

# **Japan's Aid Policy Towards Myanmar**

by

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## **Abstract**

As a donor country, Japan treated Myanmar as an old friendly nation in the South East Asian region. She could realize that it could balance the United States and China if Myanmar could be controlled. There are many maritime routes near Myanmar for shipment from and to Japan. So Japan had given many kinds of aids to Myanmar such as loans, grants and technical assistances. But Japan's policy towards Myanmar may be different from her ODA (Official Development Assistance) Charter. According to the Charter, ODA recipient countries must be democratic and must respect human rights. Beside the spillover effect of the Japanese rich economy requires technology transfer to other countries. Regarding this research, some questions have to be raised: how did Myanmar contribute to the development of Myanmar? To what extent did international pressure influence the Japanese aid policy toward Myanmar? Why did Myanmar's political reform impact on Japan's aid policy? My research will analyze that Myanmar's government had used Japan's assistances as the tool for national interests and national reconciliation in some extent. Similarly, Japan used its ODA as the instrument of the primary diplomatic strategy in its relations with other countries.

**Key words. ODA (Official Development Assistance), national interests, national reconciliation**

## **Introduction**

Myanmar and Japan have also had strong ties in the post- World War II period, often referred to as a “special relationship,” or a “historical friendly relationship.” That relationship was established through the personal experiences and sentiments of General Ne Win and others in the military and political elite of independent Myanmar. General Aung San, General Ne Win and other leaders of Myanmar’s independence movement were members of the “Thirty Comrades,” who were educated and trained by Japanese army officers. Four Japanese prime ministers Kishi, Shintaro Abe, Watanabe Michio, and Yoshiko Yamaguchi, officially visited Myanmar in the 1960s and 1970s, while General Ne Win visited Japan several times. The beginning of Japan’s role in forcing Myanmar to economic reform was in late 1987, a year before the present military regime was in power. By late 1987 Myanmar was bankrupt of foreign exchange, with the

collapse of its official economy. Soon after the Myanmar's military regime seized into power by suppressing the pro-democratic movement and established the State Law and Order Restoration Council (SLORC) on September 18, 1988, followed by the abolishment of all "Organs of State Power" that were formed under the 1974 Myanmar's Constitution, conditions for Japanese policy towards the country since then were more complicated and affected particularly by the pressure of international community (Suppakarn Pongyelar ,October 2007, 4). Japan's policy toward Myanmar between 1988 and 2003 abruptly changed because of political reason. Japan suspended its ODA. Japan wanted to engage in Myanmar Government towards a democratic path for democracy.

### **Research Methodology**

Regarding this research, some questions have to be raised: how did Myanmar contribute to the development of Myanmar? To what extent did international pressure influence the Japanese aid policy towards Myanmar? Why did Myanmar's political reform impact on Japan's aid policy? My research will analyze that Myanmar's government had used Japan's assistances as the tool for national interests and national reconciliation in some extent. Similarly, Japan used its ODA as the instrument of the primary diplomatic strategy in its relations with other countries.

### **Changing the Nature Japan's AID Policy towards Myanmar**

Foreign policy is the strategy that the governments used to guide their actions in the international area. Two environments are considered as the basis of shaping foreign policy: an internal aspect of domestic environment and external of global environment. Japanese foreign policy aims to promote peace and prosperity for Japanese people by working closely with the west and supporting the UN .Japan is one of the world largest economy and major economic power in Asia. Therefore, Japan adopted two tracks foreign policy. One is for the west another is for Asia.

However, Japan's relationship with Myanmar have developed in contrast to one another since 1998, when the State Law and Order Restoration Council (SLORC) later re-constituted as the State Peace and Development Council (SPDC) took power by military coup. The military government in Myanmar has improved and strengthened; their relationship with Japan has worsened and cooled. The personal ties between the national leaders of independent Myanmar

and Japanese army officers were certainly instrumental in the formation of favorable bilateral relations between the two countries, in particular during (1962-1988) Toshihiro Kudo, 1998 , 139-177). Both the governments of Myanmar and Japan provided to reinforce functions and schemes of Japan's economic cooperation and to create framework for economic exchange between the two countries.

ODA (Official Development Assistant) is classified into three types. They are bilateral grants, bilateral loans and Multilateral aids .Technical cooperation transfers Japanese Technology, Skills and knowledge to Developing countries in order to develop the human resources that will play a leading role in their socio economic development. Grant aid involves the provisions of funds for the construction of building such as schools and hospitals:for the procurement of materials and equipments for education, training and medical care. New ODA policy emphasizes the following areas: Poverty reduction, Sustainable growth and Peace and human security perspectives.

However, in its bilateral relationship, Japanese ODA to Myanmar was gauged carefully and did not flow smoothly as it expected because of the US sanctions policy and its opposition over Japanese ODA projects. The US also blocked Myanmar's entering its membership in ASEAN while Japanese government supported it. However, due to the unity of ASEAN and Prime Minister Ryutaro Hashimoto's Administration's (1996-1998) determined policy on Myanmar, the US attempt was unfruitful. The ODA program has been mainly in the form of grants and technical assistance and loans that were identified as not parts of any "new" deals, including debt relief. By Japanese government's interpretation, Japan's suspension of "new" grant and technical assistance could be as similar as the ban on "new" investment in Myanmar that the US imposed on American registered companies in 1997. When the military regime itself announced the release of 91 political prisoners, a half month after the incident as a reason for lifting its ODA frozen in October 2003. In this period Japanese government changed its ODA strategy from "infrastructure" development to "grassroots grant assistance": grants to NGOs and grants for human resources development directly to the regime. Most notably, In June 2004 Japan gave the regime human resource development scholarship to the value of about US \$4.86 million and in July a grant of about \$3.15 million for an afforestation project in Myanmar's central dry zone. In addition, Tokyo has provided nearly 30 small ODA grants to non-

governmental organizations for various operations in Myanmar. However, on June 24, 2003, Prime Minister Junichiro Koizumi mentioned on Japanese aid to Myanmar that Japan's policy on Myanmar was necessary different from the policy taken by the US and EU. The Japanese MOFA also showed its discomfort about the suspension of "new" ODA and urged Myanmar to lessen international criticism by hurriedly resolving the situation in order to be able to resume normal bilateral relations ( "Ministry of Foreign Affairs, Japan's Official Development Assistance White Paper," <<http://web-japan.org/stat/stats/23ODA34.html>> February 26,2007,10). It would mean that Japan had its own course of policy formulation which matched or harmonized with its national interests.

Even with small numbers of Japanese company active in the country but together with ODA it appears to be an important tool for Japan to promote its long-standing relationship with Myanmar (See Table-1).

**Table-1: Japan's ODA loans to Myanmar**

<b>Fiscal Year</b>	<b>1985</b>	<b>1986</b>	<b>1987</b>	<b>1988</b>	<b>1989</b>	<b>1990</b>	<b>1991</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>
Total (million US\$)	154.0	122.1	172.0	259.6	71.4	61.3	84.5	72.1	68.6	133.8

<b>Fiscal Year</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Total (million US\$)	114.2	35.2	14.8	16.1	34.2	51.8	69.9	49.4	43.1	26.8

Source: SuppakarnPongyelar, 2007, 16

### **Trade between Myanmar and Japan**

The birth of the military government in Myanmar and the Japanese response to it apparently marked a watershed in their relations. Japan was then believed to be the only country that possessed sufficient meaningful influence on Myanmar to encourage a move toward national reconciliation between the newly born military government and the opposition party led by Aung San Su Kyi. However, Japan failed to exert such an influence successfully on either side due to

its reduced leverage in a new political and economic reality. It is widely believed that without such huge aid the Myanmar regime could not have survived the several economic crises of the 1970s and 1980s. Between 1978 and 1988, Myanmar received US\$, 712.3 million in assistance, a sum equivalent to 15.1% of Myanmar's total imports for the same period (Toshihiro Kudo, August 2007, 16). To understand the rationale of Japan's policy and policy implementation towards Myanmar, one may have to investigate the courses of relating factors including the projection of Japan's international political and diplomatic position.

The Government of Japan neither encourages nor discourages Japanese business activities in the country, but the government briefs business organizations from time to time on the political and economic situation in Myanmar and international opinion regarding the country. It should be noted that the Japanese government places no constraints on investment in or trade with Myanmar and there is no pressure from corporate shareholders and lawsuits like American companies. In fact, Japanese business companies in Myanmar has been decreasing partly due to the US threat of boycotts and embargo towards the Myanmar military regime, which presents some unique challenges for their Myanmar opportunity and partly because of Myanmar government's inconsistent investment policy. Thus Japan's trade and investment volumes were minimal comparing to ASEAN countries, some European countries and even the US (see Table 2 and 3).

**Table -2: Myanmar: Primary Trade Partners in Order of Importance in 2001**

**Import**

( Million US\$ )

Import from	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
World	243.9	194.3	667.7	1067.9	1045.8	1280.1	1538.2	2341.6	2677.8	2861.5	2375.3	2549.7	3053.5	2683.1
China	7.7	6.1	137.7	314.8	284.9	357.2	406.0	679.6	579.2	626.7	586.2	447.2	546.1	547.1
Singapore	14.2	11.3	119.2	295.8	288.6	368.0	430.3	701.2	794.1	777.3	501.3	460.2	479.7	465.6
Thailand	1.3	1.1	19.8	4.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	435.3	554.7	390.5
Korea	0.2	0.1	23.3	31.7	34.3	46.2	62.0	95.0	143.9	150.5	163.7	205.9	318.2	255.3
Malaysia	6.3	5.0	31.6	73.7	98.6	114.3	243.5	252.3	242.8	407.5	322.6	257.7	254.1	216.7
Japan	95.2	75.8	110.8	90.8	106.1	110.0	74.6	173.4	279.4	232.2	205.5	203.5	215.6	205.3
European Union	57.3	45.6	103.7	108.8	78.3	119.4	130.6	173.0	212.0	196.9	137.0	134.2	114.5	80.9

Source: *IMF, Direction of Trade Statistics*, April 2003, 14

**Table -3 : Myanmar: Primary Trade Partners in Order of Importance in 2001****Export**

(Million US\$)

Exports to	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
World	147.4	214.5	408.7	527.0	683.6	864.4	939.8	1197.9	1183.1	1132.1	1184.2	1464.1	2094.0	2753.4
Thailand	1.2	1.7	48.9	0.0	0.0	0.0	28.8	36.5	0.0	0.0	0.0	102.6	233.0	735.4
United States	1.1	1.6	9.4	26.6	37.8	45.5	66.0	79.0	105.6	112.2	158.9	222.2	442.7	456.2
European Union	13.2	19.2	28.2	37.2	42.0	63.0	67.6	71.7	101.8	141.8	159.2	209.2	325.9	400.3
India	3.4	4.9	44.2	46.6	94.6	106.5	109.5	145.9	134.9	168.6	215.0	227.3	261.3	288.5
China	1.8	2.6	33.3	96.3	119.3	149.7	129.8	136.0	125.0	66.7	56.0	92.3	113.5	122.0
Singapore	14.3	20.8	46.2	81.0	98.4	101.3	127.5	192.0	190.7	157.2	109.1	90.3	99.8	102.1
Japan	12.3	18.0	28.4	44.9	43.0	65.0	68.8	85.5	93.9	90.0	81.3	92.2	108.4	92.8

Source: *IMF, Direction of Trade Statistics*, April 2003, 14

**Japanese Investment in Myanmar**

Enhancing the Japanese Government's Support Scheme; in the swift resumption of yen loans, to help achieve sustainable growth in Myanmar and Asia as a whole, Japan should resume yen loans and support large-scale infrastructure development in Myanmar. Specially, given Myanmar's important position to enhance regional connectivity in the Southern Economic Corridor (Dawei-Ho Chi Minh) and the East- West Economic Corridor (Mawlamyine-Danng) there is an urgent need for electricity, port, road, railway, water supply and sewerage, and telecommunications and IT projects in Myanmar. There are high hopes that Japan will undertake projects in the Thilawa and Dawei Special Economic Zones, and the public and private sectors must work together to steadily achieve this goal. In addition, it is also in required to use yen loans in a speedy manner to promote cooperation in the field of energy and natural resources ("Economy of Burma" <*Wikipedia, the free encyclopedia.htm*>). The government of Myanmar has indicated that such projects should utilize environmentally responsible technologies and equipment, and Japan needs to be proactive in meeting this requirement.

As same as Japanese ongoing aid, the US ongoing investment schemes were not affected by this ban, including Unocal's participation in the joint venture on the Yadana gas pipeline.

However, there are some differences in case of the US economic relations with Myanmar. In general, the majority of US citizens have opposed and put enormous pressures to US companies doing business in Myanmar. Other than that, the majority of US local governments also serve as modus operandi to bar US companies operating there. In November 2004 there were only 23 Japanese companies operating its business in the country with only \$US 0.2 million in 2003. Japan's new half-billion-dollar loan to Myanmar is aimed at addressing some of these infrastructure gaps. As well as boosting aid and loans to Myanmar, Japan is writing off \$1.74 billion in debt arrears owed to it by Myanmar - the weekend announcement coming just over a year after Tokyo said it would cancel the bill if Myanmar continued to reform. Since both governments acknowledged continuation of Myanmar's reform efforts, the Government of Japan has decided to clear said overdue charges. In January, Japan and other creditors canceled or softened repayment terms for much of the total \$15 billion debt that Myanmar owed to donor countries and institutions. Prior to Abe's visit, Japanese firms announced several deals in Myanmar, including one high-profile infrastructure deal - with Japan's Sumitomo and NEC saying they would work on improving Myanmar's telecommunications network (*SuppakarnPngyelar*, October 2007, 10-14). Building industrial zones is central to attracting large-scale Japanese investment, Myanmar's on-again electricity supply as another deterrent to doing business. Power shortages make it difficult to established large- scale manufacturing for now, but it is hoping these issues can be solved.

Foreign investment into the country surged to a record high US\$ 6 billion in the fiscal 2005-2006 year that ended in March, up from \$ 158.3 million recorded the previous year, according to recently released Myanmar official statistics. Myanmar's total trade also hit a record high of \$ 5.5 billion over the same period, surging 27% year on year and handing the junta a rare trade surplus of \$ 1.6 billion. Bilateral trade was on pace to expand even faster in 2006 to more than \$ 7 billion as the junta cashes in on high global energy prices. Japan's blossoming business-based relations with Myanmar meant that Tokyo can push back against Beijing, in the Southeast Asia nations that until recently was increasingly looking like a Chinese satellite state. The Thilawa SEZ is one of three large - scale industrial zones planned for Myanmar in the coming years, with the others slated for Madaya Island and Kyaukphyu in Arakan State - the starting point for oil and gas pipelines that will cut across Myanmar into China's Yunnan province, and in Dawei/Tavoy in Myanmar's South. However Japan's and Myanmar's focus on the Thilawa

project has likely increased concerns in Thailand about Dawei, an \$ 8 billion project for which Thailand is seeking large-scale Japanese and other private foreign funders ("Economy of Burma", <Wikipedia, the free encyclopedia.htm>10 ). In order to accomplish its national interests, Japanese government has allowed conducting investment with Myanmar economic exchange.

Taro Aso, who is also Japan's finance minister, said that Myanmar has very big potential. It is intention to support its development by private-public partnership. Aso visited Thilawa, a \$ 12.6 billion, 2,400 hectare special economic zone and centerpiece of Myanmar- Japan relations. Mitsubishi Corporation, Marubeni Corporation and Sumitomo Corporation from the Japanese side of the joint venture developing the industrial park. The plan is to build the first 400 hectares by 2015 and start luring Japanese and global manufactures. Aso confirmed during the visit that Tokyo would waive part of Myanmar's 500 billion yen (\$ 5.74 billion) debt and make a fresh loan of 50 billion yen, partly to kick- start construction of Thilawa. The Myanmar side has thanked us for waiving their debts many times. This will serve as a first step in boosting Myanmar's economic development. Myanmar is still re- working its laws governing special economic zones after passing new foreign direct investment laws last year. With the help of Japan and its technology, New Economic Development will create employments. Japan is also investing in an economic zone in Dawei, on Myanmar's Southern peninsula, where the largest industrial complex in Southeast Asia is one of the drawing board.

### **Conclusion**

Japan has had dilemma in achieving its economic interests in Myanmar. But as the largest trading partners and security alliance with the US, it is with no surprise for Japan to strictly impose its self-restriction on normal trade and investment relations there to protect its ultimate national interests while piping its unending connection with the country through ODA scheme. It is widely believed that without such huge aid the Myanmar regime could not have survived the several economic crises of the 1970s and 1980s. In late 1988 the association membership included presidents and chairmen of board of 14 Japanese largest companies, including general trading and construction companies who served as the association's trustees and 36 corporate members but as of July 2007, its members decreased to around 20. To accomplish Japanese goals of its national interests and business opportunities in foreign countries, Japanese government-

business alliance has played strong roles in Myanmar-Japan relations. Japan's blossoming business-based relations with Myanmar mean that Tokyo can push back against Beijing, in the Southeast Asian nation that until recently was increasingly looking like a Chinese satellite state. Japan has a potential to play a decisive role in determining the regional balance of power in Myanmar affairs. Japan's cooperation particularly with ASEAN would be essential tasks to bring Myanmar into the international and regional economic interdependent networks. The open-up of the country's economic system would directly be beneficial to Myanmar and would gradually help ease political development in the country. Increasing economic stability in Myanmar is in line with ASEAN (as well as China) interests not only in ensuring regional stability but also regional economic activities and prosperity. This would also leave the door open for Japan to develop its ties with Myanmar as Japanese mediating role would help reduce the scale of China's increasing influence in the region and also the US would need strategic cooperation with Japan to balance Chinese economic and political strength in the near future.

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