort made by Southeast Asian nations since 1967 towards a peaceful and gradual integration of their economies has had indubitable success, and perhaps as a consequence of this, most of these countries are undergoing deep political and social changes domestically and are constructing innovative solutions to meet new international challenges. Big Power tensions continue to be played out in the neighbourhood despite the tradition of neutrality exercised by the Association of Southeast Asian Nations (ASEAN).

The **Trends in Southeast Asia** series acts as a platform for serious analyses by selected authors who are experts in their fields. It is aimed at encouraging policymakers and scholars to contemplate the diversity and dynamism of this exciting region.

Military Capitalism in Myanmar: Examining the Origins, Continuities and Evolution of "Khaki Capital"

By Gerard McCarthy

EXECUTIVE SUMMARY

- Military enterprises, ostensibly set up to feed and supply soldiers, were some of the earliest and largest Burmese commercial conglomerates, established in the 1950s. Union Myanmar Economic Holdings Limited (UMEHL) and Myanmar Economic Corporation (MEC) are two profit-seeking military enterprises established by the military after the dissolution of the Burma Socialist Programme Party in 1988, which remain central players in Myanmar's post-2011 economy.
- Military conglomerates are a major source of off-budget revenue for the military and a main employer of retired soldiers. Yet few veterans receive more than a small piece of the profits from UMEHL. The vast bulk of formal dividends instead disproportionately benefit higher ranking officers and institutions within the Tatmadaw.
- Military capitalism entrenches the autonomy of the Tatmadaw from civilian oversight. Despite this, obligatory or semi-coerced contributions from active-duty soldiers are a source of cash flow for UMEHL, effectively constituting a transfer from the government budget to the military's off-budget entities. The most significant source of livelihoods support for most veterans is the service pension dispersed by the Ministry of Finance and Planning (MoPF).
- Despite delivering suboptimal welfare outcomes for most soldiers and veterans while eroding the legitimacy of ceasefires, successive governments since 1988, including Aung San Suu Kyi's National League for Democracy (NLD) administration, have entrenched

military capitalism by encouraging commercial activities of armed groups that enter into ceasefire agreements.

- Extending military pensions already paid by the Ministry of Planning and Finance to retired members of armed groups could deliver a far more consistent and tangible “peace dividend” than the commercial extraction of resources from ceasefire areas.
- More balanced civil–military relations, and fairer social outcomes for military personnel, will rely on civilian-led state institutions delivering effective and substantive welfare support beyond the commercially oriented welfare arrangements of military conglomerates.

Military Capitalism in Myanmar: Examining the Origins, Continuities and Evolution of "Khaki Capital"

By Gerard McCarthy[1]

INTRODUCTION

Military conglomerates owned by or linked to state armies are a feature of economic and political systems across Southeast Asia. Often justified by military leaders on the basis of "alleviating" the burden of defence spending on government budgets, these companies can provide sources of funding entirely independent of civilian oversight. Military conglomerates thus commonly serve to entrench the power and autonomy of the armed forces from civilian control despite political transitions to more democratic modes of rule.[2] Extensive scholarly work focused on Southeast Asia and regional contexts including the People's Republic of China and Pakistan has examined and theorized how military commercial interests — or "Khaki Capital" — shapes civilian control over the armed

[1] Gerard McCarthy was former Visiting Fellow at the ISEAS – Yusof Ishak Institute, Singapore, and Associate Director of the Myanmar Research Centre at the Australian National University (ANU). He thanks four anonymous research assistants for their extensive help with interviews and background information. Appreciation also goes to David Brenner, Marco Bunte, Andrew Selth, Robert Taylor, Ye Htut and an anonymous reviewer for their feedback on earlier versions of this article.

[2] For an insightful theoretical account of the dimensions of civil-military relations applied to post-2011 Myanmar, see M. Bunte, "Burma's Transition to Quasi-Military Rule: From Rulers to Guardians?", *Armed Forces and Society* 40, no. 4 (2014): 742–64.

forces.[3] However, the origins, evolution and contemporary implications of military capitalism in Myanmar remain little examined and under-researched.[4]

Myanmar is one of the most highly militarized societies in Southeast Asia and, indeed, the world. If soldiers, veterans and their families alone are considered, the lives of over 3 million people are currently or could in the future be directly shaped by military institutions and conglomerates which dominate major sectors of Myanmar's economy.[5] This report examines the origins and evolution of military capitalism in Myanmar and its contemporary implications for reform of civil–military relations, veteran welfare and the peace process. It draws on interviews with thirty-eight veterans, civil servants, business people, policymakers, researchers and others with experience of military affairs and conglomerates. These interviews were conducted between September and November 2018.

The report is structured in four sections. The first section situates military companies in the context of the political and economic legacies

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[3] For a useful recent review see P. Chambers and Napisa Waitoolkiat, *Khaki Capital: The Political Economy of the Military in Southeast Asia* (Copenhagen: NIAS Press, 2017); M. Mietzner, "Military Businesses in Post-Suharto Indonesia: Decline, Reform and Persistence", *The Politics of Military Reform: Experiences from Indonesia and Nigeria*, edited by J. Ruland, M. Manea, and H. Born. H. (New York: Springer, 2012); M. Mietzner, "Overcoming Path Dependence: The Quality of Civilian Control of the Military in Post-Authoritarian Indonesia", *Asian Journal of Political Science* 19, no. 3 (2011): 270–89. For other regional assessments see D. Shambaugh, *Modernizing China's Military: Progress, Problems and Prospects* (Berkeley: University of California Press, 2003); and A. Siddiqa, *Military Inc.: Inside Pakistan's Military Economy* (London: Pluto Press, 2007).

[4] For one of the few scholarly analyses of military capitalism in contemporary Myanmar, see M. Bunte, "The NLD-Military Coalition in Myanmar: Military Guardianship and Its Economic Foundations", in *Khaki Capital: The Political Economy of the Military in Southeast Asia,* edited by P. Chambers and Napisa Waitoolkiat (Copenhagen: NIAS Press, 2017), pp. 93–129.

[5] See D. Steinberg, "Political Legitimacy in Myanmar/Burma", in *Burma: State, Society and Ethnicity*, edited by N. Ganesan and Kyaw Yin Hlaing (Singapore: Institute of Southeast Asian Studies and Hiroshima Peace Institute, 2007), p. 127. For a focused discussion of veteran affairs in contemporary Myanmar see G. McCarthy, "Veterans' Affairs in Myanmar's Reform Process", paper presented at ISEAS – Yusof Ishak Institute, Singapore, 5 December 2018.

of colonial rule, while the second section examines the re-emergence of military conglomerates after 1988. The third assesses the politics of military companies in contemporary Myanmar, including where they sit in the larger context of shifting civil–military relations. It notes that government pensions appear to be more important in the welfare of the average veterans than the minimal benefit received from military capitalism. The fourth section outlines the role of military capitalism in attempts by the Myanmar government to end conflict since the 1990s, and then examines whether "Business for Peace" initiatives in ceasefire areas are likely to deliver welfare outcomes for average ethnic armed group soldiers, officers and conflict affected communities. The report concludes by questioning whether military capitalism serves the interests of national defence, democratization and socio-economic reform in contemporary Myanmar, and urges new ways of delivering social welfare beyond the rationales and mechanisms of military capitalism.

ORIGINS AND EVOLUTION OF MILITARY COMPANIES (1948–2011)

Military capitalism in Myanmar has its origins in the late colonial period. The reluctance of British administrators to economically intervene to protect the livelihoods and land of Burmese farmers, especially when the collapse of rice prices during the Great Depression resulted in mass loan default and land dispossession, solidified an ideological consensus among Burmese nationalist politicians in favour of a redistributive independent state.[6] Lowland politicians, including the founder of the independence movement, the Anti-Fascist People's Freedom League

[6] The price of rice almost halved in value during 1930 and did not begin to return to earlier levels until 1935. As Burmese cultivators defaulted on loans taken out to finance their land reclamation and cultivation efforts, *chettiar* and non-agriculturalist moneylenders foreclosed on debts and repossessed land. In the absence of colonial regulations restricting the alienation of land to foreign interests, by 1937 non-agriculturalists controlled 50 per cent of the delta, a dramatic increase from 19 per cent in 1930. For a detailed account of this period, M. Adas, *The Burma Delta: Economic Development and Social Change on an Asian Rice Frontier, 1852–1941* (Madison, WI: University of Wisconsin Press, 1974), p. 188.

(AFPFL), and the Burma Independence Army (BIA), General Aung San, institutionally entrenched the vision of a redistributive state in post-colonial state structures. In the months prior to independence from the British in January 1948, a constituent assembly in Rangoon ratified a constitution drafted by non-Communist factions within the AFPFL calling for the establishment of a "socialist and egalitarian society".[7] The constitution reflected a consensus expressed by Aung San in a 1947 speech "to bring to an end the 'colonial economy', based on the export of raw materials" through a form of socialism which permitted some private sector ownership while advancing state-led industrialization.[8] Following the assassination of Aung San and members of his cabinet in July 1947, Prime Minister U Nu subsequently implemented the AFPFL's socio-economic vision with a modernization plan he termed "Pyidawtha".[9]

The heart of U Nu's development plan was an industrialization strategy aimed at reducing Burma's economic reliance upon raw commodity export — especially rice, oil and teak — by producing most imported goods domestically. The plan sought to substitute imports by developing industrial enterprises, especially state-owned businesses. All new companies were to be strictly regulated so as to ensure the welfare and health care of Burmese workers.[10] Between 1950 and 1952, the AFPFL government created state industrial enterprises and public corporations ranging from steel and sugar mills to pharmaceutical, brick and tea factories.[11] As the government was reluctant to expand the direct taxation burden following major anti-tax rebellions in the 1930s,

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[7] R. Taylor, *The State in Myanmar* (London: Hurst. 2009), pp. 229–30.

[8] H. Tinker, *The Union of Burma: A Study of the First Years of Independence* (Royal Institute of International Affairs by Oxford University Press, 1967), p. 93.

[9] Reflecting the cross-class coalition of the AFPFL, the initiatives of the Pyidawtha Plan sought to couple redistribution of land as well as a state monopoly over rice export with a largely urban-based economy based on private enterprise and foreign investment.

[10] See I. Brown, *Burma's Economy in the Twentieth Century* (New York: Cambridge University Press, 2013), p. 106.

[11] Ibid., p. 106.

all enterprises during this period were expected to operate according to "business principles" in order to self-finance their activities.[12] The practice of state-backed agencies conducting profit-seeking activities to subsidize and facilitate the state's larger social agenda quickly proliferated.[13] Regulations aimed at ensuring that private businesses assumed welfare obligations to employees, absolving the state of significant responsibility, were also legislatively entrenched.

Military leaders embraced the post-colonial consensus of socially oriented, state-backed business activities to organizationally revive the armed forces. Following a series of mutinies in the Burma Army soon after independence by Communist sympathizers and Karen soldiers during 1948 and 1949, the Tatmadaw was left a fractured shell of its British-led colonial predecessor. In February 1949 General Ne Win, one of the few senior Burmese army officers remaining in the military, deposed General Smith Dun, an ethnic Karen, as Supreme Commander of All Defence and

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[12] State-owned enterprises did receive recurrent capital expenditures funded via the state monopoly on the foreign trade in rice, the price of which had boomed in the early 1950s with the outbreak of the Korean War. See Brown, *Burma's Economy in the Twentieth Century*, p. 106 and Khin Maung Kyi, "Patterns of Acommodation to Bureaucratic Authority in a Transitional Culture", Doctoral dissertation, Ithaca, Cornell University, 1966. On colonial-era anti-tax sentiment, especially the Saya San rebellion following the Great Depression, see J.C. Scott, *The Moral Economy of the Peasant : Rebellion and Subsistence in Southeast Asia* (New Haven, Connecticut: Yale University Press, 1976), p. 99; I. Brown, "Tax Remission and Tax Burden in Rural Lower Burma during the Economic Crisis of the Early 1930s", *Modern Asian Studies* 33, no. 2 (1999): 389; M. Adas, *Prophets of Rebellion: Millenarian Protest Movements Against the European Colonial Order* (Chapel Hill: University of North Carolina Press, 1979); and M. Aung-Thwin, *The Return of the Galon King: History, Law, and Rebellion in Colonial Burma* (Athens: Ohio University Press, 2010), p. 8.

[13] Despite state intervention into the rural economy, the Pyidawtha Plan stopped short of socializing all ownership and production. Rather, it aimed for a "mixed economy" in which 65 per cent of capital would be held by the private sector. For more extensive analysis see Tin Maung Maung Than. *State Dominance in Myanmar: The Political Economy of Industrialization* (Singapore, Institute of Southeast Asian Studies, 2007), p. 54.

Police Forces.[14] By then, fewer than 2,000 men remained in the uniform of the Union army, a fraction of the 12,000 soldiers at the time of the May 1945 agreement that merged Aung San's Burma National Army troops into the British-led Burma Army.[15] Ne Win subsequently implemented major reforms to military doctrine, command structures, training and logistics aimed at cultivating a distinct organizational *esprit de corps* in the military. Newly developed military doctrine positioned Communist China as the most likely external threat to Burma. Meanwhile, the Psychological Warfare Unit established in 1952 composed a vernacular ideology combining nationalism and socialism which sought to unify personnel against Burma's own Communist threat by integrating the political and economic grievances which had initially inspired many soldiers to enlist.[16] Military doctrines and ideologies emphasizing the importance of preserving the army and the socialist state at all costs were instilled into the officer corps at the West Point-style Defence Services Academy, also established in 1952.[17]

To finance the Tatmadaw's organizational and ideological transformation, in 1951 Ne Win and senior ranking officers demanded a sizable increase in the army's recurrent budget to 40 per cent of the government's expenditure.[18] Doubtful of the level of government fiscal commitment and capacity to support their military reforms, Ne Win and his planning staff also established non-profit, tax-exempt enterprises. These companies, most notably the Defence Services Institute (DSI), were initially created as welfare institutions to provide food and supplies for

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[14] M. Callahan, *Making Enemies: War and State Building in Burma* (Ithaca: Cornell University Press, 2003), p. 134.

[15] Callahan, *Making Enemies*, pp. 98, 114; Taylor, *The State in Myanmar*, pp. 237–38.

[16] Callahan, *Making Enemies*, pp. 182–84; Maung Aung Myoe, *Building the Tatmadaw* (Singapore: Institute of Southeast Asian Studies, 2009), Ch. 2.

[17] For an authoritative account of these developments, see Y. Nakanishi, *Strong Soldiers, Failed Revolution: The State and Military in Burma, 1962–1988* (Singapore: NUS Press, 2013), pp. 84–88.

[18] Callahan, *Making Enemies*, p. 150.

field units from a centralized organization.[19] However, these businesses rapidly became the source of funding and goods that emboldened and facilitated the military's expanding vision of its role in post-colonial development. Military conglomerates were modelled on similar colonial-era businesses, and were justified by Tatmadaw leadership during the early 1950s on the basis that they would "contribute to the socio-economic development of the nation".[20] Despite their narrow welfare focus, the conglomerates rapidly expanded into the bulk and retail sale of consumer goods throughout the 1950s.[21] By the late 1950s, a degree of organizational unity and self-confidence relative to civilian politicians had developed among both military staff and field commanders. When a 1958 split within the independence AFPFL prompted rumours that U Nu would integrate Communist guerrillas into the government, senior military officers including Ne Win responded by demanding a period of military "caretaker" rule.[22]

Between 1958 and 1960 the army leaders of the Caretaker Administration further institutionalized their organizational dominance relative to civilian politicians. Army officers were embedded throughout the bureaucracy while brigade commanders were appointed to head regional "security councils" charged with disarming civilian-controlled police and militias at a local level, taking control of mass organizations and leading population registration efforts.[23] Military-owned business conglomerates the Defence Services Institute (DSI) and Burma Economic Development Corporation (BEDC) also diversified rapidly. By 1960 the tax-exempt, ostensibly non-profit enterprises managed by the DSI had expanded into banking, shipping, hotels, manufacturing, fisheries and poultry distribution, as well as a construction firm, a bus line and

[19] Ibid., p. 168.

[20] Maung Aung Myoe, *Building the Tatmadaw*, p. 188.

[21] Callahan, *Making Enemies*, pp. 168–69.

[22] Ibid., p. 185.

[23] Ibid., p. 192.

the biggest department store in the country.[24] These growing sources of off-budget revenue autonomous of the civilian budget increased the confidence and autonomy of military leaders. The Tatmadaw began to be openly critical of some aspects of the 1947 constitution while also demeaning the behaviour of civilian leaders and the population at large in their public statements. Despite these open critiques of civilian rule, the Union parliament extended the mandate of the caretaker administration until general elections were held in February 1960. Power was then returned to U Nu, whose party won a decisive victory despite apparent attempts by some military field commanders to rig the poll against his party.[25]

Upon returning to power, U Nu sought the passage of a new "Four Year Plan" in 1960 which included a law aimed at encouraging foreign investment in order to meet targets of private sector growth essential to the "mixed" socialist economy envisaged in the Pyidawtha Plan.[26] The Tatmadaw further consolidated itself organizationally and ideologically, and by 1962 had become the largest and most cohesive institution in the country, boasting 57 infantry battalions and more than 100,000 soldiers.[27] Following controversies prompted by U Nu's attempt to declare Buddhism the state religion against the protests of Christian Kachin and Karen leaders, and his consideration of granting more extensive autonomy to Shan and Kayah regions, the Revolutionary Council chaired by Ne Win subsequently staged a coup in March 1962.[28]

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[24] For early accounts of the rapid expansion of military businesses during the 1950s, including support given to military officers starting small businesses, see Mya Maung, *The Burma Road to Poverty* (New York: Praeger Publishers, 1991), p. 538, Tin Maung Maung Than, *State Dominance in Myanmar*, p. 57 and Callahan, *Making Enemies*, pp. 169, 191.

[25] Callahan, *Making Enemies*, p. 197.

[26] See Mya Maung, "The Burmese Way to Socialism beyond the Welfare State", *Asian Survey* 10, no. 6 (1970): 537; Tin Maung Maung Than, *State Dominance in Myanmar*, p. 58.

[27] Callahan, *Making Enemies*, p. 173.

[28] Brown, *Burma's Economy in the Twentieth Century*, p. 133.

Post-1962 Decline of Military Capitalism

The Revolutionary Council justified the overthrow of U Nu's democratically elected government in explicitly redistributive terms, blending socialist, Buddhist and nationalist discourses.[29] Contrary to dominant theoretical explanations for military coups against democratic governments, Burma's military in 1962 did not seize power to protect commercial elites from democratic demands for economic redistribution.[30] Drawing heavily on propaganda formulated in the 1950s by the military's Psychological Warfare Directorate, the coup leaders articulated their social and economic goals in the texts *The Burmese Way to Socialism* (April 1962) and *System of Correlation of Man and His Environment* (January 1963). Both emphasized the need for military intervention to put an end to the ongoing exploitation of Burmese people by commercially-minded "feudalists" and "imperialists". Referencing the role of foreign economic advisers and the government's plans to attract foreign investment, the new junta claimed that U Nu had collaborated with foreign profiteers to return "landlords and capitalists" to positions of dominance within the economy through measures such as the 1960 Foreign Investment Law.[31] *The Burmese Way to Socialism* did not reject all private business, providing scope for "national private enterprises" which had been "steadfastly contributing to the general well-being of the people" to "occupy a worthy place in the new society".[32] However, profit-seeking enterprises more broadly were declared to be "social evils" as they relied on "exploitation of man by man".[33]

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[29] For an in-depth discussion of the ideological lineage of the RCs founding documents and thinkers, see Nakanishi, *Strong Soldiers, Failed Revolution*, Ch. 3.

[30] D. Slater, B. Smith, and G. Nair, "Economic Origins of Democratic Breakdown? The Redistributive Model and the Postcolonial State", *Perspectives on Politics* 12, no. 2 (2014): 353–74.

[31] Revolutionary Council in Mya Maung, "The Burmese Way to Socialism beyond the Welfare State", p. 538.

[32] Cited in Brown, *Burma's Economy in the Twentieth Century*, p. 135.

[33] Cited in ibid., p. 134.

Reflecting these ideological commitments, in 1963 Ne Win committed the state to take over the production, distribution, import and export of all major commodities. The Revolutionary Council moved quickly to nationalize all local and foreign private sector capitalist activity. In early 1963, Western companies such as the Burma Corporation, Bombay Burmah Trading Corporation and subsidiaries of Unilever Co and other multinationals were nationalized and integrated into the newly formed Socialist Economy Construction Committee. All of Burma's private banks, around half of which were Indian owned, were also nationalized and reconstituted as "People's Banks".[34] Then in late 1963, the Revolutionary Council banned private sector involvement in imports and, breaking clearly with the AFPFL's more accommodating approach to the private sector, nationalized the export trade and all wholesale and retail outlets, including more than 15,000 small private shops.[35]

The Revolutionary Council viewed military conglomerates as inconsistent with the deep scepticism of private capital and stringent state-led import substitution strategy at the core of the *Burmese Way to Socialism*. As a result, in October 1963 it nationalized all assets and firms owned by the military conglomerates DSI and BEDC, a total of forty-seven businesses.[36] Ne Win's Burma Socialist Programme Party (BSPP) continued to enforce these restrictions after it sought to convert itself from a cadre to a mass party in the early 1970s. However, individual Tatmadaw units did continue to produce basic commodities for the welfare of personnel and their families on a small scale throughout the BSPP period.[37] Though the BSPP did impose severe constraints on military conglomerates, Ne Win's nationalization of agriculture, industry and trade was coupled with the entrenchment of military officers throughout the civil service and in state-owned enterprises.[38] The extent

[34] Ibid., p. 135; S. Turnell, *Fiery Dragons: Banks, Moneylenders and Microfinance in Burma* (Copenhagen: NIAS Press, 2009), pp. 224–28.

[35] Turnell, *Fiery Dragons*, p. 229.

[36] Maung Aung Myoe, *Building the Tatmadaw*, p. 174.

[37] Ibid., p. 175.

[38] A. Selth, *Burma's Armed Forces: Power Without Glory* (Norwalk: EastBridge, 2002), p. 146.

of militarization both within the bureaucracy and state-owned enterprises has led some scholars to characterize the BSPP as a period of "military oligarchy" despite its ostensibly socialist orientation.[39]

The limited export of rice and the proliferation of an untaxed black market deprived the BSPP state of the foreign currency and revenue required to import the inputs essential for industrialization.[40] State economic enterprises struggled to turn a profit and most remained unproductive despite the extensive state funding poured into them.[41] Burma's fiscal situation worsened following reforms in the 1970s and 1980s which saw it assume more than US$2 billion in loans from the Asian Development Bank, the World Bank, International Monetary Fund and others to finance productivity improvements, especially in agriculture.[42] The country quickly began running large budget deficits, bringing the state to the brink of default and bankruptcy while demonstrating to the public the growing failure of the BSPP's militarized vision of socialist "national development".[43] The resulting financial crisis led Ne Win to impose limited market reforms in 1985 and 1987 while

[39] For an in-depth analysis of the militarization of the bureaucracy during the BSPP period, see Nakanishi, *Strong Soldiers, Failed Revolution*, Ch. 5. For a discussion of the BSPP period as "military oligarchy", see W. Bello, "Paradigm Trap: The development establishment's embrace of Myanmar and how to break loose", Yangon, Transnational Institute, 2018.

[40] T. Kudo, *Stunted and Distorted Industrialization in Myanmar* (Chiba: Institute of Developing Economies, 2005), p. 11.

[41] The output of the entire manufacturing sector increased by less than 7 per cent throughout the 1960s and 1970s, despite attracting almost 25 per cent of state investment by the mid-1970s. For a useful analysis, see Myat Thein, *Economic Development of Myanmar* (Singapore: Institute of Southeast Asian Studies, 2004), p. 61.

[42] Kyaw Yin Hlaing, "Reconsidering the Failure of the Burma Socialist Programme Party Government to Eradicate Internal Economic Impediments", *South East Asia Research* 11, no. 1 (2003): 23.

[43] By 1986/87 the dollar cost of servicing Burma's almost US$4 billion of external debt had ballooned to 80 per cent of overall export values. See Brown, *Burma's Economy in the Twentieth Century*, p. 165.

repeatedly demonetizing currency in an effort to "formalize" the black market economy and capture tax revenue from its proceeds.

The economic and social grievances generated by Ne Win's second and more stringent demonetization in September 1987, combined with the military's brutal response to subsequent protests, led to an escalating cycle of demonstrations against the regime. Military leaders brutally suppressed the protests and killed several thousand people.[44] After unrest continued when Ne Win's civilian successor committed to holding multi-party elections in 1990, in September 1988 a faction within the army dissolved the BSPP and formed the State Law and Order Restoration Council (SLORC).[45] The new military leadership reconfigured the institutional role of the armed forces, quickly reviving the ideology of military capitalism for "welfare" and "national improvement" that had legitimized conglomerates during the 1950s.

POST-1988 MILITARY CAPITALISM

Soon after the SLORC took power, it implemented a series of market reforms aimed at improving the dire economic situation and reviving its own commercial enterprises. Foreign investment was invited in a swathe of industries including agriculture, timber and fisheries.[46] Junta

44 For an analytical account of the 1988 protests and the regime's response, see F. Ferrara, "Why Regimes Create Disorder: Hobbes's Dilemma During a Rangoon Summer", *Journal of Conflict Resolution* 47, no. 3 (2003): 302–25.

45 For useful descriptive and analytical accounts of these events, including chronologies and estimated death counts, see accounts by Kyaw Yin Hlaing, "Reconsidering the Failure of the Burma Socialist Programme Party Government", pp. 53–57, and Ferrara, "Why Regimes Create Disorder", p. 323. The SLORC was reorganized into a more hierarchical structure of military administration in 1997 and renamed the State Peace and Development Council (SPDC).

46 Two laws — the Foreign Investment Law (November 1988) and the State-owned Economic Enterprises Law (March 1989) — were passed during this period, enabling private foreign capital after twenty-five years and allowing authorized private enterprises to be engaged in all but twelve stipulated industries. For analysis of the laws see Kudo, *Stunted and Distorted Industrialization in Myanmar*, p. 12.

officials privatized state enterprises to foreign and domestic interests and legalized the black market, resulting in a dramatic spike in official business registrations from 27 in 1990 to 23,848 in 1991.[47] They permitted private credit by granting licenses to twenty-one domestic commercial banks.[48] The junta also liberalized trade in agricultural commodities and welcomed foreign investment in agri-business, especially for cash-crops.[49]

Alongside market reform, the Tatmadaw also re-established its business interests.[50] Senior General Than Shwe and members of the junta embraced commercial activities as a way of supporting the "welfare" and "morale" of soldiers, claiming they were central to a "modern, strong and highly capable" military.[51] Military enterprises, previously nationalized in 1963, were re-established and quickly entered into joint ventures with foreign firms across a diverse range of extractive, manufacturing, agriculture and hospitality industries.[52] Expansion of military companies was driven by budgetary imperatives: total troop numbers had doubled from around 200,000 in 1988 to more than 400,000 service personnel

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[47] Brown, *Burma's Economy in the Twentieth Century*, p. 177; Kudo, *Stunted and Distorted Industrialization in Myanmar*, p. 11.

[48] Turnell, *Fiery Dragons*, pp. 258–60.

[49] See K. Woods, "Intersections of land grabs and climate change mitigation strategies in Myanmar as a (post)war state of conflict", The Hague, International Institute of Social Studies, 2015, p. 8.

[50] For a fuller discussion of the origins and evolution of UMEHL and MEC see Bunte, "The NLD-Military Coalition in Myanmar"; Aung Min and T. Kudo, "Business Conglomerates in the Context of Myanmar's Economic Reform", in *Myanmar's Integration in the Global Economy: Outlook and Opportunities*, edited by Lim and Yamada (Bangkok: Bangkok Research Centre, 2014), pp. 138–72; M. Ford, M. Gillan, and Htwe Htwe Thein, "From Cronyism to Oligarchy? Privatisation and Business Elites in Myanmar", *Journal of Contemporary Asia* 46, no. 1 (2016): 18–41; C. Renshaw, "Top-down Transitions and the Politics of Sanctions", in *The Business of Transition: Law Reform, Development and Economics in Myanmar*, edited by M. Crouch (Cambridge: Cambridge University Press, 2017), pp. 161–78.

[51] Cited in Maung Aung Myoe, *Building the Tatmadaw*, p. 175.

[52] Brown, *Burma's Economy in the Twentieth Century*, p. 193.

by the late 1990s, making the Tatmadaw the eighteenth largest military in the world.[53] Though the Tatmadaw received as much as 40 per cent of declared government spending throughout the 1990s, off-budget expenditures by military conglomerates and smaller-scale regimental businesses became essential to financing defence affairs and personnel welfare, especially at a regimental level.[54]

Military-owned conglomerates Union of Myanmar Economic Holdings Limited (UMEHL) and Myanmar Economic Corporation (MEC) were the two largest companies formed by the Tatmadaw after 1988. By the late 2000s UMEHL and MEC together controlled some of the largest companies in Myanmar, including sole or joint ventures in mining, gems, jade, banking, manufacturing, industry including ammunition production, livestock and fisheries, trading, logistics, pharmaceuticals, consumer goods, tourism and hospitality.[55] In addition to receiving licences to operate in and dominate a range of economic sectors, formerly state-owned enterprises were also privatized to UMEHL and MEC at heavily concessional prices during the 1990s and 2000s.[56] Information about the structure, business practices and profitability of UMEHL and MEC was and remains sparse. Both companies were exempt from income and commercial tax between 1988 and 2011 and neither made their financial reports available to the public, a practice that continues despite reforms since 2011.[57]

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[53] Selth, *Burma's Armed Forces*, p. 253.

[54] Ibid., p. 253; Maung Aung Myoe, *Building the Tatmadaw*, p. 176.

[55] See Ford, Gillan, and Htwe Htwe Thein, "From Cronyism to Oligarchy?", p. 36; Renshaw, "Top-down Transitions and the Politics of Sanctions", pp. 169–70.

[56] See Ford, Gillan, and Htwe Htwe Thein, "From Cronyism to Oligarchy?"; Aung Min and Kudo, "Business Conglomerates", p. 155; L. Jones, "The Political Economy of Myanmar's Transition", *Journal of Contemporary Asia* 44, no. 1 (2014): 144–70. For an account of military licensing processes see Jones, ibid. and G. McCarthy, "Regressive Democracy: Explaining distributive politics in Myanmar's political transition", Doctoral dissertation, Department of Political & Social Change, The Australian National University, Canberra, 2018, Ch. 3.

[57] Maung Aung Myoe, *Building the Tatmadaw*, p. 180 notes that while MEC and UMEHL themselves were tax-exempt, their affiliated firms were required to pay tax throughout the SLORC/SPDC period.

The Tatmadaw established UMEHL in 1990 under the 1950 Special Company Act to engage in light industry and trading.[58] According to existing scholarship, the Director of Defence Procurement and active and veteran defence personnel jointly own UMEHL.[59] Alongside sizable capital investments from the Ministry of Defence and Directorate of Procurement, purchase of shares by active-duty and retired personnel, military units and veteran organizations was a major source of capital for UMEHL during the 1990s and 2000s.[60] Within the Tatmadaw, this fundraising campaign was organized at the regiment level, with ranking officers directed by senior commanders to collect funds from soldiers in order to purchase shares in UMEHL. These shares were then held either by regimental "Welfare Funds" or by individual soldiers. From the mid-1990s an annual dividend payment equivalent to 30 per cent of the total value of shares purchased was promised to the entity or individual holding shares.[61]

At the regimental level UMEHL payments subsequently joined local business activities as a major source of revenues to support soldier "welfare" during a period when rapid military expansion saw units encouraged to be "self-sufficient" by superiors.[62] Township-level chapters of the Myanmar War Veterans' Organisation were also permitted to purchase UMEHL shares during the 1990s and 2000s. According to reports released by the UMEHL Director, between April

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[58] See ICG, "Myanmar: The Politics of Economic Reform", International Crisis Group, Jakarta/Brussels, 27 July 2012, p. 11; Aung Min and Kudo, "Business Conglomerates", p. 155; and Maung Aung Myoe, *Building the Tatmadaw*, p. 176.

[59] Aung Min and Kudo, "Business Conglomerates", p. 155; Ford, Gillan, and Htwe Htwe Thein, "From Cronyism to Oligarchy?", p. 36 claim the MoD's "Office of Defence Industries" operates the company.

[60] For an in-depth discussion of UMEHL share structure authored prior to the 2011 liberalization, including the distinction between "A" shareholders (MoD and Directorate of Procurement) and "B" shareholders (active-duty personnel, military units, retired personnel and veterans organizations), see Maung Aung Myoe, *Building the Tatmadaw*, pp. 175–81.

[61] Maung Aung Myoe, *Building the Tatmadaw*, p. 176.

[62] Interview with high-ranking veteran. September 2018. See also Maung Aung Myoe, *Building the Tatmadaw*, pp. 175–76.

1999 and March 2004 UMEHL and its fully owned, subsidiary and affiliated firms declared a profit of 74.1 billion Myanmar kyat (equivalent to US$11.7 billion at official rates, or US$74.1 million at black market rates) along with $72 million in U.S. dollars from joint ventures with multinational companies.[63] Meanwhile, UMEHL affiliate companies that were not exempt from taxation reportedly paid $4.25 million in U.S. dollars in addition to 15.17 million Myanmar kyat to the government (US$2.5 million at official rates or US$15,170 at black market rates). By the end of the SLORC/SPDC period, UMEHL comprised up to fifty-four subsidiaries, join-venture companies and factories across a diverse range of sectors, netting annual profits of US$48 million in 2010–11.[64] UMEHL thus delivered significant off-budget revenue for the military while offering a source of ongoing income for regimental welfare organizations, in-service and retired military personnel and local chapters of the veterans' association throughout the SLORC/SPDC period.

The Tatmadaw's other major economic entity, Myanmar Economic Corporation (MEC) was founded in 1997 under the 1989 State-owned Economic Enterprise Law. The SLORC Notification No. 4/97 that created MEC under the Ministry of Defence justified the conglomerate on fiscal and social grounds, claiming it would "decrease defence expenditure by fulfilling the needs of the Tatmadaw … [and] carry out the welfare of the Tatmadaw service personnel".[65] The MEC was authorized to conduct a range of commercial trade, production and service enterprises, including heavy industry such as steel manufacturing to ensure domestic production of essential defence supplies. Existing scholarship suggests that the Ministry of Defence Quartermaster General Office provided the initial capital for MEC and has been the sole shareholder since its establishment,

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[63] Figures and official conversion rate of 6.31 kyat to USD for this period is cited by Maung Aung Myoe, *Building the Tatmadaw*, p. 177.

[64] Aung Min and Kudo, "Business Conglomerates", p. 155. Ford, Gillan, and Htwe Htwe Thein, "From Cronyism to Oligarchy?", p. 36 cite fifty-one UMEHL subsidiaries.

[65] Cited in Maung Aung Myoe, *Building the Tatmadaw*, p. 182.

with a board of active-duty and retired military personnel operating it.[66] After 1997, the conglomerate quickly diversified into a range of sectors including mining, banking, joint ventures for hydroelectric power plants and insurance. The profitability of MEC businesses during the 1990s and 2000s is difficult to ascertain. However, the liquidation of a number of MEC factories and services, along with the transfer of still others to other government agencies, under SLORC/SPDC rule suggests that they had been suffering losses.[67]

In addition to MEC and UMEHL, Tatmadaw agencies and units formed businesses during the 1990s in a bid to raise revenue autonomous of their superiors. Factories and businesses variously run by the Tatmadaw Directorate of Ordnance, Directorate of Supply and Transport or Directorate of Defence Services Intelligence (DDSI) produced a range of essential supplies such as uniforms, shoes and pharmaceuticals, along with commercial and consumer goods. In addition to producing necessary goods, delivering vital revenue and providing jobs for Tatmadaw veterans and family members, some of these enterprises also served as fronts for surveillance or the dissemination of propaganda via military newspapers and media.[68] The junta encouraged all local military units to "find external income" to finance welfare activities and pay monthly cash subsidies to supplement the meagre pay of troops. Commanding Officers and Officers in Command of local units also used their considerable

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[66] The opacity of military conglomerates is evident in conflicting scholarly accounts of their structure and ownership. Ford, Gillan, and Htwe Htwe Thein, "From Cronyism to Oligarchy?", p. 36 cite MEC as owned and managed by "MoD's Quartermaster General Office" and claim the company comprised thirty-four subsidiaries across a range of industries including extractives and banking as of 2015. Bunte, "The NLD-Military Coalition in Myanmar", p. 117 claims MEC is "operated under MoD's Director of Defence Procurement" and is wholly owned by active-duty personnel. For the most detailed discussion of UMEHL and MEC published prior to liberalization, see Maung Aung Myoe, *Building the Tatmadaw*, pp. 176–84.

[67] Maung Aung Myoe, *Building the Tatmadaw*, p. 184.

[68] Ibid., pp. 184–85.

autonomy to regulate businesses operating in their regions to raise revenue. Many commanders entered directly into business activities by renting out local premises, electricity or military trucks for commercial purposes, generating revenue directed to Regimental Welfare Funds and to autonomously finance various projects, often at the orders of their commanding officers.[69] In addition to producing significant disparities between units based in more urbanized or resource-rich regions and those in more remote and less developed areas, these policies left wide scope and created obvious incentive for regional and regimental commanders to engage in "extra-legal" and illicit activities for both unit-level and personal gain.

The expectation that units pursue self-sufficiency strengthened the hand of provincial military officers who already played significant roles in mediating and informally regulating private sector development in their territories after 1988.[70] These factors combined to drive an "unambiguous rise in power and status" of regional commanders throughout the 1990s,

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[69] Ibid., p. 189.

[70] The administrative powers of regional Tatmadaw commanders included the ability to issue licences to operate rice-mills or heavy machinery essential to extracting gem stones, as well as receive tenders to perform functions for state economic enterprises; see T. Kudo, *Industrial Development in Myanmar: Prospects and Challenges* (Chiba: Institute of Developing Economies, 2001), p. 12. Those who did not hold appropriate permits could have merchandise or machinery seized and could face fines or jail terms; see P. Cook, "Policy reform, privatization, and private sector development in Myanmar", *South East Asia Research* 2, no. 2 (1994): 132, and Kyaw Yin Hlaing, "The politics of state-society relations in Burma". *South East Asia Research* 15, no. 2 (2007): 222. As with national dynamics of junta-mediation described by Jones, "The Political Economy of Myanmar's Transition", and Ford, Gillan, and Htwe Htwe Thein, "From Cronyism to Oligarchy?", these powers of mediation were used by regional military officials and their subordinates to maintain oversight and influence over commercial elites and assets they thought could be useful in implementing junta objectives. For a more in-depth discussion of provincial-level state-business relations during the 1990s and 2000s in Myanmar, see McCarthy, "Regressive Democracy".

especially in border areas such as Kachin, Shan and Rakhine States, where opportunities for natural resource extraction were immense.[71] Complex new hierarchies emerged within the Tatmadaw, exacerbating long-running cleavages between field commanders and senior levels of command. Leaders of the junta recognized the organizational risks of units possessing financial autonomy from their commanding officers in the early 2000s following the ouster of the head of the DDSI, Khin Nyunt. As "spy-chief", he had led a significant expansion in DDSI's commercial activities, accruing significant autonomous revenue to fund allegedly unauthorized surveillance and smuggling activities that eventually drew the ire of other senior members of the junta.[72] The ouster of Khin Nyunt in 2004 resulted in the dissolution of DDSI's business activities and of unit-level commercial enterprises more broadly across the Tatmadaw. It also prompted a per-capita increase of 2,000 kyat in the monthly welfare stipends dispersed to regiments from December 2003, marginally substituting for the revenue foregone by the shuttering of unit-level businesses.[73] Despite the tensions associated with commercial activities within the armed forces, the main military conglomerates UMEHL and MEC continued to engage in business throughout the 2000s, entrenching their role and the off-budget revenue of the Tatmadaw ahead of a regime-led transition to partial civilian rule.

MILITARY CAPITALISM AND POST-2011 PARTIAL CIVILIAN RULE

The transition from direct military dictatorship to partial civilian rule following the November 2010 elections altered the position of military

[71] M. Callahan, "Cracks in the Edifice? Military-Society Relations in Burma Since 1988", in *Strong Regime, Weak State*, edited by M. Pedersen (Adelaide: Crawford House Publishing, 2001), p. 38.

[72] Maung Aung Myoe, *Building the Tatmadaw*, p. 189.

[73] General Thura Shwe Mann cited in ibid., p. 186.

conglomerates in Myanmar's economy.[74] Yet military capitalism remains an entrenched feature of Myanmar's political, welfare, security and economic systems. The Tatmadaw retain roles both as "guardian" and constitutional veto player.[75] This section examines two aspects of post-2011 "khaki capitalism" which have bearing on the possibility and trajectory of reform in Myanmar: how off-budget revenues shape civil–military relations; and the welfare outcomes of military capitalism, especially for veterans.

Off-Budget Revenue and Civil–Military Relations

A series of reforms implemented by the Thein Sein administration after it took power in 2011 sought to regularize defence affairs and Tatmadaw conglomerates. Apparently modelled on similar reforms in post-Soeharto Indonesia, these reforms required UMEHL, MEC and their subsidiaries to pay income and commercial taxes. They also permitted competition by non-military domestic companies in sectors previously dominated by military conglomerates.[76] Despite these concessions and increased

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[74] Throughout this article the author refers to Myanmar's regime type since early 2011 as "partial civilian rule". This term is used to signal the more representative form of governance which has existed since the military junta held the November 2010 election. Though not openly contested or considered free and fair, that election resulted in the formation of a reformist government largely led by civilianized former military officers who then held a more openly contested election in November 2015. Though power over civilian administration was formally transferred to an elected government led by Aung San Suu Kyi in March 2016, Myanmar's military retains 25 per cent of seats in the legislature, formal control over the Ministries of Defence, Home Affairs and Border Affairs and a veto on constitutional reform by virtue of the 2008 Constitution. Thus, the author refers to governance even after the November 2015 election as "partial civilian rule", albeit a more democratic form of it.

[75] For insightful analyses of military "guardianship", see Bunte, "The NLD-Military Coalition in Myanmar", pp. 104–13 and R. Egreteau, *Caretaking Democratization: The Military and Political Change in Myanmar* (London: Hurst, 2016).

[76] Interview with Thein Sein era law-maker, October 2018. See also ICG, "Myanmar: The Politics of Economic Reform", p. 12, and M. Callahan, "The Generals Loosen Their Grip", *Journal of Democracy* 23, no. 4 (2012): 128–29.

competition from other domestic companies, MEC- and UMEHL-linked companies continue to net considerable off-budget revenue for the Tatmadaw. Indeed, both conglomerates and their subsidiaries have received sizable international investment from a range of joint ventures with large multi-national firms since 2011, despite remaining under U.S. sanctions until October 2016.[77]

Though the profitability of UMEHL, MEC and their affiliated companies is difficult to ascertain from public information, they are now ranked annually on the Internal Revenue Department's list of top local tax payers.[78] The prominence of these companies in the income tax payers list — holding five of the top twenty-five spots — highlights their profitability relative to other local companies. The inclusion of four military-linked companies in the top twenty-five commercial tax payers in the country also demonstrates their dominance, especially in high-

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[77] In 2013, Singapore-based Fraser and Neave Limited (F&N) purchased a majority 55 per cent stake in Myanmar Brewery from UMEHL. After an ownership dispute led to arbitration, in 2015 Japan's Kirin Holdings entered into a joint venture with UMEHL by purchasing F&N's stake in Myanmar Brewery for US$585 million. See A. Daga, "Kirin buys $560 million stake in Myanmar's top brewer from F&N", Reuters, 19 August 2015. UMEHL is also one of eighteen major partners involved in development of the 50,000 acre (20,000 hectare) Thilawa Special Economic Zone near Yangon; see Aung Min and Kudo, "Business Conglomerates", p. 155. In June 2018 Vietnamese military-owned telecommunications company Viettel launched Myanmar's fourth telecommunications operator MyTel in partnership with MEC subsidiary Star High and a consortium of 11 other Myanmar companies. 49 per cent of shares in the company are owned by Viettel, 28 per cent by MEC subsidiary Star High and 23 per cent by local consortium Myanmar National Telecom Holding. See Thurein Hla Htway, "Myanmar and Vietnam militaries launch MyTel mobile carrier", Nikkei Asian Review, 11 June 2018.

[78] UMEHL, MEC and their most profitable subsidiaries (listed separately) occupy 4 spots in top 25 commercial taxpayers and 5 spots in top 25 income taxpayers for 2017–18. These companies as listed in Internal Revenue Department data for top 1,017 local taxpayers are: UMEHL (13th for commercial tax; 5th for income tax), MEC (22nd for commercial tax; 13th for income tax), Myawaddy Bank (unlisted for commercial tax; 3rd for income tax), Myawaddy Trading (2nd for commercial tax; 6th for income tax), and Dagon Beverage Company (1st for commercial tax; 17th for income tax).

volume consumer goods. Despite their apparent profitability, however, the contribution of military companies to the government budget is less than may be expected. When both income and commercial taxes paid by UMEHL, MEC and other military-affiliated companies listed in the top twenty-five taxpayers are combined, the total contribution to consolidated government revenue in 2017–18 was only 91.5 billion kyat (US$67.8 million).[79] Meanwhile, the most profitable UMEHL-owned companies involved in the highly lucrative jade and gems sector paid less than US$1.9 million (2.5 billion kyat) in commercial and income tax combined in 2017–18.[80] As Myanmar has the lowest ratio of tax revenue relative to gross domestic product (GDP) in the Association of Southeast Asian Nations (ASEAN), the minimal state revenue captured from Myanmar's economic growth in recent years — especially from profitable military conglomerates — demonstrates the enormous fiscal constraints and administrative challenges faced both by regulators, elected legislators and the executive.[81] The contributions to the government budget made by Tatmadaw businesses do not defray the considerable costs of military-related expenses which extend beyond the sizeable proportion of

[79] Military companies listed in the top 25 income taxpayers collectively paid up to 36.5 billion kyat (US$27 million) in 2017–18. Income tax is levied at 25 per cent of income, minus deductions for expenses and exemptions, highlighting that many of these companies are profitable. Meanwhile companies in the top 25 commercial taxpayers collectively paid up to 55 billion kyat (US$40.7 million) in 2017–18. As income and commercial taxes paid are only listed in brackets for privacy reasons, sums cited are the uppermost-thresholds of those brackets.

[80] UMEHL-owned Myanmar Imperial Jade Company is listed as the 36th highest local income taxpayer for contributing around 2 billion kyat (US$1.5 million). It is not listed in the top 1,017 commercial taxpayers for 2017. Myanmar Ruby Enterprise is listed at 336 for commercial tax after paying 400 million kyat (US$296,000) in 2017 and at 776 for income tax for paying around 100 million kyat (US$74,000). For an in-depth assessment of the Myanmar government's inadequate taxation of jade as an example of extractive industries more broadly, see Global Witness, "Jade: Myanmar's 'Big State Secret'", London, 2015.

[81] See E. Maulia, "IMF: ASEAN incentives risk 'rice to the bottom' on tax revenue", Nikkei Asian Review, 14 July 2017.

government budget directed to the Ministry of Defence (MoD). Indeed, rather than MoD, it is the civilian-led Ministry of Planning and Finance (MoPF) which pays veterans' pensions. The Department of Pensions in MoPF paid out 233 billion kyat (US$172 million) to a total of 274,000 former military service pensioners in 2017–18, more than 2.5 times the total tax contribution made by military-affiliated businesses to the budget in the same year.[82]

The Tatmadaw retains considerable sources of off-budget revenue. Though the expenditure of these funds is beyond the decision-making power or oversight of civilian leaders, they appear to rely upon budgeted government expenditure to ensure the sustainability of the "welfare" dimensions of military capitalism. Despite UMEHL's prominence in Myanmar's economy, obligatory or semi-coerced contributions from the salaries of active-duty soldiers appear to be a major source of its income. A number of soldiers in regiments across the country interviewed during research reported being requested or commanded to contribute a sizable proportion of their monthly salaries to UMEHL. The specific proportion deducted and the extent of individual choice in these contributions appear to vary by regiment.[83] Some officers reported being *encouraged* but not *required* by their commanding officers to dedicate around 10 per cent of their monthly salary for the purchase of UMEHL shares. A number of lower ranking soldiers claimed that before they received their salary between 15 and 25 per cent was automatically "deducted" as a "contribution" to UMEHL. While some received paperwork for shares purchased, for many soldiers it was not clear how they might benefit from these "contributions" — for example via Regimental Welfare funds or individual dividends.

It is possible that some commanding officers take a paternalistic approach and establish "savings" accounts on behalf of their subordinates with funds deducted from their subordinates pay. However, another

[82] All U.S. amounts cited here are calculated at an average conversion rate throughout 2017/18 of 1,350 kyat to U.S. dollar.

[83] Communications with active-duty Tatmadaw members, September, October and November 2018.

explanation may lie in the fact that a core criterion for promotion of local unit commanders is the amount they have raised from regiments and soldiers under their command for UMEHL and welfare funds.[84] The system of promotion may thus produce perverse incentives for officers to encourage or in some cases require their subordinates to contribute a proportion of their salaries to UMEHL. Regardless of the level of coercion involved in these "contributions", these deductions from personnel salaries may partly or fully offset any benefit soldiers or veterans received from the annual dividends dispersed to UMEHL shareholders. More broadly, as salaries of military personnel are paid by the annual allocation of the government to the Ministry of Defence, constituting around 14 per cent of the total budget in 2017–18, the collection and redistribution of soldier salaries functions as a transfer of on-budget funds to UMEHL, an off-budget military-run commercial entity with no civilian oversight.

The magnitude of off-budget revenue raised, and the lack of transparency regarding the profitability, expenditure or reinvestment plans of UMEHL and MEC, has major implications for civil–military relations in Myanmar. On-budget financing for the military has dropped by 1 per cent of overall government expenditure in recent years, partly at the military's own initiative.[85] However, the dominance of military-affiliated companies in under-taxed sectors of the Myanmar economy such as gems and jade constrain the government's provision of more consistent developmental and welfare initiatives as it complicates reforms that would net the state government a fairer proportion of revenue from extractive industries.[86] The entrenched nature of "khaki capital" in contemporary Myanmar, the reliance of UMEHL upon the redirected salaries of

[84] Interview with senior officer (retired) and various military-linked sources. September, October and November 2018.

[85] Interview with military sources and policymakers, October 2018. The defence budget is projected to account for 13 per cent of spending in 2018–19, down from 13.9 in 2017–18 and 14.3 per cent in 2016–17. For analysis, see Nyein Nyein, "Military Requests Slightly Higher Budget than Last Year for 2018–2019", *The Irrawaddy*, 25 July 2018.

[86] See Global Witness, "Jade: Myanmar's 'Big State Secret'".

personnel and the minimal taxation both of military conglomerates and sectors in which they dominate, underlines the imbalance between the Tatmadaw and the civilian administration currently led by Aung San Suu Kyi and her National League for Democracy (NLD) government. Beyond complicating civilian influence and control over Myanmar's armed forces, however, it appears conglomerates also deliver sub-optimal and unfair welfare outcomes for the veterans who are meant to be the primary beneficiaries of military capitalism.

Welfare Outcomes of Military Capitalism

Since the re-emergence of military conglomerates in Myanmar after 1988, the Tatmadaw has ideologically justified its commercial activities as reducing the demand on the government budget while supporting the "welfare" of active-duty and retired military personnel. However, a critical assessment suggests that military capitalism is not delivering socially efficient outcomes for the average veteran.

Though UMEHL does disburse an undisclosed proportion of its profits to shareholders, it is likely that the main individual, non-institutional beneficiaries of UMEHL dividends are higher ranking officers. Indeed, a large proportion of veterans own few or no shares at all, suggesting that as a social redistributive initiative, UMEHL performs suboptimally.[87] The primary reason that most soldiers own few shares is that the monthly salaries of junior ranking officers were insufficient during the 1990s and 2000s for them to purchase any more than the bare minimum number requested by their commanding officers. Additionally, many military service members — including some senior officers — doubted the capacity of UMEHL in the 1990s to turn a profit and return dividends as promised. As a result, these soldiers often made relatively small contributions.[88] Veterans interviewed who did receive dividends typically own less than 50,000 kyat in UMEHL shares and thus receive 15,000 kyat or less in yearly payments — the equivalent of around US$1 per month at mid-2018 rates.

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[87] Interviews with various veterans. September and October 2018.

[88] Ibid.

Moreover, dividend payments are diminishing in real value. Annual disbursements are not based on the overall annual profits of UMEHL as is the case with most typical share dividend arrangements. Rather, dividends are calculated at 30 per cent of the original kyat amount contributed at the time that an individual or institution purchased share holdings.[89] As inflation has run at an annual average of almost 6 per cent since 2010 the real value of both dividends and overall holdings in UMEHL are likely to have dropped by around 45 per cent since the transition to partial civilian rule in 2011.[90] This decline in real terms will continue over time. Despite the declining value of dividends, some UMEHL shareholders interviewed expressed concern regarding the ongoing capacity of the company to disburse payments to shareholders. UMEHL does issue an annual report for shareholders which provides a breakdown of revenue and expenditures. However, many veterans wonder how sustainable the 30 per cent dividend payment will be into the future. Though taxpayer data does suggest that the company is profitable, it is unclear whether the distribution of dividends exceeds its actual profits. One high-ranking veteran predicted that as UMEHL finds itself in an increasingly competitive economic situation, it may seek to reduce dividend payments, potentially pegging the dividend percentage at just above that offered by government bonds.[91]

The Tatmadaw claims that its conglomerates also provide a major source of employment for retired military personnel and their families. Since their formation, both MEC and UMEHL have disproportionately recruited retired soldiers as employees. As the conglomerates have faced

[89] These factors suggest that “shares” purchased in UMEHL may be closer to “perpetual bonds” in which an agreed amount is paid out annually in perpetuity to bond holders, though the amount paid out diminishes in real terms.

[90] See annualized International Monetary Fund inflation data for Myanmar during this period at <https://data.worldbank.org/indicator/FP.CPI.TOTL.ZG?locations=MM>.

[91] Annual interest rates for five-year bonds issued by the Central Bank of Myanmar stand at 9.5 per cent at time of writing in November 2018.

increasing competition from other companies since 2011, however, both companies have apparently adopted stricter policies of employing veterans only with skills relevant to the job.[92] Some officers who have retired from the military since 2011 but were not offered jobs in the civil service often took up jobs in UMEHL and MEC. Meanwhile, many former soldiers who did not pass their final secondary school exams have found it increasingly difficult to get jobs in military conglomerates in recent years.[93] Despite these shifts, the current proportion of former military personnel in MEC is estimated at around 50 per cent of current employees by sources close to the company, with a slightly lower proportion in UMEHL.[94]

Given that few lower ranking veterans own more than a handful of UMEHL shares, the real value of UMEHL "dividends" is declining and military companies are increasingly hiring highly skilled military officers ahead of less educated soldiers, there are reasons to doubt whether military capitalism delivers optimal welfare outcomes for former service members. Indeed, it is likely that most veterans receive more substantive and regular support from the government-funded Department of Pensions in the civilian-run MoPF than they do from UMEHL, MEC or the Ministry of Defence. Despite concerns regarding lack of transparency in some aspects of military capitalism, however, the bulk of veterans interviewed expressed support for Tatmadaw conglomerates. Most saw military business activities as efficient and effective means of ensuring funding for defence and support for veterans, especially as they perceived civilian politicians as either reluctant to support the Tatmadaw or its retired personnel or outright antagonistic towards it.

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[92] Interviews with sources close to military conglomerates. September and October 2018.

[93] Interviews with Myanmar War Veterans Organisation (Naypyitaw) and various veterans. September and October 2018.

[94] Interviews, sources close to military conglomerates. September and October 2018.

PEACE NEGOTIATIONS AND "CEASEFIRE CAPITALISM"

Beyond providing a source of off-budget revenue and welfare for active-duty or retired military personnel, military capitalism has been a central element of state strategies to resolve Myanmar's ongoing civil conflicts since 1988. Throughout the SLORC/SPDC period, the Tatmadaw coupled brutal counter-insurgency campaigns against rebel groups with offers to include ethnic armed group elites in the proceeds of military capitalism in exchange for them signing ceasefire agreements. Faced with an increasingly assertive Tatmadaw amid weakening support from China and Thailand for their insurgencies, seventeen of twenty-one ethnic armed groups signed ceasefire agreements with the Tatmadaw in the early 1990s.[95] Armed elites and business interests on all sides sought opportunities to profit from resource extraction by forming businesses, often in mining, while also mediating central state initiatives of periphery "development".[96] A highly extractive form of "ceasefire capitalism" quickly emerged in contested areas which bound ethnic elites in often paradoxical ways to the Myanmar military-state through commercial

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[95] The shifting geopolitics of Asia after 1988 saw China and Thailand withdraw their respective support for Myanmar's insurgent groups, depriving armed groups of both smuggling revenue and weapons. See P. Meehan, "Drugs, Insurgency and State-Building in Burma: Why the drugs trade is central to Burma's changing political order", *Journal of Southeast Asian Studies* 42, no. 3 (2011): 385–86; L. Jones, "Understanding Myanmar's Ceasefires: Geopolitics, Political Economy and State-Building", in *War and Peace in the Borderlands of Myanmar: The Kachin Ceasefire, 1994–2011*, edited by M. Sadan (Copenhagen: NIAS Press, 2016), p. 98.

[96] For an insightful discussion, see C.W. Lambrecht, "Oxymoronic Development: The Military as Benefactor in the Border Regions of Burma", in *Civilizing the Margins: Southeast Asian Government Policies for the Development of Minorities*, edited by Duncan (Ithaca: Cornell University Press, 2004), pp. 150–81.

joint ventures, taxation regimes and money-laundering schemes.[97] Meanwhile, the borderlands were brought under varying levels of central state influence and control.[98] "Ceasefire capitalism" proved highly profitable for ethnic armed elites, Myanmar military commanders and emergent business people who personally signed or facilitated peacetime extraction.[99] However, the coercive and commercial penetration heralded by these ceasefires often fractured relations between the elites and grassroots of insurgent organizations, prompting radicalization within junior ranks of armed groups who benefitted far less from ceasefires. These dynamics gradually led to the collapse of several early 1990s accords. The most notable example occurred in Kachin State where the 1994 ceasefire between the Kachin Independence Organisation and Tatmadaw broke down in 2011 at the same time that Thein Sein's administration was initiating a range of political and economic reforms.[100]

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[97] For the seminal examination of these dynamics see K. Woods, "Ceasefire Capitalism: Military–private partnerships, resource concessions and military–state building in the Burma–China borderlands", *Journal of Peasant Studies* 38, no. 4 (2011): 747–70.

[98] See K. MacLean, "Sovereignty in Burma after the Entrepreneurial Turn: Mosaics of Control, Commodified Spaces, and Regulated Violence in Contemporary Burma", in *Taking Southeast Asia to Market: Commodities, Nature, and People in the Neoliberal Age*, edited by J. Nevins and N.L. Peluso (Ithaca: Cornell University Press, 2008), p. 143; Woods, "Ceasefire Capitalism"; and Meehan, "Drugs, Insurgency and State-Building in Burma", p. 391.

[99] Global Witness, "Jade: Myanmar's 'Big State Secret'", p. 61; Woods, "Ceasefire Capitalism".

[100] See D. Brenner, "Ashes of Co-optation: From armed group fragmentation to the rebuilding of popular insurgency in Myanmar", *Conflict, Security & Development* 15, no. 4 (2015): 337–58 and D. Brenner, "Inside the Karen Insurgency: Explaining Conflict and Conciliation in Myanmar's Changing Borderlands", *Asian Security* 14, no. 2 (2018): 83–99. In the years following these ceasefires, the extent of local elite benefit narrowed as the Myanmar military-state took control of valuable mines and ensured that circuits of extraction in timber, jadeite, gemstones and other commodities were sold or left port in Yangon or Naypyitaw, shutting businesses linked to armed groups out of lucrative rents. For a useful

Commercial Dimensions of Ceasefire Negotiations since 2011

Thein Sein minister Aung Min and his team of advisors brokered a new wave of ceasefire agreements after 2011. Initial bilateral accords between the military, government and numerous armed groups led to an October 2015 "Nationwide Ceasefire Agreement" (NCA). The NCA, signed as of late 2018 by ten armed groups recognized by the military, made some significant political concessions to armed groups. In particular, the agreement promises substantive dialogue on reforming political structures, including enshrining "federal" principles within the constitution, one of the major demands of ethnic armed organizations.[101]

Despite the NCA beginning to address the institutional demands of armed groups, military capitalism remains a central feature of post-2011 ceasefires. The families of ethnic armed elites who signed the NCA have often personally benefitted from the commercial enterprises

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analysis of these dynamics, see Jones, "Understanding Myanmar's Ceasefires", p. 105. Trade in illicit goods such as methamphetamines which flourished in borderland areas during this period also provided an essential means of financing the regime. As described in Meehan, "Drugs, Insurgency and State-Building in Burma", p. 391, state-controlled banks throughout the 1990s and 2000s, for instance, levied a "whitening tax" initially at 40 per cent and later at 25 per cent in order to accept "deposits of dubious origin without question", providing an opportunity for laundering as long as it assisted the regime to achieve national priorities during this period.

[101] However, negotiations and institutional reforms remain stalled as of late 2018 as the Tatmadaw requires all armed groups to commit to the NCA before constitutional changes can proceed. Some of Myanmar's largest armed groups, including the United Wa State Army and Kachin Independence Organisation, have so far declined to sign the NCA citing the Tatmadaw's refusal to include within negotiations armed groups that the military claims only commenced insurgency following the commencement of peace negotiations in 2011. For an examination of these issues see Lwin Cho Latt et al., "From Ceasefire to Dialogue: The Problem of 'All-Inclusiveness' in Myanmar's Stalled Peace Process", in *Myanmar Transformed? People, Places, Politics*, edited by J. Chambers, G. McCarthy, N. Farrelly and Chit Win (Singapore: ISEAS – Yusof Ishak Institute, 2018), pp. 231–50.

that have proliferated in areas brought under bilateral ceasefires since 2012 along with the 2015 "nationwide" accord.[102] Aung San Suu Kyi's NLD has largely kept the structure and logic of the Thein Sein-era peace process intact since taking control of the civilian apparatus of government and peace process in early 2016.[103] A major strategic shift by government representatives has been to encourage ethnic armed group signatories to the NCA to establish public companies as a way to finance their organizations, support the "welfare" of soldiers and deliver a developmental "peace dividend" to ceasefire areas.[104] Comparative literature on "spoilers" in civil conflict suggests that ensuring that armed elites benefit from the perpetuation or intensification of war-time profiteering during peacetime can help to lubricate ceasefires and reduce internal organizational resistance to ending conflict.[105] However, the inequities within insurgent organizations and in ceasefire areas more broadly that military capitalism produces, especially in the absence of adequate institutional mechanisms that efficiently and fairly redistribute profits within ceasefire contexts, have the potential to exacerbate the political grievances that underpinned decades of conflict.

Welfare Structures of Ethnic Armed Organizations

Ensuring that the lives and livelihoods of armed group personnel and the communities in which they are embedded improve following an end to

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[102] For an analysis of these dynamics in relation to the Karen National Union, see Brenner, "Inside the Karen Insurgency".

[103] For a recent analysis of this dynamic, see Maung Aung Myoe, "Partnership in Politics: The Tatmadaw and the NLD in Myanmar since 2016", in *Myanmar Transformed? People, Places, Politics*, edited by J. Chambers, G. McCarthy, N. Farrelly and Chit Win (Singapore: ISEAS – Yusof Ishak Institute, 2018), pp. 201–30.

[104] For an example of this approach within the peace process, see <https://reliefweb.int/report/myanmar/analysis-trading-armed-struggle-battle-market-place>.

[105] See S.J. Stedman, "Spoiler Problems in Peace Processes", *International Security* 22, no. 2 (1997): 5–53.

conflict is an essential element of any viable peace accord in Myanmar. Estimates by the Institute of Strategy and Policy Myanmar suggests that around 85,000 people are members of ethnic armed groups, comprising a total of around 400,000 people when their dependents are also considered. Meanwhile, more than 12.3 million people in 118 townships are estimated to reside in conflict-affected areas of Myanmar.[106] The welfare of ethnic armed group personnel and the communities in which they are embedded is thus an essential part of negotiating more durable political and peaceful arrangements in Myanmar.

Both the Myanmar government and some ethnic armed group signatories to the NCA have placed a strong emphasis on "business for peace" initiatives as a way of delivering a peace dividend in ceasefire areas after accords are signed.[107] However, the absence or infancy of insurgent group welfare systems is likely to limit the role military capitalism can play in improving the lives of ordinary armed group personnel or populations who reside in conflict-affected areas.[108] Initial research on the welfare systems of selected ethnic armed organizations highlights their reliance on guerrilla practices of informal reciprocal protection and taxation between villagers and armed personnel. Generalizations across ethnic armed organizations are difficult to make given the diversity and variation between their structures and institutional histories. Of the groups examined for this report, only one paid their soldiers a salary. All considered their personnel to be "revolutionary forces" who fight for "self-determination and freedom". As a result, most did not view personnel

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[106] Estimate of conflict affected population cited in A. Burke, N. Williams, P. Barron, K. Jolliffe, and T. Carr, "The Contested Areas of Myanmar: Subnational Conflict, Aid and Development", The Asia Foundation, Yangon, 2017, p. 11.

[107] See Nyein Nyein. "'Business for Peace' Model Utilized in Nationwide Peacebuilding", *The Irrawaddy*, 22 May 2018.

[108] The detrimental social and environmental impacts of ceasefire capitalism on conflict effected communities and regions has been examined by various non-governmental organizations and scholars. For a useful assessment in relation to the 1990s ceasefires, see Woods, "Ceasefire Capitalism".

as inherently entitled to receive any kind of salaried compensation.[109] Instead, armed group leaders rely on soldiers to reside within often remote villages, commonly as part of a "revolutionary household", and offer security protection to residents in return for their willing or coerced provision of food contributions.[110] Since the 2000s, some armed groups have provided rations and in some cases small salaries to active duty soldiers, though insurgent elites appear to determine the regularity of support and its amount on the basis of the financial conditions of the organization at a particular moment in time along with whether the individual soldier has a family.[111]

Most armed groups do provide health care and other support to military personnel and their dependants, often as part of larger civilian apparatuses of governance and social organization that form the basis of broader "insurgent social order".[112] It may be possible to disburse the profits from military capitalism in ceasefire areas via these non-state structures in ways that tangibly support the welfare of soldiers. However, most EAOs will need to formalize the compensation of soldiers and in

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[109] Interviews with senior and junior ranking members of two ethnic armed organizations currently signatory to the Nationwide Ceasefire Agreement. September, October and November 2018.

[110] For a discussion of the "revolutionary household" as a unit of analysis and the crucial role played by women in Myanmar's civil conflicts, see J. Hedstrom, "The political economy of the Kachin revolutionary household", *Pacific Review* 30, no. 4 (2017): 581–95.

[111] According to interviews with veterans from three ethnic armed organizations and with civil society activists who are familiar with social conditions in ceasefire areas. October and November 2018. Many veterans complain that in-kind support is insufficient to meet basic nutritional needs of their family.

[112] See S. Oh, "Competing forms of sovereignty in the Karen state of Myanmar", ISEAS Working Paper 1/2013 (Singapore: Institute of Southeast Asian Studies, 2013), and K. Jolliffe, "Ethnic Conflict and Social Services in Myanmar's Contested Regions", Bangkok, The Asia Foundation, 2014. For a discussion of "insurgent social order" in Myanmar, see B. Brenner, "Authority in rebel groups: Identity, recognition and the struggle over legitimacy", *Contemporary Politics* 23, no. 4 (2017): 408–26.

some cases establish entirely new bureaucracies of record-keeping and payment distribution. The imperatives of these reforms, however, would likely be contradicted by the same informal, patronage-based models which have underpinned insurgency for decades and that armed elites who form personal companies after peace accords would only further entrench.

The support provided to veterans of armed groups is also highly contingent. Numerous EAOs aspire to provide more consistent aid to veterans in their retirement. However, the financial constraints faced by many groups, along with a perception common at senior levels of many organizations that personnel serve "voluntarily" out of revolutionary fervour and are thus not entitled to aid in retirement, constrains the scope and magnitude of assistance currently provided or planned. Semi-regular allocations of rice rations are the main form of aid received by veterans from three armed groups interviewed, with the amount given determined by their age and years of service. Some also described other veterans receiving informal support such as land concessions to start rubber plantations or exemptions from armed group taxation, though they did not receive such aid themselves. Informal brokerage of land concessions and other support appears to be contingent on veterans maintaining a close personal relationship with their former commanding officers or senior figures within the armed group.[113] Additionally, the receipt of informal support such as land allocations also tends to carry obligations to serve as the local administrator of the village or district in which they reside on behalf of the civilian wing of the armed group.[114]

Alternatives to Ceasefire Capitalism

Viewed alongside the resource extraction and elite profiteering that have previously characterized "ceasefire capitalism", the contingency,

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[113] Interviews with veterans of armed group and researchers with extensive experience in ceasefire contexts. November 2018.

[114] Interviews with senior and junior ranking members of ethnic armed organizations currently signatory to the Nationwide Ceasefire Agreement. September, October and November 2018.

informality and in-kind nature of post-deployment support for ethnic armed group veterans is generating significant frustration and animosity. A fifty-year-old veteran who recently retired after thirty years of service with an ethnic armed group described his resentment at being expected to start a business and fend for himself, a challenge which he felt ill-equipped to rise to given his lack of non-military skills and medical ailments suffered during deployment.[115] Reflecting the inadequacies of current welfare arrangements, all armed group veterans interviewed emphasized the need for military personnel to receive more training to develop agricultural, business management or other marketable skills to assist their integration into civilian life.[116] The Myanmar War Veterans Organisation (MWVO, B: *sitmhudanhaungabwe*), the government-organized non-governmental organization involved in providing veteran welfare, endeavours to provide such retraining, along with small business loans, to Tatmadaw veterans. It also seeks to mobilize retired soldiers for reservist activities.[117] The spokesman for the MWVO in Naypyitaw, along with numerous members of MWVO township chapters, emphasized their willingness to welcome veterans of armed groups both into their association and retraining schemes if and when the peace process proceeds.[118] However, they also noted the inadequacy of their existing skills training and business loans initiatives to meet the needs of retired Tatmadaw personnel while emphasizing the severe need to establish new programmes to address the often dire psychological trauma experienced by many veterans.

[115] Interview with veteran of armed group. November 2018.

[116] Interviews with veterans of three ethnic armed organizations. September, October and November 2018.

[117] For a more in-depth discussion of MWVO, its role in mobilizing veterans for "reservist" activities and the relatively low proportion of veterans who join the organization (around 35 per cent of military pensioners) see McCarthy, "Veterans' Affairs in Myanmar's Reform Process".

[118] Interview with Myanmar War Veterans Organization (Naypyitaw), October 2018 and interviews with members of various MWVO township associations, September and October 2018.

One alternative to piecemeal commercial-oriented welfare solutions might be to extend state social schemes such as the military pensions already paid by the Ministry of Planning and Finance to retired members of armed groups. As the MoPF is under the control of civilians, the government has the authority to amend existing regulations around eligibility for pensions, even without military approval.[119] Determining whether the government would count years of "revolutionary struggle" against Myanmar's successive dictatorships in the pension formula, which it calculates on rank and years of service, would require detailed and careful negotiation.[120] If armed groups and government representatives could find such agreement, the MoPF Department of Pension might be able to advance collaboration with existing ethnic armed group social and administrative apparatus to disperse pensions to the relevant beneficiaries. Expanding state pensions to armed group veterans would ensure that all armed group veterans and their families — potentially up to 400,000 people — receive much-needed livelihoods support, simultaneously building grassroots confidence Myanmar's faltering peace process.[121] Designed and negotiated carefully, state-led solutions could be a significant improvement on the current situation in which the average ethnic armed group veteran receives little or no formal and ongoing support, either from their organization and its affiliated businesses or from the Myanmar government.

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[119] For an insightful discussion of the potential role welfare policy, as an area under the control of the civilian government, could play in strengthening the legitimacy of Myanmar's civilian government and advancing reform processes, see Yawbawm Mangshang and M. Griffiths, "Social Protection in Myanmar: A Key Mechanism for Political Legitimacy?", *Myanmar Transformed? People, Places, Politics*, edited by J. Chambers, G. McCarthy, N. Farrelly and Chit Win (Singapore: ISEAS – Yusof Ishak Institute, 2018), pp. 53–84.

[120] Consistent service records required for calculating years of service may also be difficult to procure for some armed groups, though most do appear to keep recruit information.

[121] Based on Institute of Strategy and Policy Myanmar figure of 85,000 people enlisted in ethnic armed groups, multiplied by the United Nations average household size for Myanmar (4.2).

CONCLUSION

Military capitalism has shaped Myanmar's political and economic development since independence from the British in 1948. The final decades of colonial rule were defined by popular mobilization in opposition to the "free-market" economy based on commodity export and rebellions against often regressive taxation, especially in the wake of the Great Depression. Post-independence politics reflected an elite and popular consensus crystallized during British rule in favour of state economic intervention and "welfare-oriented" commercial enterprises. Tatmadaw leaders founded their conglomerates on these rationales in the early 1950s as a way of financing the organizational revival of the armed forces, supporting "national development" and the "welfare" of personnel and securing sources of revenue autonomous of civilians.

After the Revolutionary Council nationalized military businesses as part of General Ne Win's "Burmese Way to Socialism" between 1962 and 1988, new military conglomerates were quickly established after the State Law and Order Restoration Council (SLORC) seized power and commenced initial market reforms. These companies, UMEHL and MEC, remain major players in Myanmar's economy and shape the nature of contemporary civil–military relations in significant ways. Despite the immense social and institutional changes which occurred since the 1950s, the notion that profit-seeking commercial activities are justifiable if they achieve social outcomes recurs in how the Tatmadaw legitimizes its business conglomerates. Despite receiving 14 per cent of the government budget in 2017–18, the military claims that UMEHL and MEC are necessary as they deliver off-budget revenues that reduce the military's demand on the government budget. Military leaders also emphasize that conglomerates provide profits and jobs to active-duty and retired military personnel and their families while also supporting the welfare of veterans.

This report has questioned whether military capitalism is efficiently and fairly delivering the welfare and social objectives that it claims. It has demonstrated that the revenue generated by military businesses strengthens the Tatmadaw's autonomy from elected civilians, thereby weakening democratic accountability and decision-making. However, there are clear reasons to question whether Tatmadaw conglomerates deliver the social outcomes they claim. In particular, employment within and profits from conglomerates appear to disproportionately benefit higher ranking military personnel ahead of lower ranking soldiers and service members. Thus, it is likely that military pensions paid by the civilian-run Ministry of Planning and Finance (MoPF) are a far more widespread and consistent source of support for Tatmadaw veterans than shares, employment or aid provided by UMEHL, MEC, the Ministry of Defence or veterans' organizations.

Despite the regressive aspects of military capitalism in contemporary Myanmar, NLD government representatives have enacted many of the same rationales and mechanisms to reinvigorate negotiations aimed at ending decades of civil conflict. However, the informality that characterizes the welfare structures and practices of many armed groups prompts questions regarding the likelihood that EAO-affiliated businesses can disburse profits in ways that consistently and effectively address the welfare needs of their soldiers, especially lower ranking active-duty or retired soldiers. Given that the far more institutionalized conglomerates of the Tatmadaw do not achieve fair and equitable welfare outcomes for current or former enlistees, there is little reason to expect that armed group "business for peace" initiatives will perform considerably better. Comparative experience suggests that commercial agreements may be inevitable elements of any eventual peace accord in Myanmar. However, all actors concerned with finding a viable resolution which addresses the livelihood needs of active or retired military personnel and conflict-affected communities must critically assess the efficiency of, and alternatives to, military capitalism.

Military capitalism is likely to remain a central feature of Myanmar's political and economic systems for some years to come. The substantial off-budget revenues garnered by the Tatmadaw from military conglomerates financially underpin the autonomous guardian role that the military has crafted for itself within the partial civilian constitutional order that it has entrenched since 2008. Reducing the off-budget revenue of the armed forces will be a difficult but ultimately essential step in securing a more inclusive and socially sustainable democracy in Myanmar that meets the welfare needs of military and civilian populations alike. Identifying effective and efficient ways of achieving fair and consistent social outcomes for active and former Tatmadaw and armed group personnel, as well as for communities affected by decades of conflict, is essential. Further research on how the mechanisms and logics of military capitalism operate, both through Tatmadaw conglomerates and in ceasefires areas, is sorely needed. Yet only by challenging the rationales of military capitalism, reimagining how Tatmadaw and ethnic armed group military personnel are supported, demobilized and socially reintegrated, and revising the financing of military affairs, will Myanmar's leaders be able to chart new pathways towards addressing their complex social, political and security challenges.

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