The economic consequences of military rule in Myanmar

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Abstract

Most studies of dictatorships and civil conflicts are based on cross-country analysis focussing on civil wars which are symptomatic for political fragility. This paper focusses on one country, Myanmar, where the military has been ruling unintermittingly for over 60 years. The paper first summarises the background of military rule in Myanmar, then formulates some conjectures and finally tests them empirically.

First, the paper gives an overview of regime changes in the broader context of the military's predominance. It explains this predominance by traditional hierarchical ideologies and armed conflicts with ethnic minorities. Second, the paper then formulates a theoretical conflict model with three poles: the military, the government, and the Ethnic Armed Organisations (EAO). It shows the determinants of resource appropriation shares for the military and for the EAOs. Controlling the government is the strategic variable for either side. The paper then provides empirical evidence that military coups and palace coups can be related to the share of resource appropriation by the military, but also on economic growth, inflation, FDI, and remittances. Armed resistance by the EAO is motivated by regional inequality and poverty. Their interest is spreading economic growth. However, we confirm, in line with the literature, that rent-seeking resource appropriations by the military will reduce economic growth. The paper also confirms that economic sanctions reducing FDI will lower GDP growth. The long-run perspective of Myanmar to end armed conflict will depend on a federalist constitution and the implementation of stability-oriented economic growth strategies.

Keywords: Myanmar, military dictatorship, coups, ethnic conflict, economic growth, inflation, poverty, migration, FDI, remittances, federalism

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Contents

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Dictatorial regimes exercise power not through legitimacy but through the threat and exercise of violence. They seize power through coups,[1] and sustain it by repressing all opposition. Individuals seek to escape repression by submitting, migrating, or resisting through armed rebellion. The resulting armed conflicts are a dominant feature of politics in the world. Two billion people, or a quarter of the world's population, now live in conflict-affected areas (Guterres 2022); and according to UNHCR (2024), more than 120 million people worldwide were forcibly displaced in 2024 as a result of persecution, conflict, violence, or human rights violations.

A growing literature is now studying the causes and effects of armed conflicts in the world.[2] Most of them are based on cross-country analysis focussing on military coups and civil wars which are symptomatic for political fragility. While the number of coups in the world has decreased since the 1990s (Blattman and Miguel 2010), it has resurged again since the pandemic. Over the last decade, 15 countries have been subject to coups and power grabs of which 11 took place in Africa and only two in Asia in 2021: one in Afghanistan and one in Myanmar (Freedom House 2024, 11). These studies typically find that factors contributing to coups and armed conflicts are low economic growth, loss of foreign reserves, political instability and constitutional changes, and loss in armed forces employment (Cebotari, et al. 2024). Yet, every country has its own political and economic dynamics. Rather than seeking cross country common characteristics for fragile states, this paper analyses the features that have sustained military rule and armed conflict in Myanmar. While there is an abundance of studies describing the political developments in Myanmar, this paper links these narratives to the theoretical literature on armed conflicts. It identifies some general but critical variables in the context of Myanmar's recent history.

Most conflicts are temporary; they have a beginning and an end.[3] Myanmar is an exception to this rule.[4] The country stands out with the questionable honour of being the longest running military

[1] Coups are 'illegal and overt attempts by the military or other elites within the state apparatus to unseat the sitting executive' (Powell and Thyne 2011, 5). In this paper we distinguish between 'military coups' when the military changed the nature of the political and economic regime, and 'palace coups', when the power balance between competing fractions within thee military changed.
[2] For a survey of the literature see notably (Collier 1999), (Blattman and Miguel 2010), (Cebotari, et al. 2024)
[3] The PRIO database (https://www.prio.org/data/1) on armed conflicts gives the precise dates for beginning and end of conflicts.
[4] We use the official title Myanmar for the country and not the traditional name Burma, although we use the adjective Burmese. The ethnic majority is called Burman.

dictatorship in the world (Matelski 2024, 17). This makes the country a suitable object for studying the long term consequences of armed conflicts and economic development. For over 60 years the military has ruled uninterruptedly, and no end is in sight. Armed conflicts have affected economic development negatively, but negative economic performances have also sustained civil war and reinforced the dictatorship. Yet, as in all dictatorships the degrees of repression and violence have varied over time. Periods of harsh repression are followed by softer regimes, but in Myanmar the military never let go of its power. Between 2011 to 2021, the Burmese military - called Tatmadaw – has associated civil governments to its control of power, and this has often been interpreted as a transition to democracy.[5] But there was no transition to democracy. The harsh military repression after the coup in 2021 has turned the civil war into the worst regime the country has ever seen.

Understanding the dynamics of military rule in Myanmar requires a quick review of its recent history. We will do this in the next section. We will then formulate a theoretical model for explaining armed conflicts in section 2. In Section 3, we test its conjectures against empirical evidence. The last section concludes and draws some lessons from the Burmese nightmare.

The Burmese Transition to Nowhere

A defining feature of military rule in Myanmar is the permanent war with ethnic minorities which has allowed the military to 'divide and rule' (Smith 2016). Ethnic conflicts have a long history in Myanmar (Smith 1999). When the country gained independence in 1948, it inherited unsolved constitutional conflicts about the role of ethnic minorities. Colonial rule had endowed Burma with complex structures of administrative discrimination against eight 'national races' (taung yin tha), among its 135 indigenous ethnic groups. The Bamar were the largest group, making up over half of the population, followed by Shan, Karen, Kachin, Chin, and Arakanese. Many spoke different languages and practiced different religions (Smith 1999). The minorities are a myriad of non-homogenous groups with often diverging and occasionally united aspirations. These groups are motivated by resistance to political and economic discrimination, widely felt injustices, violations of human rights, and deep poverty. Yet, beyond the common label of Ethnic Armed Organisations (EAO), they were never more than a loose alliance of heterogeneous actors, unified in their rejection of discrimination in the Burman-dominated state and vague ideas for a federalist constitution.

[5] For example the World Bank wrote in 2014: 'Myanmar is currently going through a triple transition: (1) from authoritarian military system to democratic governance; (2) from a centrally directed, closed economy to a market-oriented, open one; and (3) from 60 years of conflict to peace in the border areas' Quoted by (Oo 2015, 100); access to the website has since been blocked. See also (Lall 2016); (Matelski 2024).

Military rule and the state

Shortly before independence, General Aung San had convened the Panglong conference to discuss the constitutional design of federalism between minorities and the Burman majority. His assassination cut the process short. When the first democratic Prime Minister U Nu, ignored the demands of ethnic minorities, they soon proclaimed their desire to become independent states. Some ethnic groups took up arms as early as in the 1950s. The ensuing wars served the Tatmadaw to justify their rule by claiming that they were the only guarantor for preserving the unity of the country. In 1962, General Ne Win took power in a coup, and since that time the country has lived under military rule. Ne Win proclaimed the 'Burmese Way to Socialism', which he described as a 'scrambled egg of Buddhism and Marxism'. The new system maintained a division of tasks between the Tatmadaw as the supreme power and the government supported by the Burma Socialist Program Party (BSPP) in charge of daily affairs. The country was closed to the rest of the world, industries and private companies were nationalised; free market mechanisms were replaced by government allocation.

Before the 1962 coup, Myanmar was known as the 'rice bowl of Asia' because it was the largest rice exporter in the 1950s (Oo 2015). Ten years later it was the poorest country in the world. More than half a century of impoverishment and isolation followed. GDP per capita (in 2015 constant USD) was $ 25.10 in 1960. Thirty years later, it had doubled to $ 52.75, but Myanmar still remained the poorest country in the world until 1990.[6]

The popular uprising against General Ne Win's rule that took place on 8.8. 1988 was brutally repressed. More than 3,000 people were killed, and mass arrests followed. Nevertheless, the regime changed. Ne Win resigned, but the military Junta kept power without constitutional foundations through the newly constituted State Law and Order Committee (SLORC). Many regime opponents went underground, joined the ethnic resistance groups, or took refuge in neighbouring countries. The SLORC ruled brutally for four years under General Saw Maung. He was replaced in a palace coup by General Than Shwe who served as the head of state and chairman of the ruling military junta from 1992 to 2011. In 1997 the SLORC was renamed the State Peace and Development Council (SPDC). Few observers have attached much significance to the name change,[7] but Win (2008) has shown that it was part of a purge amongst the military personnel. More about that below.

[6] World Bank data indicator code: NY.GDP.PCAP.CD

[7] See for example the comprehensive studies by (Lall 2016) who as a student of Robert Taylor seems to be more sympathetic to the military reformers, and (Matelski 2024) who has supported the opposition. (Smith 2016) who knows the ethnic groups well, keeps a more balanced view.

Relations with the ethnic groups also changed. General Than Shwe had taken an interest in making ceasefires with selected ethnic armed groups (Smith 2016), but the strategy was designed by General Khin Nyunt, the head of Military Intelligence and third in the military hierarchy. He shortly became Prime Minister in 2003. In this role he initiated the so-called Road Map to Democracy and negotiated partial ceasefires especially with the powerful Kachin in the Northeast. Khin Nyunt was arrested and removed by another palace coup in 2004, but the ceasefire negotiations continued. However, when the promises of improved living standards did not materialise for the ethnic populations, the ceasefire agreements did not last (Brenner 2019).

The military and the state are not the same. Even under Ne Win, there was a separation of power, although the military always stood at the top of the hierarchy. After 1988 and 2021, military Juntas have merged the two institutions, but between 2011 and 2020, they were distinct. The dynamics between the Tatmadaw and the government cannot be understood without assessing the role of ethnic minorities. Ethnic grievances have always amalgamated political, cultural, religious, and economic demands. A federal constitution seemed to be an acceptable solution for them, but it would have undermined the Tatmadaw's claim to supreme power preserving the unity of the state.[8] The threat became particularly acute when Aung San Suu Kyi in her role as State Councillor after the 2015 elections embarked on the 21st Century Panglong Conference with ethnic groups. It started a peace prosses that never got anywhere. A peaceful settlement between the government and the ethnic groups would have cemented the government, rather than the Tatmadaw, in a permanently dominant position, but the military blocked all progress in the negotiations.

After 1988, the SLORC had ruled as a unified Junta by decree without any legal legitimacy (Matelski 2024, 75). The generals usurped the state. To close the legitimacy gap and after years of dragged-out deliberations, a constitution was finally passed and submitted to a highly disputed referendum in 2008.[9] The new constitution aimed at preserving the Tatmadaw's power indefinitely. It was followed by elections in 2010 in which only pro-military parties were able to run. Given the predominance of the constitutional rights reserved to the Tatmadaw, the NLD and other democracy advocates boycotted the elections.

After these elections, General Than Shwe was succeeded in 2011 as supreme commander of the armed forces by General Min Aung Hlaing and as president by General Thein Sein who then became a civilian. The succession seems to have been consensus-driven among the generals, but different fractions

[8] During the Second Panglong peace process, the issue of how to integrate the ethnic armies into a unified army and police force were the fundamental sticking point (Brenner 2019).
[9] Not only was the constitution drafted by the military, but its ratification through referendum was neither free nor fair and occurred only days after the devastating Nargis cyclone (Matelski 2024, 25-26).

between hardliners and reformers emerged (Lall 2016). The liberalising policies under Thein Sein were initially seen as transition from 'repressive pariah to potential democracy' (Kurlantzick 2012). But, as Lall (2016, 3) correctly pointed out, the reforms were never meant to create a Western-style democracy, but rather to develop a 'discipline-flourishing democracy'. The purpose of liberalising the system was to ensure the lasting supremacy of military rule by improving economic conditions.

Yet, the constitution did have profound effects. It separated again supreme military rule from the government as during Ne Win's times. However, the government was not supreme. From a Western perspective, this institutional hierarchy is not well understood. Traditional societies are hierarchical and the highest level in the hierarchy represents those who set the rules and laws for society as a whole. For example, in the Indian Vedic system the Brahmins occupied the highest caste because they interpreted the voice of God (the universal whole) and defined the law. They had the 'mandate of the heaven', as the Chinese would call it, because God was the most universal whole of all. The second level of hierarchy was reserved to the Kshatriyas (kings, warriors, and soldiers) who enforced the laws (Dumont 1980). Under General Ne Win, the Tatmadaw advanced to the highest level in the social hierarchy because it claimed to restore ancient (precolonial) laws and to guarantee the integrity of the Burmese nation in the Buddhist tradition. The government administered the state and enforced its laws. But the ethnic minorities, many of them Christian or Muslims, did not fit into this system.

In the early phase of the SLORC/SPDC regime, the two levels were merged, but in the new constitution the government was given a distinct identity again. Yet, the 2008 constitution guaranteed that the government remained subordinated to the military. It reserved 25% of the seats in parliament for sitting military officers; the Tatmadaw kept three influential ministries (Home Affairs, Defence, and Border Affairs) by constitutional right, and the constitution even legitimised military coups in case of emergency (Matelski 2024, 26). General Min Aung Hlaing could therefore claim that the 2021 coup was legitimate (Pedersen 2023, 43).

Nevertheless, different aspirations emerged between government and military. The government under President Thein Sein became the rallying point for civilian reform-oriented forces within the military, while the Tatmadaw under command of General Min Aung Hlaing supported extreme nationalist Buddhist movements and took a hard-line approach for preserving military power. The liberalising reforms after 2011 aimed at restoring economic growth without putting the system into question. Yet, the traditionalist view ran into an impasse after the 2015 elections, when Aung San Suu Kyi claimed that the democratic vote had given the legitimacy to direct the country and make laws to the government. The mandate of the heaven was replaced by the mandate of the people. The traditionalist

view of hierarchy was incompatible with modern democratic legitimacy.[10] The conflict was not solvable.

Thus, the 2011 regime change had led to the emergence of three poles of power in Myanmar: the military, the elected government, and the ethnic armed groups who increasingly made efforts to coordinate their demands with the government. Yet, there was no equilibrium between these forces. The governments were subordinated to varying degrees to the military, but they encouraged the creation of a new civil society (Matelski 2024).[11] By negotiating ceasefires with the ethnic groups, the governments also enlarged their autonomy from the Tatmadaw. At the same time, bridges were built between some ethnic groups and the Tatmadaw under the ceasefire regimes, which provided the opportunity to develop 'ethnic capitalism' (Woods 2011) by military–private partnerships exploiting the rich natural resources in the Borderlands (Smith 2016, 81).

The competition for appropriating resources shifted the alliances frequently. For example, the Kachin ceasefire (1994-2011) was negotiated with the help of the Kachin Baptist Church in the hope of improving living conditions. But the military subsequently created new property rights for accessing the jade mines in Hpakant. These rights were controlled by the military junta which then sold them to its cronies. This undermined the trust between Kachin and the Tatmadaw to a point where the Kachin took up arms again in 2011. On the other side, the uneasy power balance between the NLD government and the military became clear during the Rohingya crisis in 2018. Conservative hardliners had whipped up xenophobia, islamophobia, and Buddhist nationalism for several years. When the NLD-government embarked on the 21st Century Panglong Process with EAO, most of which were in the east, the army attacked the muslim Rohingya minority in the West.[12] International communities and human rights organizations have described the violence, which caused over a million people to escape mainly to Bangladesh, as ethnic cleansing and genocide (Blinken 2022). Aung San Suu Kyi was caught in the trap. By supporting the Muslim minority, the government would have kept the respect of ethnic and human rights groups, but it would have lost the support of the Burman nationalist majority. The military also threatened the NLD government with a coup.[13] Aung San Suu Kyi preferred to lose her moral credit with international supporters rather than the capacity of implementing gradual change

[10] As (Lall 2016, 3) explained the reforms 'were never meant to create a 'Western-style democracy', but rather to develop a 'discipline flourishing democracy''.
[11] (Matelski 2024); (Lall 2016); (Dunford and Adikari 2023, 335) spoke of 'massive social changes that took place during the "transition period"'.
[12] (van der Maat and Holmes 2023) have shown the intra-Tatmadaw rivalries which have led to the genocidal violence.
[13] Allegedly, there were reports that when ASSK went to The Hague to defend the military against charges of genocide, the Tatmadaw had encircled the two major towns Yangon and Mandalay as a sign of making a coup if she did not protect the Generals.

by using the government inside Myanmar. The consequences were dire for the refugees and for the Burmese economy, as international sanctions cut down foreign direct investment.

After the renewed landslide victory of the NLD in 2020, the military feared losing power because Aung San Suu Kyi seemed intent to change the constitution and to abolish the Tatmadaw's veto power. The NLD had already tried three times and been rebuffed by the military. On the February 1st, 2021, Min Aung Hlaing placed the government under direct military control. Since then, he has ruled as the chairman of the State Administration Council (SAC) and also appointed himself as Prime Minister of Myanmar in Augst of the same year. The constitutional separation of power and autonomy of the official government had disappeared again. However, the civil society which had supported the NLD government were now constituting an unofficial shadow government, the National Unity Government (NUG) (Pedersen 2023, 47). It has aligned with the ethnic armed organisations and supports of the civil war. The combined resistance of Burman and ethnic forces was increasingly successful. Between 2021 and late July 2024, the Junta had killed at least 5,467 civilians and arrested more than 27,000 others, although it has lost control of townships covering 86% of the country (Bloomberg, 2023).

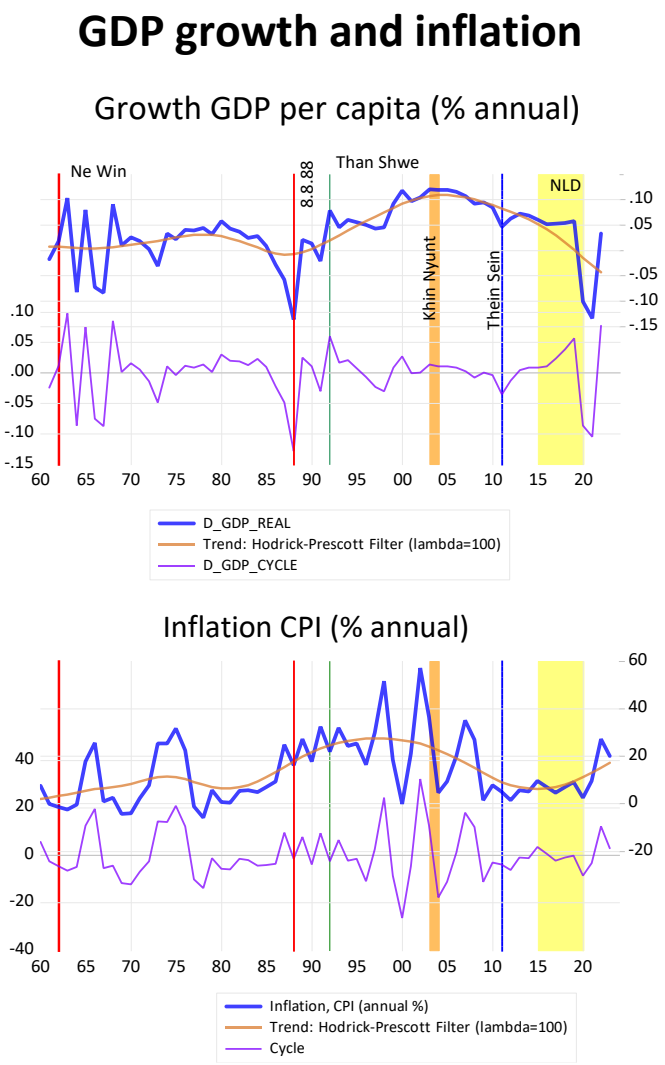
The economy under military rule

After 1988, Myanmar moved away from Burmese Socialism to unfettered capitalism. While political repression became more severe, the new military junta officially declared the adoption of a market-oriented economic system. It encouraged private-sector participation in the economy and permitted foreign investment in the country. Rapid economic growth followed during the next decade, but in the second half of the 2000s, the growth rate fell by 50 percent. The liberalising policies under Thein Sein and then the NLD stopped it from falling further until Covid. The 2021 Coup reduced GDP by nearly 30 % (World Bank 2022). See Figure 1.

The boom of the 1990s was primarily driven by the informal sector with very small enterprises. In 2011, the formal sector consisted of 126 958 enterprises, of which only 721 were large. The informal sector, by contrast, counted 620 000 enterprises amounting to 83 % of the total. However, the ruling generals had no economic knowledge and the destruction of human capital during Ne Win's reign had eliminated the human resources required for an efficient administration. The early economic reforms were badly designed, inconsistent, and creating a highly corrupt business environment where the military favoured the emergence of wealthy cronies.[14] In 2003, the unregulated banking system collapsed (Turnell 2003) and the growth rate of real GDP p.c. fell from 12 % to 4.6 % in 2011.

[14] According to the Corruption Perception Index Myanmar ranked as 172 most corrupt country out of 180 countries in 2012. By 2019 it had improved to rank 130, but since the 2021 coup the position has deteriorated again to 162.

Figure 1.

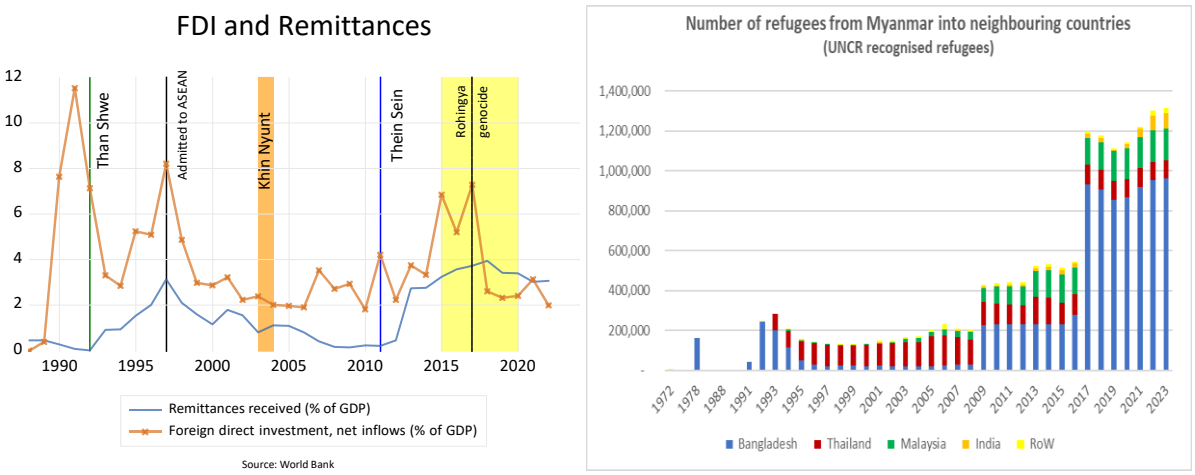


Macroeconomic instability was high before the reforms kicked in. Inflation was 20% on average between 1990 and 2015 but fell to 6.5% between 2015 and 2020. After the 2021 coup, it climbed up again to 27% .[15] The sizeable government deficit was financed nearly exclusively by money creation before the NLD government took over responsibility for economic policy (Collignon 2018), and the government bond market was only formally launched in 2015. With the legitimacy of a semi-democratic government, international organisations and experts from the diaspora returned. Myanmar seemed to become attractive for foreign investors. FDI increased from 2.2% in 2012 to 7.2% of GDP in 2017. But when sanctions were imposed following the Rohingya genocide in 2017 and the 2021 coup, these capital inflows dried up and FDI fell back below 2% of GDP. Interestingly, remittances

[15] World Bank data indicator code: NY.GDP.PCAP.CD

also increased from 0.15% to 3.9% of GDP between 2009 and 2018. Both variables reflect greater openness to foreign economies but from a different perspective: FDI indicates the attractiveness for foreign capital, while remittances show personal income transfers from migrants to households at home. The flow of remittances is positively correlated with the number of refugees. Both FDI and remittances are sources of foreign change reserves, which according to the cross-country literature are one factor in determining coups. However, Myanmar shows that the two components must be kept separate. FDI uses the official banking system and therefore benefits the government and the military, while private remittances are direct income support to households - often in peripheral regions - which are transmitted by the unofficial hundi system outside of government control (Sobiech, Collignon and Zau Tu 2024). We shall see below that in Myanmar FDI increased the likelihood of coups but remittances reduced it.

Figure 2.

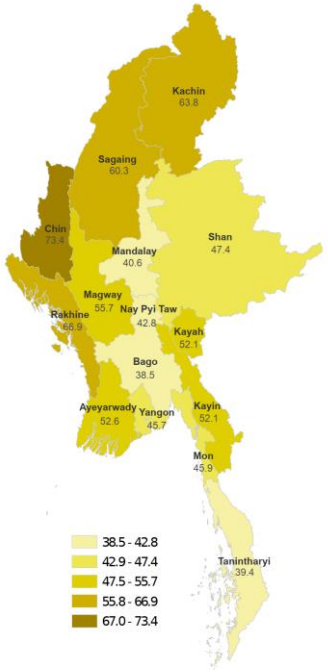


Strong economic growth has contributed to significant poverty reductions. Unfortunately, long time series of poverty data are not available. According to the World Bank (2022), poverty incidence and severity have recently declined and did so faster between 2015 and 2017 when the NLD shared in government. During this period, growth in average consumption was responsible for almost the entire reduction in poverty. However, as a consequence of the dual crises of COVID and the 2021 Coup, it has increased sharply again. The World Bank estimates that poverty in 2022 doubled compared to March 2020. About 40 % of the population in Myanmar were now living below the poverty line. The dual crises effectively erased nearly a decade of poverty reduction progress in a matter of two years. Based on the sketchy data from World Bank and UNDP, we estimate that the elasticity by which economic growth has reduces headcount poverty was at least in the order of 0.3 to 0.5 before the double crisis hit. The subsequent increase in poverty has affected regions very unequally (UNDP 2024). The States

and Regions with deepest and most widespread poverty are Chin, Rakhine, Kachin and Sagaing where civil war has been most violent since the 2021 Coup.

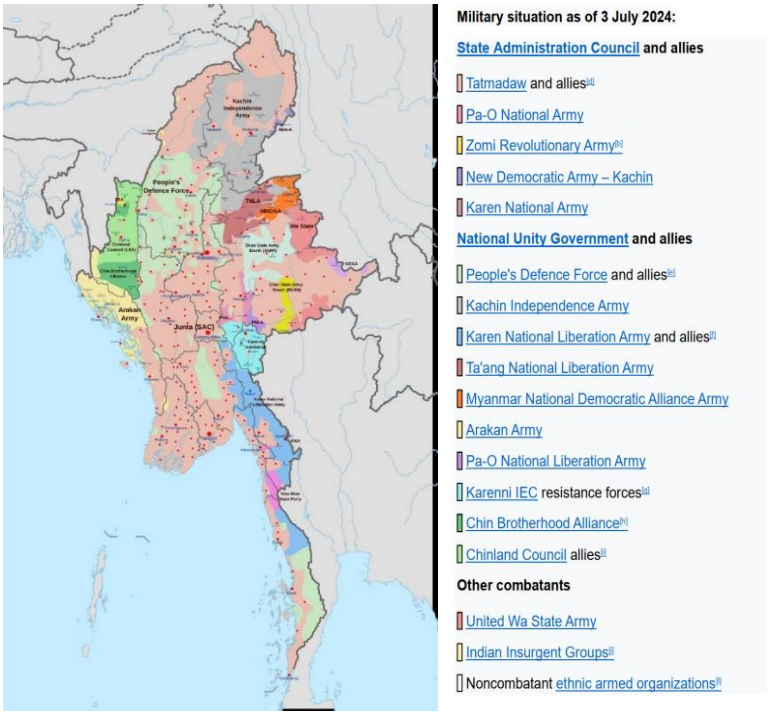
Figure 3. Myanmar Regions and States: Poverty and Civil War

Poverty headcount by state / region



(UNDP 2024)

Myanmar Civil War 2024



(Wikipidia 2024)

Table I.

Poverty by State and Region							
	Poverty Headcount (%)				Poverty depth (%)		
	PH 2017	PH 2022	PH 2023		PD 2017	PD 2022	PD 2023
National	24.8	46.3	49.7	National	5.2	18.5	24.4
Rural	30.2	49.9	52.9	Rural	64	18.3	23.1
Urban	11.3	37.2	41.8	Urban	2.3	19.2	27.9
Chin	58	71.5	73.4	Chin	18.7	28.4	33.1
Rakhine	41.6	63.6	66.9	Sagaing	6.4	22.2	30.3
Kachin	36.6	59.7	63.8	Kachin	10	24.4	29.5
Sagaing	30.7	57	60.3	Magway	7.6	22.6	28.9
Magway	35.6	53	55.7	Rakhine	7	22.5	28.5
Ayeyarwady	31.7	50.6	52.6	Tanintharyi	2.5	22.5	28.5
Kayah	32	49.6	52.1	Yangon	2.7	18.8	26.8
Kayin	24.2	48.8	52.1	Mon	4.2	16.1	24.4
Shan	28.6	43.6	47.4	Kayin	4.1	18	23.8
Mon	19.2	42.3	45.9	Ayeyarwad	6.3	18.8	22.8
Yangon	13.7	41.9	45.7	Mandalay	2.3	15.9	22.8
Nay Pyi Taw	22.1	39.8	42.8	Kayah	8.4	17.2	22.7
Mandalay	13.2	36.8	40.6	Shan	6.8	15.8	19.2
Tanintharyi	13.2	34.5	39.4	Nay Pyi Tav	4.1	14.7	19.1
Bago	17.4	34.1	38.5	Bago	3.8	12.7	16.9
Source: UNDP (2024)							
The national poverty line was 1590 Kyats a day (2023)							

Modelling conflict in Myanmar

Theoretical models of armed conflict depart from standard economic theory by recognising that conflicts occur in lawless settings, where predation and defence are alternatives to directly productive activities (Blattman and Miguel 2010, 9). In these models, two competing parties, a rebel group and a government, allocate resources to production versus appropriation. Production is described in the standard manner, but appropriation – which is a form of rent seeking - uses a 'contest success function' where inputs such as 'guns' or arms translate into the relative probability of winning the war and consuming the opponent's economic production in addition to their own.[16] Contest models make an unsurprising prediction: the odds of winning increase with the relative effectiveness of one side's fighting technology.

Their applicability to Myanmar needs to be modified in several respects. First, instead of a two-sector model we need to introduce the government as a third pole between the military and the ethnic armed groups. Most of the time the Tatmadaw controlled the government, but under Aung San Suu Kyi the government was seeking independence through linking with civil society organisations and building bridges to EAOs in the new Panglong process. Secondly, the models assume unitary actors, but we have seen that neither the Tatmadaw, nor the ethnic groups are homogeneous. There were conflicts between hardliners seeking more direct appropriation of resources and liberalisers aiming for higher

[16] The classical papers are (Hirshleifer 1988), (Hirshleifer 1989), (Skaperdas 1996)

economic growth. Third, a stable, stationary equilibrium never occurred. Instead, the intensities of conflict vary substantially over time. I therefore suggest the following model.

First, the government conducts macroeconomic and structural policies that determine the long run economic capacity for *producing* aggregate income. By government we mean the institution that implements policies and society which produce output. We say that the efficiency of government G determines potential output and changes in this factor set the trend growth rate

$$(1) \qquad Y^* = f(G) \text{ with } f_G = \Delta y$$

The long run full capacity growth rate Δy reflects the full set of standard growth theory variables.

Second, the military *appropriates* resources by controlling the state or dominating the EAOs without contributing to economic growth. This appropriation can take the form of controlling the government's budget or directly seizing natural resources from territories controlled by EAOs. We measure the Tatmadaw's appropriation of resources (MA) by military spending which is a function of the appropriation share (m) and GDP (Y)

$$(2) \qquad MA = mY$$

The effectiveness of the military apparatus can then be defined as the ratio of the number of battle-related deaths (*BD*) to military spending.

$$M^{eff} = \frac{BD}{MA}$$

Taking logs and first differences we get the growth rate of military appropriations as the rate of change in the military spending share in GDP plus the economy's nominal growth rate, which is the sum of economic growth in real terms (Δy) plus inflation (Δp).

$$(2a) \qquad \Delta MA = \Delta m + \Delta Y = \Delta m + \Delta y + \Delta p$$

Thus, the military appropriates resources by expanding its share in GDP, by increasing economic growth or by the inflation tax. However, inflation and increasing the appropriation share (m), both reduce the rate of economic growth potential. To increase the capacity of military spending becomes particularly important when the technical efficiency of warfare is reduced. The Tatmadaw needs more resources and therefore has an interest to either become more violent or to use the government for fostering growth. The latter would explain the phase of economic and political liberalisation from 2011 to 2021.

Third, the EAOs operate in high poverty, low-income regions (see Figure 3 and Table I). Scott (1976) famously has shown that anti-colonial resistance in Southeast Asia was a function of the risk of peasant

income falling below subsistence level. We adapt this idea by making the efforts for ethnic contested appropriation a function of the poverty headcount in the region. The larger and deeper the poverty gap, the stronger are the incentives to appropriate rent income to sustain decent standards of living. The ethnic groups have two options to do so: exploiting the natural resources (forests, precious stones, drugs, and even hydroelectric energy) that are concentrated in their regions or improving the economic growth and link it to redistributive policies which is the purpose of federalism. Hence, we model the ethnic efforts for resource appropriation as the ratio of the resource rent to the poverty gap.

$$EA = \left(P\frac{NR^r}{-PG}\right)^e \quad (3)$$

EA stands for ethnic appropriation in monetary terms, r for the rent from natural resource (NR) and e is a coefficient that expresses the commitment of ethnic groups to defend their interests. P is the price index. As prices increase, spending for fighting must increase as well. Note that the sign of the poverty gap is negative because its standard definition is $PG = \frac{1}{N}\sum_j^q \left(\frac{z-y_j}{z}\right)$ where N is the total population, q is the number of poor living at or below the poverty line z,[17] and y_j is the income of the poor living in the ethnic community. Hence living below the sustainability level z implies that the poverty gap is negative. Yet, there is a well-established relationship whereby poverty is negatively correlated with real economic growth, so that the gap $(z - y_j)$ varies with aggregate income in society.[18] If aggregate economic growth is positive, individual incomes will increase and the number of poor will fall. The poverty gap is reduced either due to economic growth or because the poor population q will shrink as people are displaced or take refuge in neighbouring countries. However, if migrants send back remittances, they increase the income earned by local population. This would reduce the poverty gap and therefore the likelihood of ethnic appropriations and conflict. If we disregard migration, the relation between growth and poverty can be described by the elasticity:

$$\varepsilon = \frac{\Delta PG}{\Delta y} < 0 \quad \rightarrow \quad \Delta PG = \varepsilon \Delta y \quad (3a)$$

An increase in the aggregate growth rate will lower the poverty gap. Taking logs and first differences of equation (3) we get

$$\Delta \mathrm{EA} = \mathrm{e}(\mathrm{r}\Delta \mathrm{NR} - \Delta \mathrm{PG} + \Delta \mathrm{p}) = \mathrm{e}(\mathrm{r}\Delta \mathrm{NR} - \varepsilon \Delta \mathrm{y} + \Delta \mathrm{p}) \quad (3b)$$

[17] The poverty line z can be defined in fixed terms, like the World Bank's Extreme poverty of $2.15 per day, for lower middle income of $3.65 per day and upper middle income of $6.85 per day. (World Bank 2023). Alternatively, it can be defined as 60 % of the median income. For simplicity, we stick to a fixed amount.
[18] The relationship is much clearer for poverty and growth than for inequality and growth (Cerra, Lama and Loayza 2021).

Hence, the ethnic appropriations will increase when rents from natural resources in their territories increase, and economic growth Δy spreads more equally across regions (ε rises with federalism). Historically, the primary sources of income for EAOs were the rents from natural resources. However, as natural resources were depleting, the ethnic groups needed to focus on economic growth (Δy) or reduce income inequality by increasing the elasticity ε. Both these objectives are behind their demands for a federalist constitution. Contrary to the Tatmadaw, the EAOs do not control the government. They cannot benefit from the inflation tax which is a burden for them. When inflation is higher than the growth dividend ($\Delta \mathrm{p} > -\varepsilon \Delta \mathrm{y}$) their capacity to finance armed struggle is reduced. They therefore have an interest in good governance and macroeconomic stability which was the objective of the NLD government.

Fourth, in equilibrium, the changes in rent seeking appropriations of the two parties match.

(4) $\Delta \mathrm{MA} = \Delta \mathrm{EA}$

This leads to:

(4a) $\Delta m = [(1-e)\Delta p - e\Delta NR] - (1 - e\varepsilon)\Delta y$

If the ethnic organisations would cease all resistance $(e = 0)$, the change in the military appropriations share in GDP would increase at the difference between inflation and real economic growth $(\Delta p - \Delta y)$.

(4b) $(e = 0) \rightarrow \Delta m = (\Delta p - \Delta y)$

With unit elasticity by which poverty is reduced in proportion to economic growth $(\varepsilon = 1)$, the Tatmadaw's appropriations would seek to compensate the loss of inflation tax by seeking higher rents from natural resources.

(4c) $(\varepsilon = 1) \rightarrow \Delta m = (\Delta p - \Delta y) - e(\Delta p - \Delta y) + e\Delta NR$

Thus, military rent seeking would be reduced by lower inflation and higher growth. This analysis gives a preponderant role to macroeconomic stability. As Cebotari, et al. (2024) observed: 'strengthened fundamentals and macropolicies have higher returns in structurally fragile environments in terms of staving off political breakdowns, suggesting that continued engagement by multilateral institutions and donors in fragile situations is likely to yield particularly high dividends.' The NLD government pursued economic policies that increased macroeconomic stability. In the long run it could have

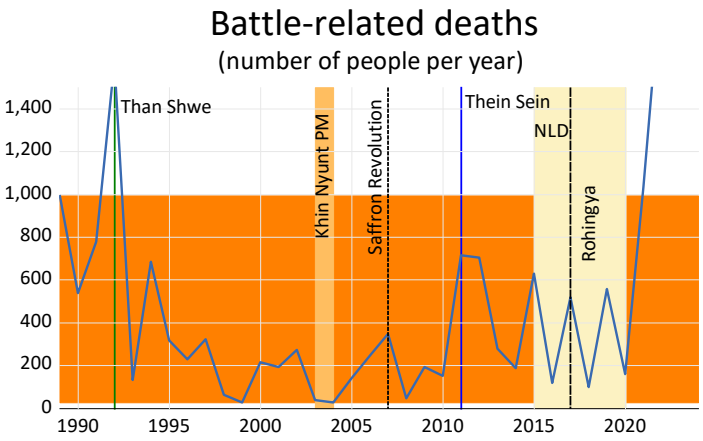
reduced the probability of armed conflicts in Myanmar. However, exogenous shocks like COVID reduced economic growth and therefore disturbed the equilibrium between (3a) and (4b). The military coup in 20/21 was the result of such disequilibrium.

The drivers of armed conflicts in Myanmar

Identifying variables that explain armed conflicts in Myanmar is difficult because the data are unreliable, mostly incomplete, and often covering only few time points. Nevertheless, some long time series exist. I have used the World Bank database,[19] unless different sources are explicitly mentioned. Figure 1 has shown the series for economic growth and inflation dating back to the 1960s. We also have data for armed conflict since 1990.[20] Civil wars are defined as counting more than 1000 battle-related deaths in a single year, while armed conflicts count more than 25 battle deaths (Gleditsch, et al. 2002). With this definition Myanmar has never been free of armed conflicts and has experienced full blown civil war since the 2021 military coup. Figure 5 traces the number of people killed in conflicts with the Tatmadaw. They fell during the ceasefire agreements in the second half of the 1990s and during the short stay of Khin Nyunt as Prime Minister. The Saffron revolution in 2007 was the climax of renewed armed conflicts. During the post-2011 period of liberalisation, fighting became highly volatile. This reflects the lack of political equilibrium between the three power poles. The cyclicality of the number of battle deaths during the liberal period is an indication for the military's use of violence as a leverage in the overall political process. Aung San Suu Kyi sought to end the permanent conflict by engaging in the Second Panglong peace process which was slowed down - if not boycotted - by the Tatmadaw. The military engaged in battles with Karen and Kachin ethnic armed forces and expelled 800,000 Rohingya in 2017.

[19] World Development Indicators | DataBank (worldbank.org)
[20] I have used the World Bank series VC.BTL.DETH which is reproducing the equivalent data base from PRIO.

Figure 5.



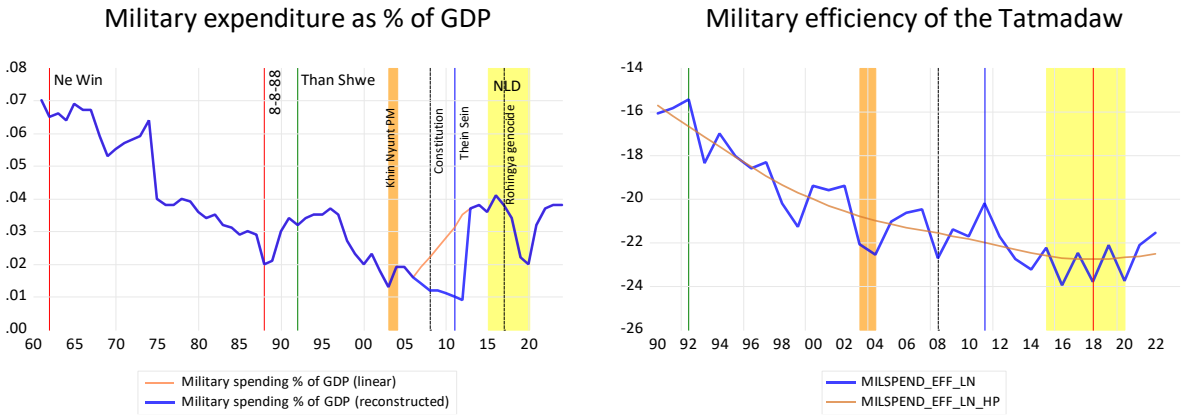
The claim for resources is embedded in the broader constraints of the Burmese economy. Figure 6 shows the share of military spending in GDP and the continuous deterioration of military effectiveness. However, these data should be taken as an indication of tendencies, not necessarily as precise values. I have used the SIPRI database[21] for the amounts of military spending in local currency although I am aware that these figures are highly uncertain. For 2006 to 2010 data are lacking. To be able to use a consistent continuous time series for econometric estimates, I have therefore reconstructed two series, one simply closing the gap by linear extrapolation; the other by looking at the number for military staff and assuming that the spending per head of military personnel was increased by the rate of inflation. In general, the linear series performed better in econometric estimates. Using nominal GDP data as provided by the World Bank, we get a military appropriation share of 4% , which is significantly lower than the 20% shown by SIPRI.

Nevertheless, Figure 6 shows a clear pattern of a reduction in military spending during the Ne Win era of Burmese socialism, especially after the 1974 Constitution of the Socialist Republic of the Union of Burma adopted a one-party state. Following the uprising in 1988 the SLORC junta increased military spending until the regime started to negotiate ceasefires with 21 ethnic armed groups in the 1990s (Matelski 2024, 26). Yet, during the liberalisation period after 2011, military spending rose again. While the military appropriation share had a tendency to fall over the long run, the efficiency of the military decreased. This trend seems to have stopped soon after 2011. We can interpret this as evidence that the liberalising economic reforms were aimed at improving the economic capacity of the Tatmadaw through higher growth. Yet, when the NLD took a share of the government and shifted spending priorities toward civilian projects such as education and healthcare (World Bank 2023), the civilian government effectively took resources away from the military. And when Aung San Suu Kyi engaged in

[21] https://www.sipri.org/databases/milex/sources-and-methods.

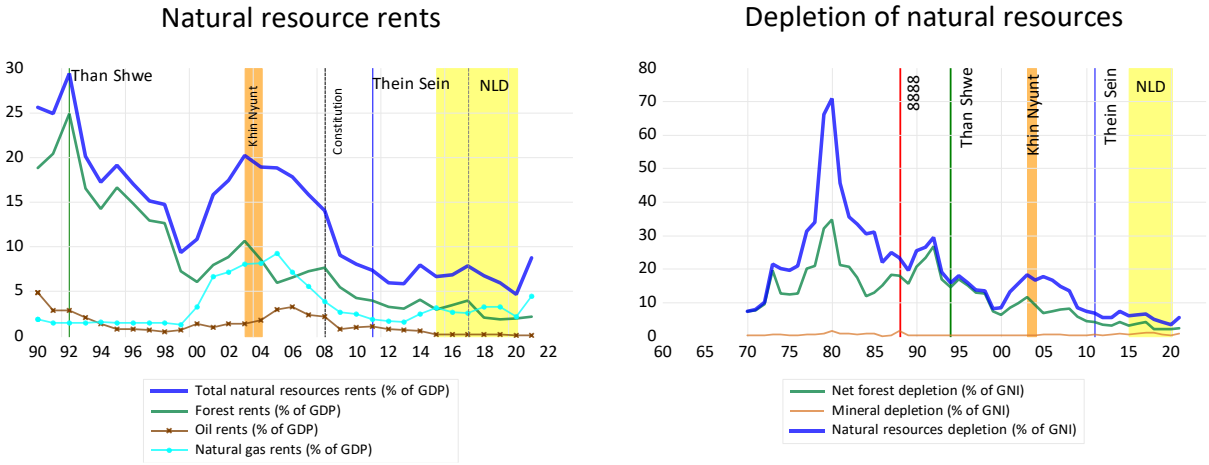
the second Panglong process with the ethnic armed organisations, the perspective of a federal constitution threatened the primacy of the Tatmadaw. The military's reaction was the 2021 coup. Thereafter military spending was restored to previous levels and the kill-ratio shot up.

Figure 6.



Control of natural resource rents were the strategic variable in the early phase of the conflict between the Tatmadaw and the Ethnic Armed Organisations. We do not have data about the distribution, although oil and gas were the monopoly of the government.[22] And of course, we have no reliable data for the drug trade which benefitted both sides. However, most importantly, natural resources have increasingly been depleted and this has lowered rent income. See Figure 7. This would explain the need for a new economic growth strategy which was implemented after 2011. The military coup of 2021, which has accelerated resource depletion again, went against the historic trends.

Figure 7.



[22] See also (Naw, Fishbein and Pilgaard 2021)

Estimating the likelihood of coups

How likely was it that open military or internal palace coups occurred in Myanmar? To assess the likelihood of coups, we estimate a probit model with the following equation:

$$(5) \qquad \Pr(Y_i = 1) = \Phi(X_i\beta + v_i)$$

v_i are i.i.d., $N(0, \sigma_v^2)$, and Φ is the standard normal cumulative distribution function. Y_i is a dummy variable that assigns the value 1 to the years when the military committed a coup and zero to all other years. We include palace coups and the constitution of 2008. We also consider that the Rohingya genocide by the Tatmadaw was a coup attempt against the civilian part of the government led by Aung San Suu Kyi. See Table II.

Table II. Dummy variables for military coups

	dummy	*event*
1962	1	Ne Win
1988	1	8.8.88 SLORC
1992	1	Than Shwe
2003	1	Khin Nyunt PM
2004	1	Khin Nyunt out
2008	1	Constitution
2018	1	Rohingya genocide
2021	1	Min Aung Hlaing

The explanatory variables X_i are time series for battle deaths, a gap variable, economic growth, FDI, remittances, and rents on natural resources, as well as the depletion of natural resources. The gap-variable measures the gap between tax revenue and military spending as percentage points of GDP. It indicates the degree of resource appropriation by the Tatmadaw as opposed to government action supporting economic growth. A bigger gap indicates more autonomy for the government.

Table III shows the results for different estimations. What matters most are the signs of the marginal coefficients that show the direction by which a given variable increases or lowers the odds of a coup taking place. Our baseline model 1 focuses on standard economic variables - economic growth, FDI, remittances, and the gap between tax and military spending - but it also takes into account the intensity of armed conflict measured by the number of battle-related deaths. In the baseline model 1 all coefficients are statistically significant. The coefficient for battle related death is always negative,

indicating that armed conflicts are lowering the odds of military coups, presumably because the generals are busy with the war rather than fighting each other. As we expect from the theoretical model, economic growth lowers the odds of military coups; it is highly significant except in model 4. The gap variable is also negative which we interpret as a sign that greater autonomy for the government and civil society will reduce the probability of military coups. The same is true for remittances which supplement income of households. By contrast, FDI supports the officially controlled economy and therefore generates incentives amongst military fractions that increase the likelihood of palace coups. Thus, FDI stabilised the military, while remittances reduced household poverty and the ethnic will to wage war.

Models 2, 3, and 4 add variables for the rents and the depletion of the natural resources shown in Figure 7. Added individually to the baseline model, these variables have positive coefficients although they are not always statistically significant. However, when we combine them in model 4, rents are increasing the odds of military coups while the depletion of resources lowerd them. This makes sense because the perspective of higher rents is likely to increase the desire for controlling them, while the growing depletion of resources makes the feasibility of appropriation more difficult. Economic growth policies are then becoming more attractive. The depletion of natural resources may also reflect why the military efficiency has declined as shown in Figure 6.

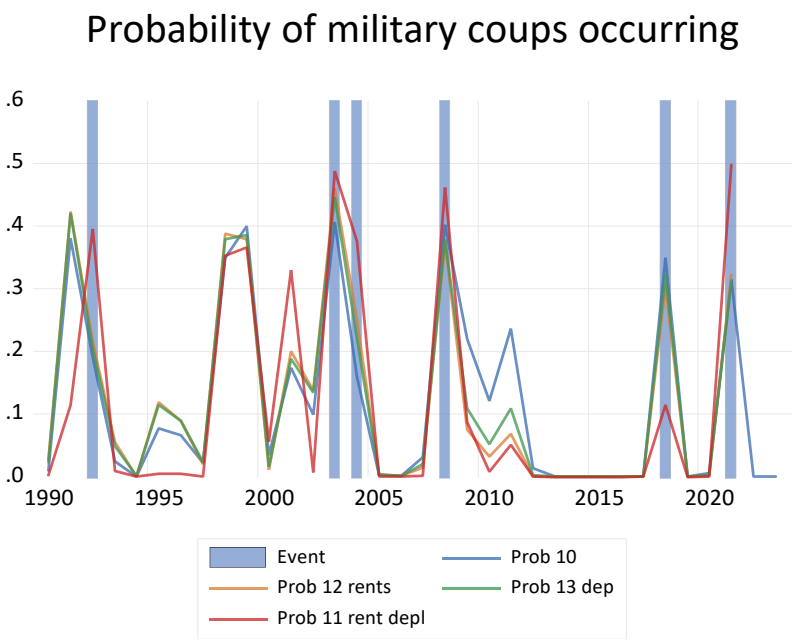
Table III. Estimating the odds of military coups

Variable	Battle deaths	Gap(tax-milspend)	GDP growth	FDI	Remittances	Rents	Depletion
Model 1 baseline							
Coefficient	**-0.77889***	**-1.14870***	**-20.7617****	**1.17815****	**-0.79126****		
Std. Error	*0.416667*	*0.688993*	*9.707593*	*0.548990*	*0.387601*		
z-Statistic	*-1.869347*	*-1.667225*	*-2.138716*	*2.146046*	*-2.041433*		
Prob.	*0.061575*	*0.095470*	*0.032459*	*0.031869*	*0.041208*		
Model 2 Baseline plus rents							
Coefficient	**-0.91147****	**-1.24924***	**-24.5929****	**1.09090***	**-0.69165***	**0.078760**	
Std. Error	*0.445676*	*0.725705*	*10.962299*	*0.561361*	*0.400844*	*0.076315*	
z-Statistic	*-2.045148*	*-1.721429*	*-2.243413*	*1.943314*	*-1.725503*	*1.032111*	
Prob.	*0.040840*	*0.085173*	*0.024870*	*0.051978*	*0.084437*	*0.302020*	
Model 3 Baseline plus resource depletion							
Coefficient	**-0.85221****	**-1.21415***	**-23.26533****	**1.07356***	**-0.67866***		**0.057708**
Std. Error	*0.427782*	*0.701132*	*10.413764*	*0.555654*	*0.403729*		*0.070814*
z-Statistic	*-1.992173*	*-1.731705*	*-2.234095*	*1.932083*	*-1.680979*		*0.814926*
Prob.	0.046352	0.083326	0.025477	0.053349	0.092767		0.415115
Model 4 Baseline, rents, resource depletion							
Coefficient	**-1.58528****	**-1.233490**	**-33.062750**	**2.35520***	**-1.95438***	**1.89805***	**-1.86617***
Std. Error	*0.743129*	*1.143609*	*20.147806*	*1.252129*	*1.031312*	*1.083765*	*1.116634*
z-Statistic	*-2.133257*	*-1.078595*	*-1.641010*	*1.880959*	*-1.895050*	*1.751352*	*-1.671247*
Prob.	*0.032904*	*0.280768*	*0.100795*	*0.059978*	*0.058086*	*0.079885*	*0.094673*
*Significance levels: * within a confidence level of 90%; ** within a confidence level of 95%*							

Figure 8 converts the estimates of odds into probabilities. The vertical bars indicate the dummy value 1 from Table II. The estimates match the occurrence of coups quite well. Our model 4 maps the

probability of coups more precisely than the baseline scenario. Hence, the struggle for controlling natural resources was an important driver of military coups. Interestingly, Figure 8 also indicates that in 1998 and 1999 there was a high probability of a coup that did not take place. In 1997, the SLORC was abolished and reconstituted as the State Peace and Development Council (SPDC). Powerful regional military commanders were transferred to new positions. Win Min (2008) has called this a 'purge'. Our model suggests that this purge prevented a palace coup. The estimate also indicates that the liberalisation under President Thein Sein had the quality of a palace coup for which there is some evidence (Lall 2016).

Figure 8.



Military spending and economic growth

In the Hirshleifer (1989) model resource appropriation is a form of rent-seeking that lowers economic growth. We will now look at the evidence. The appropriation of resources by force is the classical mode of armed conflict. However, when the Tatmadaw had full control over the government, it could also use the budget which was largely financed by the inflation tax. I have estimated three simple autoregressive distributive lag models (ARDL) where the optimal lag selection was based on evaluating the Akaike Information Criteria for 100 models. The dependent variable is always real GDP per capita growth and all models have in common the change in military spending per GDP share, inflation, and the change in FDI. For remittances, the first model takes the level (in logs), the second and third model the growth rate. The third level also adds battle-related deaths.

All models show coefficient signs as expected from theory, but they only become statistically significant with the battle-related death variable, which is negative. Inflation reduces economic growth, FDI increases it, but the role of remittances is more ambivalent. When we add the civil war variable, remittances are significantly negative. Because remittances are closely correlated with battle-deaths and migration, we interpret this as a sign that war displacement and migration lower economic growth, which is not compensated by the additional income send via remittances from migrants to domestic households. Most importantly, we have clear evidence that an increase in Tatmadaw's rent-seeking appropriations on aggregate income lowers the economic growth rate. This is coherent with our theoretical model in the second section and the Hirshleifer conjecture.

Table IV. Military spending and economic growth

	Model 1	Model 2	Model 3
	ARDL(4,4,4,4,4)	ARDL(4,4,4,4,3)	ARDL(4,4,4,2,4,4)
Dependent variable	d_GDP real_ln	d_GDP real_ln	d_GDP real_ln
	D(MILSPEND_GDP_LINEAR(-1))	D(MILSPEND_GDP_LINEAR(-1))	D(MILSPEND_GDP_LINEAR(-1))
Coefficient	-12.24896731	-14.07681486	-36.6866**
Std. Error	15.61697987	13.25252149	7.644655856
t-Statistic	-0.784336498	-1.062198984	-4.798988655
Prob.	0.440516001	0.298717407	0.00007
	D(DEFLATOR_LN(-1))	D(DEFLATOR_LN(-1))	D(DEFLATOR_LN(-1))
Coefficient	-0.145882952	-0.219923993	-2.0809**
Std. Error	0.33806467	0.153670203	0.35857363
t-Statistic	-0.431523803	-1.431142726	-5.803516523
Prob.	0.669939242	0.165282848	0.00001
	D(FDI_USD_LN(-1))	D(FDI_USD_LN(-1))	D(FDI_USD_LN(-1))
Coefficient	0.185990209	0.194027588	0.14869**
Std. Error	0.135040824	0.124099786	0.034125879
t-Statistic	1.377288755	1.563480447	4.357148543
Prob.	0.181133551	0.131030844	0.00021
	REMITTANCES_LN	D(REMITTANCES_LN(-1))	D(REMITTANCES_LN(-1))
Coefficient	0.003357708	-0.036800059	-0.0870**
Std. Error	0.014030755	0.020751198	0.01576181
t-Statistic	0.239310544	-1.773394423	-5.523587228
Prob.	0.812896692	0.088855318	0.00001
			BATTLE_DEATH_LN(-1)
Coefficient			-0.0828**
Std. Error			0.007638895
t-Statistic			-10.85054538
Prob.			0.00000
	C	C	C
Coefficient	0.02767494	0.10137734	2.4449**
Std. Error	0.307500894	0.009243571	0.382731045
t-Statistic	0.089999544	10.96733552	6.388056272
Prob.	0.929034468	7.86E-11	0.00000
Akaike info criterion	-5.775435726	-5.830867596	-7.724208921
Schwarz criterion	-4.596732424	-4.699312427	-6.416424698
Hannan-Quinn criter.	-5.406280557	-5.476478634	-7.305837512
R-squared	0.989809147	0.98967029	0.998701993
Adjusted R-squared	0.928664028	0.942153624	0.981178902

Conclusion

Many studies approach dictatorships and civil conflicts through cross-country models which yield insights into common features of repressive states. But military rule takes many forms, and possible sequences of military regimes can be studied in Myanmar. In over 60 years, the country has experienced socialist one-party rule with a state-run economy, but also military juntas where the state

and the military were fused, and even attempts to liberalise society and the economy under the persisting predominance of the military. The permanent armed conflicts have served the military to justify its rule. From 2011 to 2021 many Western observers believed that the country was 'in transition' from dictatorship to democracy. This was a mistake. The military has always kept supreme power and control; only the articulations of power between the military authority and the government have changed in different regimes. However, by permitting elections which led to the landslide victories of Aung San Suu Kyi's National League for Democracy in 2015 and 2020, the model of submission to traditional hierarchy with the military on top was challenged by the democratic claim of people's sovereignty.

If civil war justified the Tatmadaw's rule, the military regime shifts reflected variations in the balance of power between the military and the Ethnic Armed Organisations. Ethnic resistance in Myanmar is motivated by poverty and discrimination. The ethnic groups have proposed a federalist constitution as an alternative to military rule, but this would destroy the Tatmadaw's supremacy. Yet, federalism is only option to eliminate the root cause of ethnic resistance by spreading economic growth and reduce regional inequality.

Regime change in Myanmar has often taken the form of palace coups where one group of generals eliminated another. Our empirical evidence shows that the probability of military coups is a function of previous coups although it is reduced by economic growth and the growing autonomy of government. The two variables for international integration, FDI and private remittances, point in opposite directions: FDI increases the likelihood of coups, but remittances lower it. The growing autonomy of the government also brings the likelihood of military coups down.

Economically, the means for armed conflicts depend on natural resource appropriations and broad economic growth. As natural resources are increasingly depleted, economic growth has become the central objective for all stakeholders in society. The focus on growth has favoured liberalisation strategies that gave more autonomy to the government relative to the military. With natural resources depleting, the future of Myanmar's development will increasingly depend on long run economic growth and macroeconomic stability. This will reduce conflicts and ultimately open the path towards a more stable and federal democracy which respects human rights. The military coup of 2021 went against the trends of history in Myanmar.

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