

# 21 The evolution of Japan–Myanmar relations since 1988

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## **Introduction**

Myanmar occupies a special place in Japan's relations with Asia owing to war-time legacies that have endowed ties with an enduring warmth and benevolence. This chapter interrogates this "special relationship" with Myanmar through three distinct approaches. First, through an historical overview of the relationship post-1988 and the removal of Myanmar's long-time strongman Ne Win. Second, through an examination of the Japan–Myanmar relationship that identifies the key political actors and institutions that underpin bilateral ties, in addition to evaluating the impact of economic (official development assistance, or ODA, and technical assistance/policy) links between the two countries. Finally, the chapter speculates on some key emerging trends in the Japan–Myanmar relationship and what they may portend. The chapter concludes that the Japan–Myanmar relationship is highly likely to become one of the most important emerging relationships in Southeast Asia. This is not only due to the case-level significance of Myanmar's current transformation, but also as the lens through which to gauge broader geo-political shifts. In particular this refers to the growing rivalries between Japan and China as they are expressed through interactions with Myanmar, in addition to the rivalry between differing visions represented by such superpowers as to what future trajectory Myanmar should ideally pursue.

## **The Japan–Myanmar relationship: an historical overview**

For the purpose of context, in Table 21.1 can be found a brief periodisation of Myanmar's post-World War II changes, side-by-side with Japan–Myanmar relations for roughly the same period. However, in this chapter our interest focuses more closely on the post-1988 period after the development of a groundswell of popular democratic protests in Myanmar known as the 8888 Uprising.

### *1988–1995: rocky relations*

Ne Win's erratic economic mismanagement meant the regime was unable to repay debts owed to Japan in 1987. The poor state of the economy was

Table 21.1 A periodisation of the post-World War II history of Myanmar, and Japan–Myanmar relations

<i>Myanmar's post-World War II historical periods</i>	<i>Japan–Myanmar post-World War II relations periods</i>
1945–1962: independence and transition period	(1) 1955–1968: war reparations
1962–1988: Ne Win, state socialism period	(2) 1968–1978: economic cooperation
1988–2003: military rule, open to foreign investment, in addition to democratic protest period	(3) 1978–1988: economic rescue/consolidation
2003 > to present: political reforms period, regionalisation, democratic transition	(4) 1988–1995: rocky relations
	(5) 1995–2003: caution and “wait and see”
	(6) 2003–2010: alignment with western political engagement
	(7) 2010 > to present: coming in from the cold

Source: author.<sup>1</sup>

one of many reasons democratic protests broke out—the 8888 Uprising—in August 1988. Ne Win’s Burma Socialist Programme Party was removed in a coup d’état by a military junta—the State Peace and Development Council (SLORC)—and human rights violations resulted as democracy protests were forcibly suppressed. Japan’s close ties with Ne Win and the post-World War II Burmese elites faced a watershed.<sup>2</sup> Until this point, the Japan–Myanmar (or rather the Japan–Ne Win) “special relationship” had been so strong that no matter what happened, Japan had remained committed to Myanmar despite various rounds of international criticism. However, in 1988–89 Japan’s relations with Myanmar faced new uncertainties as it navigated the uncharted waters of leadership transition, somewhat similar to subsequent events in Indonesia when another strongman, Suharto, was ousted after three decades in power (see Chapter 19 of this volume).

Japan’s ambassador in Yangon in the 1980s, Ōtaka Hiroshi, played a key role in September 1988 in the freezing of all Japanese ODA to Myanmar (the strongest diplomatic message possible for Japan to give) and recommending that all Japanese residents leave the capital. However, five months later, in February 1989, Japan performed a volte-face and resumed its ODA, resulting in Japan funding the renovation of Rangoon’s Mingaladon International Airport in 1989; an act that drew heavy criticism from the US and Aung San Suu Kyi, the long-term opposition leader. The policy reversal was likely due to machinations in Tokyo and lobbying by the *Nihon Biruma Kyokai* (Japan–Burma Association), resulting in Tokyo over-ruling Ōtaka and the local embassy (Seekins 1999). Donald Seekins explains this contradictory behaviour in terms of an inclination to *kokunaika* (domesticisation) whereby a small group of political and business elites in Japan are able to lock down or ‘capture’ international affairs for their own specific benefits (Seekins 1992). Japan’s Ministry of Foreign Affairs (MOFA) on the other hand regards itself as a middle way between Western judgementalism and Association of Southeast Asian Nations (ASEAN) inaction,

preferring a *shizuka na taiwa* (quiet dialogue) approach, i.e. it is better to remain engaged and work trustingly step-by-step to convince and coerce, rather than to condemn or sever relations (Takahashi 2001). One cost of this reticent approach was that the results of the historic 1990 elections won by Aung San Suu Kyi's National League for Democracy (NLD) were ignored. From 1990–95 Japan's quiet conversation approach was floundering, and drawing international criticism for coddling a repressive regime in order to maintain commercial benefits.

### **1995–2003: caution and “wait and see”**

Japan–Myanmar relations at the turn of the century can be characterised as cautious on Japan's part. Japan's *seikei bunri* logic (the separation of politics and economics) was not resulting in the sort of developments that Japan really wanted to see in Burma: economic reforms. ODA continued albeit at low levels, and without any “new” loans or private sector initiatives opportunities dried up. Japanese companies were wary of the following: (1) the SLORC's replacement of state socialism with state capitalism and not implementing free-market reforms; (2) a dual-currency system that provided in-built benefits to Burma's government actors and elites; (3) a still unstable political environment; and (4) a heavy involvement by China in multiple key economic sectors buttressed by strong political ties with the SLORC government.

There were some positive signs developing however. In 1997, the SLORC was abolished and replaced by the State Peace and Development Council (SPDC), in which the military remained dominant. In June 2000 all of Myanmar's closed universities were re-opened, and from 2001 some political prisoners were released. In November 2001 a Yangon Workshop on Japan–Myanmar Cooperation for Structural Adjustment of the Myanmar Economy was convened, a tentative first step from Japan towards larger ventures. In 2002, restrictions on Aung San Suu Kyi's movements were lifted, and Japan's Foreign Minister Kawaguchi Yoriko became the first incumbent Japanese foreign minister and the first G8 foreign minister to visit Myanmar since the SLORC coup d'état in 1988. All of which came to naught, when an attack on Aung San Suu Kyi in 2003 (the Black Friday Incident) and re-detention—the third time since her release in 1995—sparked US sanctions with the passage of the Burmese Freedom and Democracy Act. Japan was now in a very difficult position, as *myanmā masatsu* (Myanmar friction, referring to friction caused by Myanmar on Japan's international relations in general, but specifically meaning Japan–US relations) reached a breaking point.

### **2003–2010: Japan hedges between the West and ASEAN**

The US Burmese Freedom and Democracy Act of 2003 effectively imposed an embargo on Burma, forcing Japan–Myanmar relations to transition into phase six (2003–13) of the table above. This involved a complicated strategy of embracing Western sanctions at the global level combined with ASEAN-engagement-oriented regional integration initiatives. ODA was *ostensibly* stopped and relations

became strained, although low-level aid such as technical assistance and training never really ended (Tanaka 2012). Japan moved away from its middle path and towards an alignment with the West's approach to Myanmar. This shift was reinforced by Japan's new 2003 ODA charter embracing human rights and democracy, an admission that Japan's 1992 "Fundamental Principles of ODA" were repeatedly being violated. This reform was driven in no small part by developments in Myanmar, a fact highlighted by Aung San Suu Kyi herself in a plea to Prime Minister Hashimoto in 1996 to implement bilateral ODA in accordance with those principles.

Around 2004 a change of tack is discernible in Japan's relations with Myanmar. Rather than continuing with its middle-way approach that was resulting in broken promises from the SPDC regime that left Japan open to international criticism, Japan shifted to an approach that Lindsay Black terms "bridge-building" or the *kakehashi* approach (Black 2013). This involved coaxing Myanmar into participating in a variety of regional and sub-regional initiatives and mechanisms in the hope that this would help promote deeper (and pro-Japan) transitions as it had in Vietnam, Cambodia, and Laos. Prominent among these were organisations focused on managing Mekong River issues and ASEAN integration.

Between September 2007 with the Saffron Revolution (aka the "March of the Monks") and November 2010 with the first general election, Myanmar once again entered one of its cyclical tumultuous periods, testing Japan's *kakehashi* tactics. A list of pressures mounted that achieved this. Prominent international attention to the democracy movement's plight in Myanmar, the beating and arrest of monks, the regime's fumbling response to Cyclone Nargis in 2008 while focusing on a referendum to approve the military's 2008 constitution, and holding elections discredited by the NLD's boycott, put a spotlight on Japan's minimalist and muted responses that prioritised maintaining its relationship with the regime rather than promoting reforms (Black 2013).

### *2010 to present: coming in from the cold*

Following Burma's 2010 elections that saw military generals exchanging their uniforms for business suits, multiple liberalising steps came in quick succession that did expand Burma's democratic political space. This enabled Japan to extend the ODA carrot again at various points during the 2010–15 period. In September 2011 Japan pledged 800 million yen (\$10 million) in grant aid; in March 2012 Tokyo pledged another 1.6 billion yen (\$20 million) followed a few weeks later by an additional 1.65 billion yen (\$20.1 million) in grant aid. This is not to mention the multilateral ODA funding arriving through Japan–Mekong cooperation channels.

However, 2013 must be regarded as the key re-start date in Japan's contemporary relations with Myanmar. Myanmar had one large economic fundamental that needed resolving: non-repaid debt. Around \$15 billion of debt had not been repaid, meaning no new lines of credit, either bilateral or multilateral, could be opened. Japan took the lead, and in March 2011 convened major donors to address the issue. Japan generously agreed to (1) forgo its own owed amounts in

a huge debt relief program (see below); and (2) provide additional lending—the first in 25 years—so that Myanmar could deal with its other debt obligations. This unusually assertive step by Japan effectively unlocked the international community’s finances to Myanmar. It also worked as a very large stick, since disbursement was contingent on a large package of domestic policy reforms.

These direct and structural economic interactions with Myanmar by Japan were also being matched by very strong political re-engagement. In February 2013, Prime Minister Abe appointed Nippon Foundation Chairman Sasakawa Yōhei as Special Envoy to Myanmar for ethnic reconciliation. Sasakawa has close contacts at the highest levels in Myanmar and direct access to PM Abe. In addition, old Myanmar hand Izumi Hiroto was appointed Special Adviser to Abe. In May 2013, Abe visited Myanmar (the first visit by a sitting prime minister in 36 years), accompanied by 40 business leaders. Subsequently, in August 2013, Japan International Cooperation Agency (JICA) president Tanaka Akihiko’s Yangon Speech signalled Japan’s re-prioritisation of Southeast Asia and especially Myanmar. Akihiko stated Japan’s three policy priorities for Myanmar: (1) improvement of people’s livelihoods, including assistance for ethnic minorities and people living under the poverty line; (2) capacity building and institutional development; and (3) development of infrastructure and related systems necessary for sustainable economic development. In the speech, Tanaka interestingly cited Thailand eight times (and no other Southeast Asian countries), thereby hinting at the promise of what Japan can do to help Burma—if allowed (JICA 2013). All of this was a political precursor to the economic big prize. In December 2013, the Japan–Myanmar Investment Agreement was signed, paving the way in May 2014 for the signing of a memorandum of understanding for Thilawa Special Economic Zone (SEZ) (see below), Myanmar’s first and currently only operational SEZ. Burma’s regional and global politico-economic integration had begun.

## **The ties that bind: politico-economic connectivity between Japan and Myanmar**

### ***Political relations 1: inter-elite connectivity***

A so-called *biru kichi* (*biruma kichigai*, i.e. “crazy about Burma”) phenomenon developed in the post-World War II period with the All Japan–Burma Veterans Association (Seekins 2000). These former Burma-based veterans made frequent trips to the country, searching for the remains of their fallen comrades. This has blossomed into a conservative “Burma Lobby” in Japan—a collective of representatives of Japan’s conservative elites—that has maintained a strong interest in Burma over the 20th century, and arguably enabled Ne Win to remain in power, facilitating the entry of Japanese companies into the “closed” country (Drifte 1996). Many of Ne Win’s surrounding officials had been trained by Japanese military and civilian officials and could speak Japanese, and during Ne Win’s reign of 1962–88 only the Japanese Ambassador had continual access to Ne Win among Burma’s diplomatic community (Kudo 2010).

This Burma Lobby includes:

- a the All Japan–Burma Veterans Association;
- b the Japan–Burma Association (*nihon biruma kyokai*, now *nihon-myanmar kyokai*);<sup>3</sup>
- c the Japan–Myanmar Parliamentarian Friendship League;<sup>4</sup>
- d the Japan–Myanmar Chamber of Commerce and Industry Business Cooperation Committee (*nihon shōkō kaigaisho no nihon-myanmar kyōryoku inkai*);
- e Sasakawa Foundation chairman Sasakawa Yōhei (Special Envoy of the Government of Japan for National Reconciliation in Myanmar).

However, after Ne Win's stepping down—albeit not perhaps complete withdrawal—from national politics after 1988, a new generation of Tatmadaw military officers began emerging that did not have the same close historical and emotional attachments with Japan. Their crackdown on the pro-democracy movement, coupled with increasing international condemnation, threatened Japan's relations with the country, as Japan would once more be obligated to fall in-line with Western sensibilities.

### *Political relations 2: inter-state institutional connectivity*

Prior to 2010, Japan's standard panoply of politico-economic institutions were operating either within Burma or in Japan and influencing bilateral relations. JICA in addition to the Japan External Trade Organization (JETRO)—the former dealing with ODA and the latter dealing more with business-related issues (but in reality working in close consort and supported by the state of Japan)—both entered Burma in 1996. JICA's predecessors before amalgamation—the Overseas Technical Cooperation Agency and the Overseas Economic Cooperation Fund—had entered much earlier. Within Japan these institutions are networked through the long-established All Japan–Burma Veterans Association (for maintaining the historical memory), the Japan–Burma (Myanmar) Parliamentarians' Friendship League (for maintaining political ties), and for business/economic connectivity, the Japan–Burma Association (JBA) (established in 1935, now the Japan–Myanmar Association).<sup>5</sup>

After 2010, however, institutional connectivity expanded greatly. On political institutional connectivity, a Japan Desk comprised of the JICA and JETRO was created in 2014 within the body currently responsible for granting permits and re-writing Burma's investment regulations: the Directorate of Investment and Company Administration (DICA). This is significant because DICA is a subdivision of the Myanmar Investment Commission, and both are based in Yangon, the only site in the world where the JICA and JETRO are located within the same office and within the same institution. Furthermore, on the Japan side, it is highly significant that the Tokyo-based *Keidaiuren*—Japan's powerful business federation—established the Japan–Myanmar Economic Committee in 2013, giving Burma elite corporate connectivity in Japan; a strange fact considering

that Mekong neighbours and equivalent economic development status countries Cambodia and Laos do not have such direct Tokyo based business connectivity. For a complete mapping of these linkages, please refer to Appendix A.

### *Economic relations 1: ODA*

If ODA is the lens through which we examine Japan's foreign relations with other countries—and it often is—then as noted above, 2013 marked a special year for Japan–Myanmar ties. Cumulatively for the period 1995–2014, Myanmar was the fifth-largest recipient of Japanese ODA in Southeast Asia. Total Japanese ODA to Myanmar jumped from \$93 million in 2012 to \$5.3 billion in 2013 (see Figure 21.1, and Appendix B for a sectorial breakdown). To put that in context, that single year's ODA commitment is just a little under the \$5.7 billion of combined ODA provided to *all* of Myanmar's neighbours—Thailand, Cambodia, and Laos—for the *entire* period of 1995–2014.

Once Burma's debts were cleared in 2013, Japan was then free to boost ODA provision significantly, which it did on November 2, 2016, by offering an enormous \$8 billion public–private ODA/investment package to be spread over five years until 2021. This is all being done within a clear politico-economic framework, characterised by Japan's standard *sanmi ittai* (three in one) approach

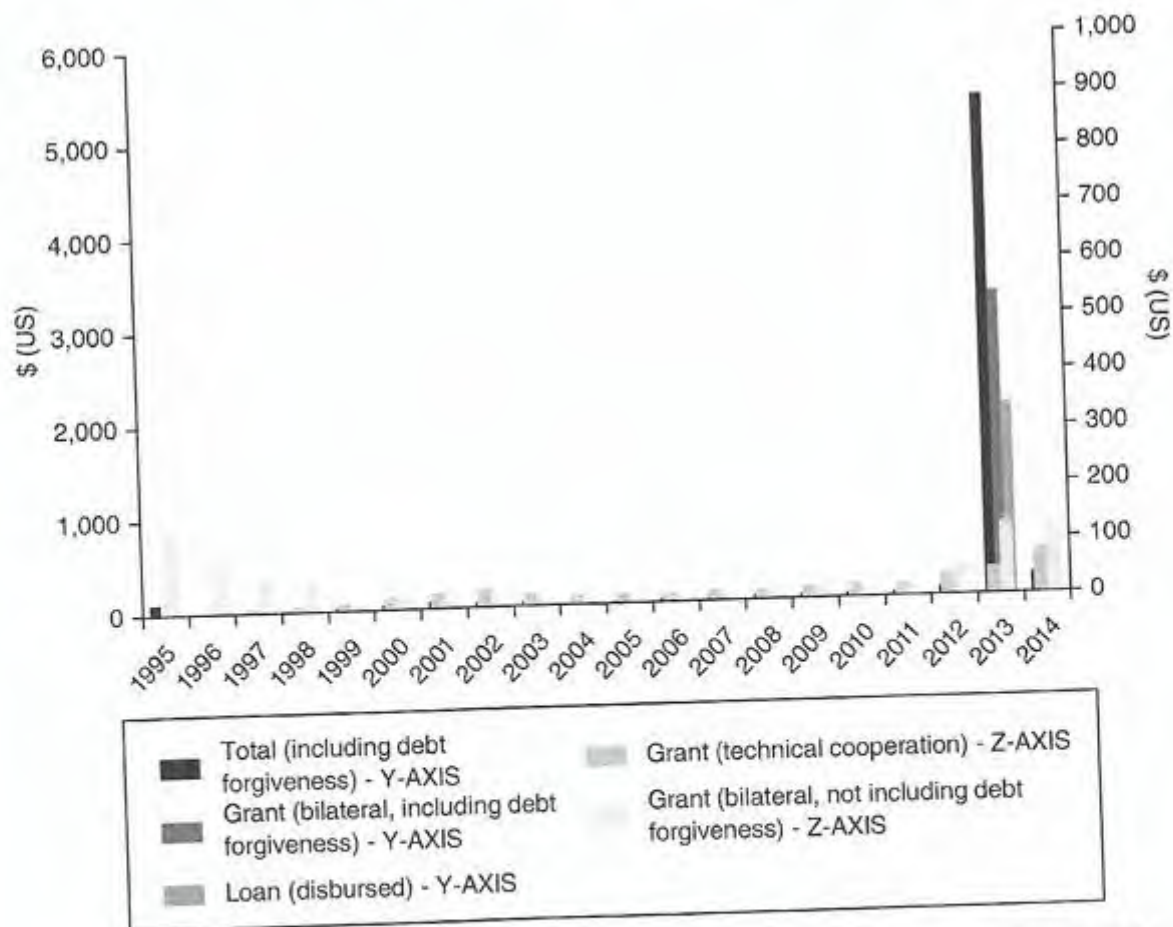


Figure 21.1 Japan's total and sub-sectorial ODA provision to Myanmar, 1995–2014. Data source: MOFA White Paper on Development Cooperation/Japan's ODA White Paper (various).

to economic development: ODA—the Japan–Myanmar Joint Initiative (2013); foreign direct investment (FDI)—the Japan–Myanmar Bilateral Investment Treaty; and trade—ASEAN–Japan Comprehensive Economic Cooperation.

However, this leadership role taken by Japan in relation to Myanmar's debts should not be seen in Japan–Myanmar terms only. The clearing of these debts also justifies for the international community, and especially multilateral lending bodies such as the World Bank, their ability to re-engage with Myanmar. Thus, and this is often overlooked by US-centric analysts, Japan can also be regarded as supportive of a perhaps fading liberal order by supporting Myanmar's integration into current post-Cold War regional and global liberal frameworks. Indeed, this fact is understood by China very well. China's recent efforts at multi-lateralising its ODA/investment efforts through the creation of a parallel and alternate multi-lateral institutional framework represented by the Asian Infrastructure Investment Bank (AIIB)—replicating the Japan/US-headed Asian Development Bank (ADB)—have been met with a mixed but sceptical reaction by global actors; with Japan and the US not joining but Myanmar along with many others choosing to. It is not enough anymore for China/Japan rivalries in Myanmar to be bilateral only; they must now also operate along multiple bilateral and multilateral dimensions simultaneously.

### *Economic relations 2: technical assistance and reforms*

Japan has provided training to elite bureaucrats in Myanmar's Ministry of National Planning and Economic Development (MNPED). The idea is to help them enact suitable policies (for Japan), and thus since 2000 there has been a sustained commitment to MNPED capacity building. This training emphasises policies that dovetail with Japanese economic development goals for Myanmar (see Appendix C for a summation of Japan's reform ideas for Burma).

The second step is the improvement of the business environment. Japan has worked together with the ADB to effect micro-level legal changes in Myanmar. The 1988 Myanmar Investment Law was revised in 2016 to allow many liberalising reforms. In addition, the Myanmar SEZ Law, 2014 (No. 1/2014) was created, which establishes the legal framework for SEZs. Japan's long-time partnerships with key members of the ruling junta also facilitated the creation of Thilawa, an SEZ favoured by early-entry Japanese firms (see Appendix D for an overview of the complex public–private partnership arrangement of Thilawa SEZ).

The training program and improvement of the business operating environment are crucial towards making progress on the third step: Myanmar's industrialisation (METI 2015; DICA 2016).

## **Emerging political trends in the Japan–Myanmar relationship**

### *Myanmar's national reconciliation agenda*

Having finally taken power following elections in November 2015, the over-riding objective of Aung San Suu Kyi's NLD government is national



reconciliation, something much needed in a nation that has endured numerous ethnic conflicts and insurgencies since World War II. This political agenda may make sense in many ways, but is likely to delay the types of economic policy reforms that Japanese elites and planners seek. It is the brief of Japan's Special Envoy Sasakawa Yōhei, to lobby for these interests, but Syu Kyu's national reconciliation agenda will likely trump Japan's intentions. This may in part be because the meaning of "national reconciliation" is vague and can mean various things to various actors. Some of these are:

1 *Security: the ending of civil wars.*

The Karen insurgency against the central government is the longest civil war in Asia. It is easier to locate the states in Myanmar that do not feature some form of insurgency. Conflicts in Kachin State (neighbouring China), Kayah State (neighbouring Thailand), Kayin State (neighbouring Thailand), Rakhine State (neighbouring Bangladesh), and Shan State (neighbouring China and Laos) make Myanmar's periphery areas extremely hazardous no-go areas.

2 *Politics: the integration of all of Myanmar's many ethnic groups (135+) into the Myanmar state.*

Resulting from the recognition that there is a majoritarian problem in Myanmar, whereby the ethnic Bamar majority tend to maintain a strong grip on power, there is an institutional goal favoured by Aung San Suu Kyi's new NLD government to transition towards a de-centred, ethnic, federal state rather than the current unitary state favoured by the military.

3 *Economics: the sharing of all citizens in the economic benefits resulting from increased economic growth and globalisation.*

Understanding that Myanmar's vast and untapped natural resources (hydropower, gems, timber, gas, oil, and more) have been an attraction for many outside interests for many decades, the new democratic regime desires to shift away from the military's rent-seeking inclinations towards a re-distribution of benefits for the populace at large.

For Japan–Myanmar relations the tension between the national reconciliation agenda and Japan's preferred emphasis on economic development and global integration will present various challenges. It also means that, due to Myanmar's de facto diarchal system whereby the military and democratic party both have authority and their own agendas, it is going to be a challenge for Japan (and indeed any foreign actor) to navigate within a game with two sets of rules and two sets of players.

### *Regionalism and sub-regionalism: ASEAN and the GMS*

Myanmar has slowed the pace of ASEAN integration. Although ASEAN's inability to influence Myanmar highlights the downside of the "ASEAN Way" of non-intervention, the military regime's democratisation since 2008 has led to a thawing in its external relations. Gone are the days of Myanmar being

ASEAN's bad wort. Visits by US President Barack Obama (the first serving US president to do so) in 2012 and 2014 were indicative of the early steps of Myanmar's return to the comity of nations.

Japan has been supporting "growth zones" across Southeast Asia, and uses them to support ASEAN integration more broadly. For Myanmar the relevant growth zone is the Greater Mekong Sub-region (GMS). Launched by ADB official Noritada Morita in 1984, the GMS has nurtured physical connectivity through infrastructure projects and the creation of SEZs integrated into sub-national mini growth triangles (the Cambodia–Laos–Vietnam Development Triangle Area) and sub-regional production chains (Thailand-Plus-One) and wider regional ASEAN market integration. Within this multi-dimensional politico-economic framework, Japan's clear priorities are East–West and Southern Corridor connectivity rather than North–South connectivity because North–South connectivity is to the benefit of China. These economic corridors have been in existence for decades, but now with Burma's domestic political changes coupled with a heightened rivalry with China for influence over Myanmar's future, the GMS/Mekong economic corridors are drawing more attention than ever and driving a great deal of Japan's efforts.

### *Japan–China rivalries*

The US sanctions against Myanmar are not wholly agreed with—both in principle and their efficacy—by scholars, people in Myanmar, and even US officials in Yangon.<sup>6</sup> US sanctions created a void of influence that China filled. China did (and does) this through a keen interest in investment, infrastructure, mining and gas projects, and cross-border consumer product trade, less so with an interest in democracy or human rights. As demonstrated by cumulative FDI since 1988 in Figure 21.2, this has left China to be, and by a wide margin, the largest investor in Burma. This strong presence became embodied by China's development of Myanmar's huge hydropower potential in the form of the Myitsone Dam; a project that was 'paused' by Suu Kyi in 2011 due to large-scale local resistance. However, in 2015 the Kyaukphyu pipelines were inaugurated that facilitate the transport of oil and gas from Myanmar's energy-rich deep-water seas directly into China, bypassing the Straits of Malacca that have perpetually represented a potential chokehold on East Asia's energy imports from the Middle East and Africa. Given that the two nations share a long border, there are considerable sources of tension, notably cross-border support for ethnic insurgencies from China in addition to arms and drug trafficking.

The next question thus becomes, how does Japan fit into this relationship? This can be conceptualised along three levels of analysis: inter-state, global/regional, and sub-national.

First, given that bilaterally and geographically China can meet Myanmar's various development needs on good terms and dominates the economy in many respects, Japan fears losing influence in a nation it once thought was

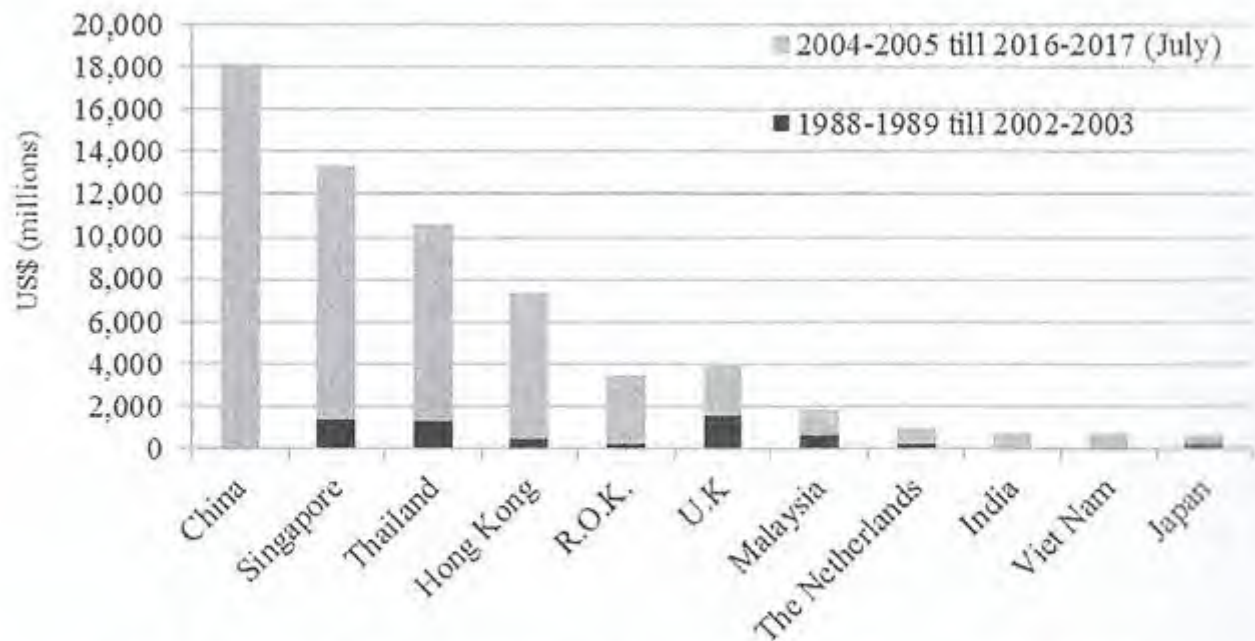


Figure 21.2 Total FDI into Burma, 1988–2017 (two periods: 1988–2002 and 2004–2016).

Data source: DICA.

safely in its orbit. Thus, the Sino-Japanese rivalry in the region is intensifying in Myanmar as Japan tries to regain lost ground and lost time due to the US sanctions (Lam 2016). Tokyo's main advantage in this regard is a reputation for reliability, in addition to local resentment against China's domineering ways and local anxieties that Myanmar is overly dependent on China. Relatedly, Japan's economic activities are often different in nature to China's. Japan's tend to be structural, long-term, and with a clear framework in mind; whereas China's are perceived as short-term, of inferior quality, and exploitative. Myanmar, as the object of rivalry, is trying to make the most of the situation, especially in terms of large-scale infrastructure projects such as SEZs, resulting in China gaining one (Kyaukphyu), Japan gaining another (Thilawa), and Japan's major involvement in a second one, Dawei.

Second, the China–Japan rivalry as manifest in Myanmar has a global/regional differentiation too. Japan represents the liberal world order into which Myanmar is transitioning and against which China is often regarded as a counterweight. Tokyo's attempts to multi-lateralise and regionalise Myanmar's relations—through a combination of support for ASEAN integration, plus leadership in 2013 in efforts to forgive Myanmar's debt and as such facilitate the return of multilateral lenders and propagate the ADB's Mekong-oriented programs—stands in contrast to perceptions, rightly or wrongly, that China seeks to exert bilateral control over a weaker neighbour. The distinction thus represented here is a rivalry not only between two actors but also between the differing global/regional visions that Japan and China represent: multilateral (Japan and ASEAN-oriented) or bilateral (China and China-oriented). As noted above, China's ambitions through the creation of the AIIB clearly demonstrate

a desire to begin matching Japan's dual bilateral-plus-multilateral power-projection ability, and thereby assuage worries regarding China's bilateral-only ambitions.

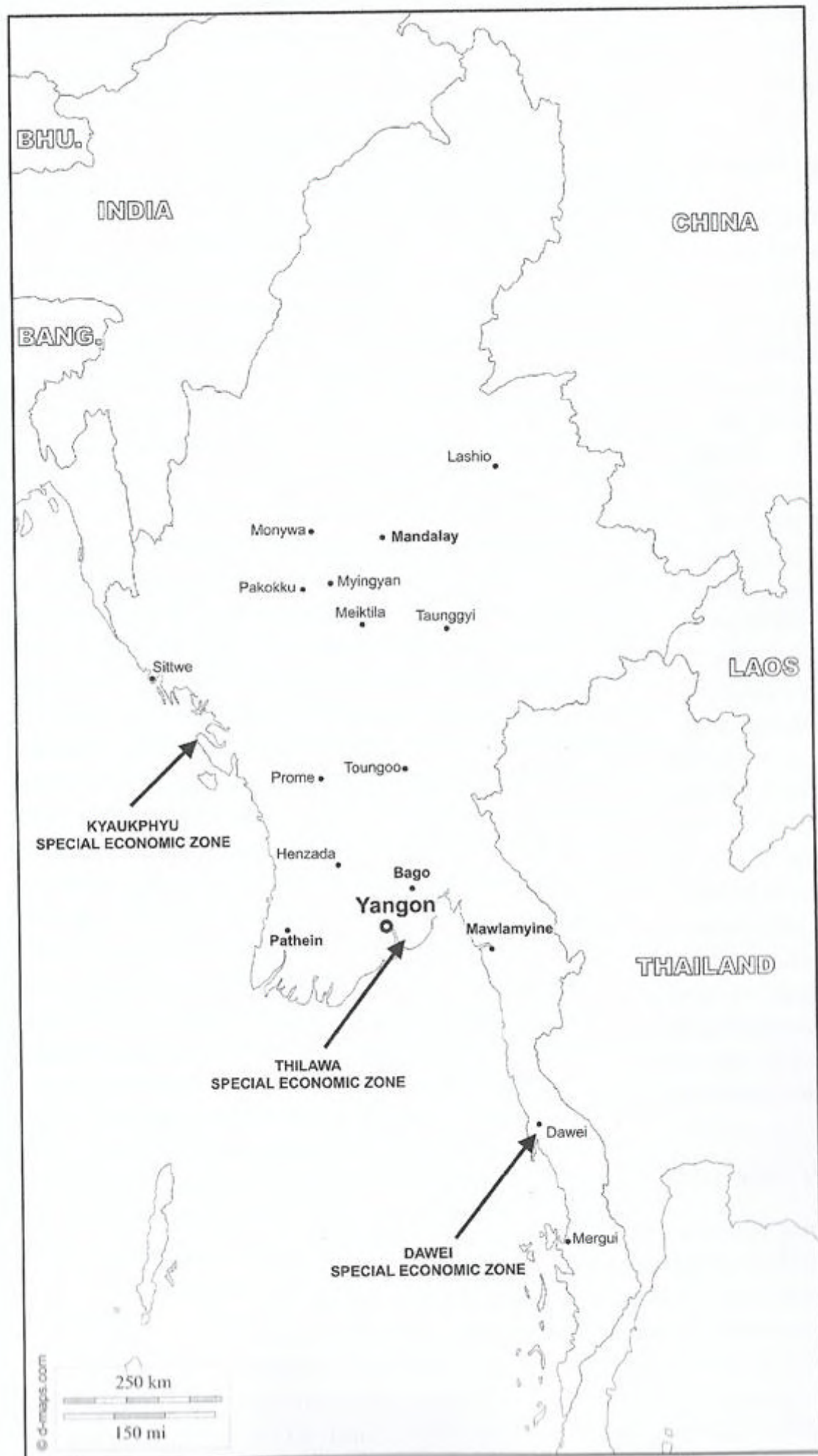
Third, there is also a sub-national-level rivalry that interacts with transnational trends across the Mekong sub-region. This refers to a division of spheres of influence whereby China maintains interests in the north of Myanmar and Japan maintains them in the south. This is a phenomenon that is emerging in the other Mekong countries also, however in the case of Myanmar Japan has a slight problem. Whereas in Laos it is easier for Japan's economic interests to concentrate in Laos's flat and luscious southern regions rather than its mountainous northern terrains, in Myanmar this is not possible due to the majority of Myanmar's population (and therefore future-demand-creating customers) living in regions north of centrally located Yangon. This means that in Myanmar there exists the potential, based on this demographic structural imperative, for Japan/China interests to come into much closer contact.

### **Emerging economic trends in the Japan–Myanmar relationship**

#### *Myanmar and global production: SEZs (Thilawa, Dawei, and Kyaukphyu)*

One of Japan's top priorities in its development-oriented relations is the creation of an "industrial base". This refers to a number of things, top of which is productive capacity. Bringing Myanmar into regional production chains and global trading systems means the creation of key geographic production bases through the connection of infrastructure and energy, and the building of deep-water ports, all of which are centred on an SEZ. Burma has three planned SEZs—Thilawa SEZ, Kyaukphyu SEZ, and Dawei SEZ (see Figure 21.3)—but only the smallest of the three, Thilawa, is developed and currently taking clients (Thilawa occupies 25 square kilometres, Kyaukphyu 75, and Dawei 196). Japan signed an agreement to develop Thilawa SEZ just south of Yangon with President Thein Sein in 2012 on his visit to Tokyo for a Mekong Summit, simultaneous to forgiving Burma's debt to Japan. The site became operational in September 2015.

Developing an SEZ such as Thilawa is an important step in the enhancement of a country's economic potential. It is a site from which investment in production and thereby the beginning of trade relations can occur. It is also a site that offers streamlined administrative advantages that allow for the greater leveraging of future investment thanks to the One Stop Service Centre located on-site. It is a major nexus between public- and private-sector actors and offers the immense advantage of top-level political access. Furthermore, it is a site that, through the complex nature of these public-private partnerships, allows for multiple externalities to develop, e.g. differing company forms and legal requirements that sow the seedlings of a developing awareness of



Map 21.1 Burma's three SEZs.

Source: [http://d-maps.com/carte.php?num\\_car=15247&lang=en](http://d-maps.com/carte.php?num_car=15247&lang=en).

business procedures. Establishing such arrangements requires a great deal of government-to-government negotiation, an ability to “suggest” legal reforms, and a deep set of ready and willing corporate investors.

### *Finance in Myanmar*

Myanmar currently has some major financial issues to deal with, both legacy and potential in nature, and Japan is playing a large role in helping address them. As noted above, in March 2011 Japan took the lead in dealing with a major legacy issue of the military junta, their unpaid debts, thus opening the spigots of fresh lending from multilateral and bilateral bodies.

In addition to unpaid debts, Burma’s antiquated banking institutions are an impediment to growth. Japan is stepping in to help with modernisation, and in 2012 Japan’s Daiwa Institute of Research, Fujitsu, and KDDI won a contract for the computerisation of the Myanmar central bank (seven months after a JICA-funded project with the same companies), meaning that the Bank of Japan has in part become the model for the new Central Bank of Myanmar, in addition to creating the side benefit of fostering a more easily understood environment for private Japanese banks.

Further to central bank reforms, Japan is playing a major role in the creation of Myanmar’s stock market. A key element of the externalities created as a result of mega projects like Thilawa, aside from the adaptation of laws and the creation of new economic entities, is the development of new financing mechanisms in Myanmar. On March 25, 2016, the Japan-funded and constructed Yangon Stock Exchange took its first public listings. Japan became both funder of the construction of Thilawa and creator of the local finance mechanisms that will utilise the free-market capital to fund it. This is the multiplier effect of Japan’s ODA in action, a multiplier effect that affords first-mover advantages. ODA funds projects such as Thilawa SEZ, that helps to satisfy the needs of Japan’s major trading companies (*sōgō shōsha*) or other large corporations, also insulating them from some of the challenges of remaining in Burma. Unsurprisingly, the first stocks being traded were those of Myanmar’s largest, Japan-funded, infrastructure project.

### *Myanmar’s connectivity*

Finally, along with production and finance, another key emerging trend as part of Japan’s industrialisation of Myanmar is the creation of connectivity so as to generate both intra- and inter-national trade. ODA loan data suggests that the priority is currently Yangon connectivity with Thilawa, but medium to long term there is an expectation that the focus will shift to north-south connectivity and the rejuvenation of Yangon-Mandalay infrastructure. Japan’s ODA is a demand driver, meaning that it deploys public funds to minimise the risks for Japan’s private actors to develop new markets in what they deem to be the best possible long-term demand areas. In the case of Myanmar, this means expanding away from Japan’s up-until-now comfort zones in Myanmar’s central and

southern regions, and moving into Myanmar's vast northern territories, i.e. where the greater population and therefore customers are. However, similar north–south endeavours in Thailand to connect Bangkok with Chiang Mai have met with constant political difficulties (due to the displacement of people), in addition to competition from, and proximity to, China.

## Conclusion

This chapter has detailed Japan's post-1988 relationship with Myanmar by surveying the historical, political, and economic ties between the two countries, in addition to examining some of the emerging political and economic trends in the bilateral relationship. Over the years, Japan has demonstrated multiple times how committed it is to Myanmar, a commitment that is now paying off. However, an intensification of rivalries with China raises doubts about future developments. While sanctions held Japan back, China faced no constraints and made the most of the opportunity to advance its commercial interests. There are signs in Myanmar that China is being regarded with a sceptical but pragmatic view, although it is not clear that this concomitantly means that Japan can regain lost ground and influence. China's launch of the AIIB is a sign of the times, in some ways copying the Japanese development playbook as manifested in the ADB. However, this seeming replication reveals and indeed emphasises a significant advantage that Japan has in Myanmar that China, at least in part, lacks: credibility. While the new democratic regime in Myanmar may have concerns about Japan's past engagements with military regimes, this prolonged engagement has developed crucial political networks, a track record of highly regarded projects, and a reputation for reliability. Moreover, Japan represents a liberal world order that is more appealing than China's authoritarian model; bequeathing soft power that gives it a key advantage over China. Thus, any rivalry developing between the great powers in relation to Myanmar must be understood in terms of Myanmar's world order joining aspirations, and not only narrowly bilateral national interests. Beijing is eager to tap the natural resources of Myanmar and its Indian Ocean access, while for Japan the stakes in Myanmar are equally high in terms of its longstanding aim to promote Southeast Asian integration and inter-regional South-Southeast Asian connectivity. The outcome of this rivalry remains uncertain, but clearly Myanmar can reap the benefits of this competition.

## Notes

- 1 These periodisations and characterisations have been confirmed as accurate with Japanese professionals who have long-term experience in Burma and are currently active there.
- 2 Ne Win was one of the original 30 comrades who were trained by the Japanese to help lead their invasion and occupation of Burma (1942–45).
- 3 A business group whose members were Japan's top trading, construction, and manufacturing firms. Interestingly, its chairwoman was Ambassador Ōtaka's wife, Yoshiko Ōtaka, who was also a close friend of Ne Win.

- 4 There is also another parliamentary group: the Japan–Myanmar Parliamentary Group Supporting Democratisation in Myanmar (*myanmā no minshuka oshien suru giin renmei*). However, this appears to have a different purpose.
- 5 The JBA is a particularly interesting body as its directors list is a who's who of Japan's political and corporate elite, including Nakasone Yasuhiro (former right-wing privatising prime minister), Asō Tarō (the comic-book-loving politician who has held almost every office of state and is currently Deputy Prime Minister in addition to Minister of Finance), and members that include virtually every one of Japan's largest trading companies and national corporations.
- 6 Based on author's interviews in Burma.

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Appendix A Japan–Myanmar institutional ties

	Myanmar-based	Japan-based
Political	<ul style="list-style-type: none"> <li>* JICA (1996)<sup>1</sup></li> <li>* JETRO (1996)</li> <li>* Japan Desk within DICA (2014, formerly in Naypyidaw but moved to Yangon in July 2014)</li> <li>* Japan Finance Corporation (2015—just starting) collaboration with Myanma Economic Bank (MEB)</li> <li>* Business towers (e.g. Sakura Tower, Yangon, 1999)</li> <li>* Myanmar–Japan CCI Business Cooperation Committee (2003)</li> <li>* SEZ development and one-stop service centres (2013)</li> <li>* Japanese Chamber of Commerce and Industry, Yangon</li> <li>* Myanmar–Japan Joint Initiative (2016)</li> <li>* Alumni networks: Myanmar Association of Japan Alumni; JICA Alumni Association of Myanmar (2001)</li> </ul>	<ul style="list-style-type: none"> <li>* Japan–Burma (Myanmar) Parliamentarians’ Friendship League</li> <li>* Chairman of Sasakawa Foundation Sasakawa Yōhei (Special Envoy of the Government of Japan for National Reconciliation in Myanmar) (2013)</li> <li>* Japan–Burma Association (est. 1935) &gt; later the Japan–Myanmar Association</li> <li>* ASEAN–Japan Centre (1981)</li> <li>* <i>Keidainri</i>’s Japan–Myanmar Economic Committee (2013)</li> <li>* Japan–Myanmar CCI Business Cooperation Committee</li> </ul>
Business	<ul style="list-style-type: none"> <li>* Japan International Cooperation Center</li> <li>* Myanmar–Japan Socio–Economic Development Association (2012)</li> <li>* Myanmar–Japan Center for Human Resources Development (2013)</li> </ul>	<ul style="list-style-type: none"> <li>* Not applicable</li> </ul>
Intellectual/scholarly/training	<ul style="list-style-type: none"> <li>* Japan–Myanmar Association for Culture and Economic Exchange (2012)</li> <li>* Yangon Japanese Association</li> </ul>	<ul style="list-style-type: none"> <li>* Japan–Myanmar Friendship Association (1997, formerly the 1970–created Japan–Burma/Myanmar Cultural Association: the Japanese Imperial Army’s veterans’ association and Japan’s second-oldest institutional relationship)</li> <li>* All Japan–Burma Veterans Association</li> </ul>
Socio-cultural		

*Appendix B* Japan's loan aid to Myanmar, by sector and sub-sector (1970–2015, yen, millions)

<i>Sector</i>	<i>Total</i>	<i>Sub-sector</i>	<i>Total</i>
Social services	222,564	Other services	198,881
		Water supply, sewerage, and sanitation	23,683
Commodity loans	140,610	Commodity loans	140,610
Mining and manufacturing	132,304	Manufacturing	96,164
		Mining	36,140
Transportation	92,030	Railways	41,714
		Airports	27,670
		Ports	14,750
		Roads	4,613
		Marine transportation	3,283
		Electric power and gas	87,356
Others	42,033	Transmission lines and distribution systems	35,653
		Other electric power and gas	14,052
		Others	25,033
		Urban/rural community infrastructure	17,000
Irrigation and flood control	26,870	Irrigation and flood control	26,870
Agriculture, forestry, and fisheries	17,250	Agriculture	17,250
Telecommunications	16,120	Telecommunications	16,120

Data source: JICA loan database.

*Appendix C* Japan's politico-economic policy efforts in Myanmar

<i>Stage</i>	<i>Objective</i>	<i>Organic intellectuals/ Japan actor</i>	<i>Policy changes/ Recommendations</i>	<i>Key host country institutions</i>
(1) Politico-economic transition	Overall orientation change	Odaka Konosuke (1999–2002)/JICA/JICA-RI <sup>2</sup>	<ul style="list-style-type: none"> <li>* Myanmar–Japan Cooperation Programme for Structural Adjustment of the Myanmar Economy (2000–2003)</li> <li>* Challenges and Realization of Myanmar Economy (2008–2010)<sup>3</sup></li> <li>* The Program for Economic Development (2012);<sup>4</sup> later finalised as the Program for Economic Development in Myanmar (2015)</li> <li>* Myanmar–Japan Policy Support Project (2015)</li> </ul>	<ul style="list-style-type: none"> <li>* Ministry of National Planning and Economic Development (MNPED)</li> </ul>
(2) Develop an internationally oriented economic base	Become foreigner-friendly Gain status and benefits Install production capacity	JICA	<ul style="list-style-type: none"> <li>* Myanmar Investment Law (1988) &gt; revised 2016</li> <li>* Myanmar Companies Act (1914) and The Special Companies Act (1950) &gt; revised 2016</li> <li>* Myanmar Special Economic Zone Law, 2014 (No. 1/2014)</li> </ul>	<ul style="list-style-type: none"> <li>* Myanmar Investment Commission and DICA</li> </ul>
(3) Industrialise the economy (multi-phase)	Industrialisation: upgrade from lower to middle income	Kudo Toshihiro (the “Ishikawa of Myanmar”)	<ul style="list-style-type: none"> <li>* Myanmar Industrial Development Plan (2015–2020)</li> <li>* Myanmar–Japan Joint Initiative (2016)</li> </ul>	<ul style="list-style-type: none"> <li>* MNPED</li> <li>* DICA</li> </ul>

Source: author.



## Appendix Notes

- 1 JICA entered Myanmar in 1996. However, JICA's predecessors before amalgamation entered the country much earlier. The Overseas Economic Cooperation Fund provided a loan for a mining project as part of the Four Industrial Projects plan in May 1970. The Overseas Technical Cooperation Agency began technical cooperation in 1963.
- 2 A summary of these roadmap suggestions can be found at: JICA, "Seeing the 'New Light' of Day at Long Last: Economic Reform Policy Proposal Submitted to the Myanmar Government over a Decade after its Compilation", August 27, 2015. <http://tinyurl.com/ha7r2lj>.
- 3 This was then published in English as: Odaka, Konosuke (2015). *The Myanmar Economy: Its Past, Present and Prospects*. Springer (JICA Research Institute).
- 4 This had been initiated in 2000 but was stopped due to political events in Myanmar.
- 5 (1) Golden Land East Asia Development Limited Company; (2) First Myanmar Investment Company Limited Company; (3) Myanmar Sugar Development Public Company Limited Company; (4) Myanmar Edible Oil Industrial Public Corporation Limited Company; (5) Myanmar Agricultural & General Development Public Limited Company; (6) National Development Company Group Limited Company; (7) New City Development Public Company Limited Company; (8) Myanmar Technologies and Investment Corporation Limited Company; and (9) Myanmar Agribusiness Public Corporation Limited Company.
- 6 Public offering handled by five securities agencies: Myanmar Securities Exchange Centre (created by 50:50 joint venture by the MEB and the Daiwa Securities Group > will be replaced by the Yangon Stock Exchange, also created by the MEB and Daiwa); AYTrust Securities; Kanbawza Stirling Coleman; and KTZ Ruby Hill Securities.