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Japanese ODA to Myanmar: Resulting from the Mutual Dependence it Created

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Introduction

In September 1988, after months of widespread and increasingly defiant public demonstrations brought about by years of economic hardship, the Burmese military took to the streets and regained control. This brought an abrupt and violent end to the 'democracy summer' that had thrust this once reclusive nation onto the very centre of the world stage. The response of the international community was almost universal condemnation and sanctions. At that time the Japanese government cut its aid, and although aid was 'partially resumed' in early 1989, Japanese Official Development Assistance (ODA) to Myanmar¹ has remained 'suspended in principle' since then. Despite this, and regardless of the dire state of the Japanese economy that has led to cuts in the ODA budget, according to the Japanese Ministry of Foreign Affairs, ODA disbursements to Myanmar in the eleven-year period from 1991 to 2001 totalled nearly ¥84 billion (about US\$ 760 million at ¥110=US\$1²). This, in and of itself, is evidence of the mutually dependent nature of the bilateral relationship.

Nearly twenty years after the initial cut in Japanese ODA and the re-named country of Myanmar is still at a crossroads, and the world community is deeply divided over how to assist the people of Myanmar to finally find peace, national reconciliation and pursue economic development. During the 1990s a whole spectrum of contrasting international and regional diplomatic efforts have been undertaken to assist the domestic process. Japan has often been at the very centre of such efforts. While the EU and the US have followed

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the course of sanction, and while ASEAN, China and India have followed the course of engagement, the Japanese approach has been somewhere in between, treading a fine line between sanction and engagement.

Central to Japan's policy approach to Myanmar is one component; Official Development Assistance (ODA). Indeed, this study will show that ODA has been the central feature of the bilateral relationship throughout its entire post-World War Two development. Furthermore, as it is widely accepted that Japan's ODA has its roots in its World War Two reparations,³ and because Burma was the first country to conclude a reparations agreement with Japan, this ODA relationship itself is historically Japan's longest, beginning half a century ago, in 1954. Unfortunately, this does not also mean most successful. Indeed, while there are countless examples of successful Japanese economic cooperation, our case study is not one of them. As will be explained later, this resulted from the fundamental incompatibility of the economic policies of the two states, which meant that the bilateral relationship became increasingly and excessively dependent on its ODA component. While Japanese foreign economic policy towards Burma was not successful in nurturing economic development in Burma, it was successful in fostering Burmese dependence on Japanese goods and capital, which were provided exclusively through ODA. However, the narrow and shallow nature of the bilateral relationship, and the continuing long-term decline of the Burmese economy meant that preservation of the status quo became increasingly untenable. Nevertheless, while the economic collapse and political upheaval of 1988 provided the necessary 'shock', the ODA-dependent nature of the relationship meant that Japan could not, unlike other aid donors, completely cut aid to Burma. Besides the dependence of the Burmese economy on Japanese ODA, the ODA-dependent nature of the bilateral relationship, combined with the characteristics of the political economy of Japanese ODA, meant that Japan was and is dependent on continuing its ODA to Burma.

The 1990s/ early 21st Century has been a testing time for the Japan-Myanmar bilateral relationship, and indeed for both countries. Japan has struggled to find direction in the post-Cold War world, while being hampered

by a beleaguered economy and 'divided politics'.⁴ Myanmar has struggled for economic growth, domestic peace and stability, and, if not global, at least regional acceptance. This acceptance is closely linked to the regime's perceptions of their own legitimacy, which stem not from popular domestic support, but from international recognition, the success of the economy, and domestic peace and stability. Economic growth and domestic stability are indeed inherently connected key issues, and in these areas, one must conclude that the military government has had some success. The economy has continued to grow throughout the 1990s and early 21st century,⁵ and the government has reached ceasefire agreements with the majority of insurgent armies. For example, in 2004, the tentative agreement on a ceasefire with the Karen National Union, an ethnic insurgent army, who have been fighting the government for 55 years, could certainly be considered a significant achievement.

However, what has become important for North American and European governments (and, at least officially, for the Japanese government) is democratisation, which is seen as fundamental to freedom and the best protector of basic human rights. The focus here is on Aung San Suu Kyi, daughter of independence leader and national hero, Aung San, and head of the National League for Democracy (NLD), the political party that won 80% of the seats in the unrecognised 1990 parliamentary elections. These twin principles of democracy and human rights have continuously highlighted the issue of Myanmar's political and economic development in the international arena.

International stakeholders are many and varied; their agendas differ, often contrast, and sometimes collide. In this way, Myanmar is a testing ground for Japan's post-Cold War foreign policy. One of many to be sure, but perhaps one of the most interesting and enlightening because it encompasses a number of key issues. One of these is the use of aid conditionalities. 'Aid conditionalities' is the term used for the practice of imposing political or economic conditions on aid disbursements, and is therefore regarded as a sanction in cases of negative developments in the recipient country. Using foreign aid as a diplomatic tool to pursue national interest is not uncommon. It has been done, to varying degrees, by all donors throughout the short history of ODA.

However, for Japan, ODA is considered to be a principal tool of foreign policy, and this inevitably increases the significance of the use of aid conditionalities.

Myanmar occupies an intrinsically strategic geographical position. It lies between the two regional powers of China and India. It occupies the border between the growing economies of South Asia and Southeast Asia. During World War Two, Burma's inherent strategic value meant that it was a major battlefield between Japanese and Allied armies. During the Cold War, while Indochina and Korea became the battlefields for the fight between capitalism and communism, Burma's non-alignment and isolationism prevented it from becoming another Cold War 'hot spot'. The post-Cold War era has witnessed the rise to prominence of the country once more. It has become the arena for arguments relating to human rights and democracy between the liberal democracies that dominate the world and the East Asian perspective, which became embodied as the 'Asian Values' debate.⁶ In this way, Japanese policy to Myanmar highlights not just Japan's strategic interests, but also Japan's 'balancing act'; the seeming contrast between Japan as a member of the economically-advanced democracies, and Japan as an Asian nation.

Following on from this, another key issue is the 'rise of China', and the implications for Japan, ASEAN, Asia in general, and indeed the world. As Japanese influence in Myanmar has diminished, China has more than filled the void, with economic aid, trade and foreign investment, but perhaps more importantly, political support. It is often (justifiably) argued that, despite widely-held concerns about increasing Chinese influence in South-east Asia, the strict adherence to issues of human rights and democracy, and the resulting sanctions, has placed the Yangon regime in a position whereby increasing dependence on China is inevitable.⁷ After the US (and perhaps increasingly on a par with the US), China is the most important nation for Japan, and these considerations are highly relevant to Japan-Myanmar relations. One reason for this is that ASEAN too has always been important for Japan, as Japan has made a long-term economic (and, to a lesser extent, political) investment in the economic growth (and stability) of South-east Asia. For this reason,

Japan's security and prosperity is inextricably linked to that of ASEAN. Now with a complete membership, ASEAN is trying to strengthen its institutional framework, engage China, while countering Chinese influence in Indochina and Myanmar. ASEAN and its Myanmar policy have arrived at a critical juncture. In 2006, Myanmar will assume the chairmanship of ASEAN, and this prospect, plus the continued and increasing international (*and* internal) criticism of ASEAN's Myanmar policy, recently caused ASEAN leaders to break with their principle of non-interference in domestic affairs. At the June 2003 Phnom Penh meeting, a declaration was made, openly calling for the early release of Aung San Suu Kyi.⁸ Therefore, while Western nations call for democratic transition and respect for human rights, some ASEAN nations and China, argue that economic development is of overriding importance. This ideological conflict is also reflected in Japanese policymaking circles, with the result of placing the Japanese government in an intriguing, and often ambiguous, position, somewhere in between these two extremes.

Basically, the 'China Threat' and Japan's alliance with ASEAN, as well as Myanmar's inherent strategic value and development potential, provide the rationale for Japan's engagement policy. This rationale, when combined with the characteristics of Japan's political economy and with the historical development of Japanese ODA to Myanmar, really means that the Japanese government has almost no option but to continue its ODA relationship with Myanmar, in some form or another. This necessity can be translated into a somewhat independent and proactive diplomacy by the lack of US strategic interest and its resulting preoccupation with values. While it is often argued that Japan is the 51st US state,⁹ and that the US perspective is a pillar of Japanese foreign policy, Japan's relations with Burma are 'at the boundary of such influence'.

Finally, there is the context of Japan's political economy, and that of Japanese ODA. There are a number of characteristics which severely restrict possible outcomes of the political bargaining process that once identified, provide explanatory factors for policy decisions, or lack thereof (or indeed contradictions between policy and practice). In this way, the issue of Japanese

ODA to Myanmar is “part and parcel of the larger political competition over how to restructure the Japanese political system”¹⁰. This domestic struggle was called *sengo so kessan* (the overall settlement of the post-war era) by former PM Nakasone. This settlement is intrinsically linked to a key issue; that of plurality in Japan’s political economy. While the Japanese economy has been growing in size and complexity, there is considerable debate as to the extent to which Japanese politics and the political bargaining process has been pluralizing at a comparative rate. To investigate such a topic, one should first look back at the creation of Japan’s ODA political economy (and how that led also to the creation of mutual dependence between Japan and Burma/Myanmar).

Creating Mutual Dependence

Japan first provided assistance to Burma during its struggle for independence from the British during World War Two. Then, in the years of post-war reconstruction, Japan provided first reparations (1955-1965) and then quasi-reparations (1965-1977) amounting to \$340m, plus some Yen Loans¹¹. Indeed, by the 1970s, Japan had become Burma’s leading source of foreign capital (in 1969, Japanese ODA accounted for over 50% of the total bilateral ODA received by Burma), as well as its leading supplier. However, while the Japanese economy took off in the 1960s, was expertly navigated through the turbulence of the 1970s, and soared in the 1980s, the Burmese economy did almost the opposite, sinking deeper and deeper, touching bottom in the late 1980s. Plagued by armed insurgency and political infighting, the army seized total control of the state in 1962, instituted state socialism under the military dictator, Ne Win, and deliberately withdrew Burma from the world. However, importantly, throughout this time, Japan continued to provide loans, grants and technical assistance, which, by 1988 amounted to \$2bn.¹² Despite the Burmese economic policy of self-reliance, Burma had become increasingly dependent on Japanese assistance. This financial outlay culminated in the year the Burmese economy collapsed, 1988, with a total disbursement of \$278.6 million.

The Reparations Agreements with Southeast Asian countries were

essentially necessitated by the failure of the San Francisco Peace Treaty to reconcile the demands for compensation from such countries. Because of the US Cold War policy of containing China, the Japanese economy became more dependent on the markets and resources of Southeast Asia, and this meant that the reparations agreements were the first *essential* step in carrying out Japan's post-war reconstruction and economic development. However, given the still considerable resentment towards Japan, it was to be no easy task to expediently conclude agreements with those countries previously occupied. Importantly for Japan, this task was given considerably impetus by the early conclusion of the reparations agreement with Burma, which did, in effect, 're-open the door' to Southeast Asia. Considering the importance of this, it seems plausible to therefore assume that the willingness of the Burmese to be the first to conclude the reparations agreement created some 'goodwill' on the Japanese side.

The Japanese carried out the reparations negotiations and implementation from the perspective of Japan's economic reconstruction and development. Therefore, for the Japanese government, the real issue of reparations was not "how much" Japan would pay, but "how to pay", meaning how to pay to maximise the benefit to Japan. Indeed this became one of the central issues of the reparations agreements and, equally importantly, would form the basic implementation mechanism for almost all Japanese ODA during the Cold War, within the *keizai kyoryoku* framework.¹³ While *keizai kyoryoku* was merely the foreign economic policy aspect of Japanese economic development policies, one can argue that a primary aim of *keizai kyoryoku* was to counter Japan's natural dependence on overseas natural resources and markets by nurturing overseas dependence on Japanese capital, goods and services. In this way, the payment of reparations to East Asian nations was regarded as a long-term investment by the Japanese,¹⁴ and was Japan's first step towards creating economic interdependence in East Asia.

The priority of economics meant that, not only was the reparations negotiations carried out *for* Japanese business interests, but were indeed carried out *by* Japanese business interests. According to Sudo, at the instigation of

PM Yoshida himself, "private businessmen were directly and sometimes extensively involved in the official negotiation process between Japan and the recipient Southeast Asian countries"¹⁵. Yanaga too asserts that, "in the negotiations, the government actually preferred the services of businessmen to those of the officials of the Foreign Office, because it was essential that the negotiations be based on realistic business arrangements"¹⁶. In the case of Burma, the most important role was played by Japan Foreign Trade Association President Inagaki Heitaro, although similarly eminent businessmen were also given central roles in negotiations with the Philippines, Indonesia and South Vietnam.

All aspects of the agreements placed Japanese businesses as the primary initiators and beneficiaries of reparations projects, while the Japanese government was merely the financier or facilitator. Although there seems to be some disagreement over how it was originally adopted, the 'formula of direct supply' highlights the central role of Japanese businesses in reparations projects.¹⁷ This formula, adopted as a basic procedure for Japanese ODA, essentially stipulates that recipient governments are supplied directly by the supplier rather than indirectly through the Japanese government.

A very good example of the primary role of Japanese businesses in the implementation of reparations projects is the Baluchaung Hydro-electric Power (HEP) station. It provides a continuous thread in both the development of the bilateral relationship, as well as the domestic (under-) development of Burma.

The Baluchaung No.2 Project was completed in 1960 at a cost of ¥10,300 million, almost 15% of the total reparations figure of ¥71,200 million.¹⁸ It started operations in April 1960, the same time that Gen. Ne Win handed power back to the civilian government. The development of HEP was one of the recommendations of a preliminary report submitted to the Burmese government by a group of US consultants in 1952.¹⁹ Baluchaung itself was specifically mentioned in the same group's Comprehensive Report submitted in 1953.²⁰ It was also on the recommendation of Kubota Yutaka, founder of Nihon Koei, who spent several months in Burma in 1953, that the project was formally accepted by the Burmese government, as normal investment. In April 1954, it was adopted as Nihon Koei's first overseas project, but it was not until the

first meeting of the Burma-Japan Committee for Reparations and Economic Cooperation, in January 1956, that it was decided to include Baluchaung within reparations. Kubota, in testimony before the Foreign Affairs Parliamentary Committee in December 1959, says that the Burmese side requested that he try to get the Baluchaung project inserted into the reparations agreement, but that he refused.²¹ However, according to Yanaga, Nihon Koei and Kajima Construction Company began construction of Baluchaung in 1954 with the full expectation that it would be subsequently included in the reparations.²² Such ambiguities were to surround Nihon Koei and Baluchaung again nearly 50 years later.

The reparations agreements provided Japan with the pretext for attempts to penetrate the economy of Burma, as a long-term economic investment that was expected to 'pay-off'. Furthermore, while reparations provided the financial resources, Japanese assistance to the Burmese independence movement during World War Two provided both the basis for the networks that would support and sustain the transnational coalitions and Japanese business activities, as well as much of the reasoning for nurturing the bilateral relationship. The perception of Burma as a worthy recipient of Japanese economic assistance was established and continuously reinforced. This, combined with Burma's Cold War isolationism, that was intensified after 1962 and resulted in virtual complete isolation, allowed Japanese companies, *provided* they were involved in reparations or quasi-reparations, to be involved in almost the only foreign economic activity in the 'Hermit Nation' of the 1960s, 70s and 80s. Importantly, this was despite the reality that they were essentially incompatible development partners, and it was only the supposed 'friendly relations', transnational networks, and ODA finance, that allowed the partnership to continue. The two sides of the bilateral relationship were incompatible development partners because the main purpose of the *Burmese Way to Socialism*, initiated by the Ne Win regime, was to maintain Burmese control over the economy and prevent those types of neo-mercantile economic practices that the Japanese policy of *keizai kyoryoku* was intended to pursue- i.e. cheap resource extraction for export and excessive foreign penetration/control of

domestic markets. The Burmese policy stemmed from their experience of the extractive nature of British colonialism. The Burmese government, despite their staunch non-alignment, could justify their acceptance of ODA from Japan by pointing to the non-political/‘economics first’ principle of Japanese foreign policy.

While one must conclude that, because Burma never became an important source of Japanese resource imports nor an important destination for Japanese products, Japan’s long-term investment in the Burmese economy did not pay-off for Japan, it did alternatively create Burmese dependence on Japanese capital, products and technical expertise. Therefore, the result was that both policies failed to meet their objectives: the Burmese government took their nation full circle, from independence from British colonialism through to dependence on Japanese neo-mercantilism; while the Japanese government allowed this excessive and increasingly desperate dependence to flourish, and as a result, has found itself in a somewhat dependent position of reduced alternatives. This is in contrast to a more traditional analysis of Japan-Burma relations which would define it as a one-sided dependent relationship. However, if the bilateral relationship is defined as one characterised purely by one-sided dependency, anomalies do remain.

Firstly, the Japanese side, with their policy of economic cooperation, attempted to nurture mutual dependence/interdependence, so as to counter the natural dependence of Japan on overseas natural resources and markets. This meant that, despite the general ODA-dependent nature of the bilateral relationship, and because of the nature of ODA implementation, networks and coalitions were formed and business-led. In this way, while one can surmise that the Burmese economy as a whole was dependent on Japanese ODA, the limited political oversight of ODA effectiveness, combined with the business-initiated implementation system of Japanese aid (*yosei-shugi*), allowed transnational coalitions, who consisted of, and were dependent on, Burmese elites, to continue ODA disbursements even after it was clear that the Ne Win regime would not, or could not, fundamentally change their policies, despite the warning signs. Of course, from such an analysis one must conclude that

the political economy of Japanese ODA was in no way one of plurality, but was indeed firmly under the control of a small group of Japanese politico-business elites.

Secondly, an alternative, or complementary, explanation may be that because the aid bureaucracy was so fragmented and aid policy so ambiguous, and because of the 'number crunching' obsession of aid officials that resulted from using ODA as a response to *gaiatsu*, or foreign pressure (i.e., the aid doubling plans as a response to criticisms of 'free rider' and trade surpluses), aid efficiency and effectiveness were of secondary importance to the overall figures of ODA.²³ At that time (the late 1970s- mid-1980s), public support for continued high levels of ODA was almost universal, even though transparency and accountability were extremely limited. These factors contributed to the situation whereby ODA disbursements could be controlled by a small group of Japanese politico-business elites.

Thirdly, such a conclusion is further supported by the following analysis. If we combine the assumption of Japanese businesses as being the initiators of ODA projects with the fact of the predominance of 'hard' infrastructure projects, and if we further assume that the continued successful operations of such infrastructure is essential to the domestic elites (because they endorsed such projects and their legitimacy is therefore linked to their success) and the Japanese firms who first built them (because their reputation is linked to the project), then capital investment in the form of further ODA finance for renovation or expansion was inevitable. The evidence of the study into the development of Japanese ODA supports such a conclusion, and this is shown by the continued disbursement of ODA to major projects such as Baluchang and Yangon International Airport. However, more importantly, such resources will inevitably flow through the existing transnational coalitions because they have the interest and the necessary information/networks. The original Japanese contractors for reparations/ODA infrastructure projects will rationally lobby for further ODA disbursements in the form of renovations, expansions, etc. Essentially, what results is akin to 'path dependency' whereby existing coalitions can relatively easily maintain their influence over a non-pluralized decision-

making process, for some period of time, provided such policies can be characterised as in some way successful, and provided there are no significant external shocks. Indeed, we must conclude that one of the primary aims of reparations (and the later ODA) was in fact, to create path dependence. The long-term economic investment that was reparations was intended to create later dependence on Japanese goods and services, which it did.

Using the previous case study of Baluchaung, we can see this. Nihon Koei has been dependent on ODA projects and hence the Japanese government, since its foundation in the reparations period. But, it is also dependent, as Kubota himself stated, on convincing the recipient government of the need for a particular project (and we can assume that the promise of 'cheap' ODA-financing plays a significant role in convincing potential recipients). Nihon Koei has been involved in ODA since reparations and has been involved in all the ODA-financed projects connected with Baluchaung. Both Nihon Koei and Kajima Corporation continue to regard Baluchaung as a symbol of their post-war success in Southeast Asia.²⁴

Therefore, as the Cold War progressed, the general relationship became increasingly dependent on ODA and, its implementation system meant that mutually dependent transnational coalitions of Burmese military elites and Japanese politico-business elites dominated (and who were themselves dependent on ODA). The limited plurality of the bilateral relationship provided the political space for self-interested parties to garner state resources for private interest. Even though many argue that Japan's political economy had been pluralizing up to the 1980s, in our case study we have seen that a significant 'shock' (the collapse of the Burmese economy) was needed to fundamentally change policies, and that, even with such a shock, it was the significant shifts in the international political economy that would further mean the continuance of the present bilateral relationship became increasingly untenable.

One must conclude by agreeing with Kudo Toshihiro that, "without the decision to open the state to official assistance and Japan's positive response to this, the Ne Win government could never have survived the period without making fundamental reforms both in politics and the economy".²⁵

Resulting from Mutual Dependence

Japanese foreign policy towards East Asia hinges not only on its security alliance with the US, but also on its political and economic interdependence with ASEAN and the countries of Northeast Asia, particularly China. The case of the ODA sanction against Burma, and then the continuing “suspension in principle” of aid to Myanmar in the 1990s/ early 21st Century, shows the intriguing combination of a divergence in policy from that of key (Cold War) allies (the US and the EU) and a situation of limited economic interdependence between Japan and Myanmar. So, why does Japan follow its particular type of foreign policy towards Myanmar? Why does Japan continue to infuriate its European and American trading partners when there is so little economic rationale?

Japan's policy to Myanmar in the post-Cold War stems, to a greater degree, from the failure of Japan's Cold War foreign policy to Burma. While the *keizai kyoryoku* (economic cooperation) policy of that era was meant to create Burmese dependence on Japanese capital, goods and services, this was meant to also be in conjunction with economic growth that would increase the demand for Japanese capital, goods and services. Instead, continued Burmese economic mismanagement, and the limited pluralisation of the political economy of Japanese ODA, allowed for an increasing disbursal of Japanese capital, goods and services (financed by ODA), *while* the Burmese economy was collapsing. This led to mutual dependence over and beyond those reasons that provided the rationale for beginning the ODA relationship in the first place. While Japan had increased its influence in this strategic corner of East Asia, the long-term economic investment never paid off, and did indeed ‘back-fire’; the resource and market potential of Burma never materialised, even though the Burmese debt to Japan continued to rise. So, while the completely non-transparent nature of Japan's ODA political economy allowed a relatively small number of Japanese stake-holders (be they business, political or bureaucratic) to defy economic rationale and continue disbursements of ODA, *because* they themselves were dependent on the continued disbursal of ODA, the significant rise in the Burmese ODA debt, combined with the collapse of the Burmese

economy, created a whole new area of mutual dependence. For this reason alone, Japan could not completely abandon Burma (and this was supplemental to the geopolitical rationale previously mentioned).

The fact that the 1988 sanction against Burma was only partially lifted in 1989 (while remaining 'suspended in principle') reflects, to some extent at least, the perspective that the Japanese political decision making process had become more pluralistic during the 1980s.²⁶ The same group of stake holders, despite limited economic rationale, resisted the demands of the international ODA regime (that called for maintaining sanctions), and large sections of Japanese civil society. However, alternatively, such stake holders could not completely dominate the decision making process and this reflects some plurality. The resulting initial Japanese policy of 'carrot and stick' supports the conclusion that before 1988 relations were ODA and elite dependent. While the decision to partially resume aid was in keeping with the narrow interests of a transnational coalition of stakeholders, their inability to resolve the impasse (of the 1990s) reflects their narrow interests. This failure has further highlighted the major malfunction in Japanese policy to Burma/Myanmar, and has created a much more confusing picture of the bilateral relationship in the 1990s/ early 21st century. It has been termed Japan's "carrot and stick" policy, "sunshine policy", "quiet diplomacy", "constructive engagement", etc. Regardless of terminology, Japan's relations with the 'new' state of Myanmar would be highly controversial and would highlight many of the important issues in Japan's post-Cold War foreign policy and ODA diplomacy.

Figure One is a simplified schematic representation of the main actors in the issue area of engaging or sanctioning Myanmar in the post-Cold War era.

ODA in the 1990s (that of all OECD donors) is strongly characterised by the use of 'aid conditionalities', those previously mentioned political and economic conditions that the recipient nation must meet, so as to qualify for ODA. The adoption of such conditionalities is strongly linked to the changing world environment after the end of the Cold War. For Japan, however, it is not only the end of the Cold War, but also the experience of aid sanctions, and against Burma and China in particular, that led to the official inclusion,

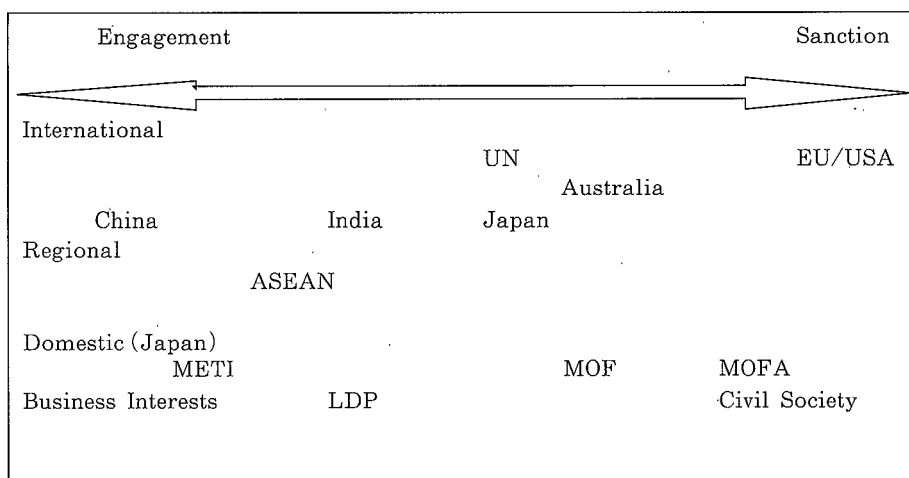


Figure 1. Engaging or Sanctioning Myanmar-Main Actors

for the first time, of the political conditionality of using aid to promote democratisation.²⁷ This is the professed central focus of Japanese ODA diplomacy towards Myanmar at the turn of the century.

Given the very low levels of grant aid, we must assume that this has minimal impact on the political economy of Myanmar. Grassroots grant aid projects are little more than 'islands of development', and this assumes that the project itself is a success. However, the significant disbursements of debt relief are an exception to this, although the impact is difficult to measure. According to the IMF, in 1993, Myanmar's total outstanding and disbursed debt to Japan was \$2.44 billion, of which \$900 million was in arrears by the end of fiscal 1994-5.²⁸ In 1997, according to the ADB, Myanmar suspended payments to multilateral and bilateral creditors, and this meant that by 2001, Myanmar was \$2.5 billion in arrears.²⁹ By 2001, from World Bank figures, Myanmar's total debt stood at \$5.67 billion, \$2.963 billion of which was owed to bilateral donors.³⁰

Of the ¥84 billion (US\$760 million) in ODA disbursements to Myanmar in the eleven-year period from 1991 to 2001, ¥63 billion (US\$570 million) was for debt relief. This means that debt relief accounts for 75% of total Japanese ODA to Myanmar in the post-Cold War era. Although in line with the HIPC

initiatives, such debt relief provides implicit support for the Myanmar government. The debt issue is also important because the Japanese Ministry of Finance cannot forward new loans while the recipient is in arrears, and this means that, regardless of politics, the Japanese government cannot provide development loans to Myanmar. However, according to Japanese ODA bureaucrats, the Japanese government has linked resolution of the debt issue to political change in Myanmar.³¹

The two significant aid projects of the 1990s/ early 21st century, the upgrading of Yangon airport and the renovation of Baluchaung, while highlighting the decision making process of Japanese ODA, must also be assumed to have had at least some minimal impact on the political economy of Myanmar.

The decision to provide aid for the renovation of Yangon airport was to be a highly controversial one.

“...in March 1998, it [the Japanese government] decided to furnish a ¥2.5 billion loan on grounds that it was urgently necessary, but only for safety-related restoration and repair work as part of the Yangon International Airport Expansion Project, an on-going project formerly funded by Japanese aid.”³²

ODA agreements for Yangon Airport were concluded in 1984 and 1986 to extend loans of up to ¥27.17 billion, but the loans had been suspended after the events of 1988.³³ However, following the above decision, Taisei Construction and Marubeni, both original contractors, resumed construction for the expansion of the airport. Indeed, Iwao Toriumi, then President of Marubeni and Chairman of the *Keidanren's* Japan-Myanmar Economic Committee, promised Myanmar officials that the Japanese private sector would pressure MOFA to fully resume Japan's ODA.³⁴ In addition to this somewhat questionable connection between Japanese businesses (specifically Marubeni) and ODA disbursements that were supposed to be “suspended in principle”, and, when disbursed, should be for basic human needs, there is a further Japanese business connection to this ODA project. In January 1998, just two months before the

Japanese government announced its decision to provide aid for the renovation of Yangon International Airport, Japan's Mitsui and Co. completed the Mingaladon Industrial Park near the airport. The project, begun in 1996, amounted to US\$ 20 million, covered 89 hectares, and is located just 7 km from the airport. As of September 2004, five of the total eight tenants of the industrial park were Japanese companies.³⁵ Considering the traditional link between Japanese ODA and Japanese business, as well as the necessity of providing basic infrastructure so as to attract tenants to invest in the park, it would seem plausible to assume that the industrial park and the yen loan were connected. Most importantly, the granting of the yen loan provides the implicit support of the project by the Japanese government, and this meant that, in 1998, Japanese ODA was being used to underwrite and secure the investments of private Japanese companies. According to the Myanmar government, the Mingaladon Industrial Park was the first of its kind in Myanmar to allow 50-year long-term leaseholds for the foreign investors. Furthermore, the foreign investors that had leased the land were mostly Japanese companies, which meant that the Japanese government was securing their long-term investment in Myanmar. The Yangon airport project was widely criticised because of the implicit support it gave to the Myanmar government, as well as the dubious connection to the stated policy of "basic human needs that can be expected to benefit the general public".³⁶ From another perspective, the project was implicit support for the ASEAN engagement policy. It was expected that international travel would increase as the Myanmar economy became more integrated into the ASEAN regional economy, and it was thus necessary to have an airport of at least the minimal standard.³⁷

It also seems logical to conclude that such an ODA project was a fine example of the continued use of ODA as 'seed money' for Japanese private overseas investment, and this was despite both the highly political nature of the issue of ODA towards Myanmar, as well as the expected international criticisms. Furthermore, it is despite the ODA reforms that were supposed to have reduced the influence of Japanese companies over ODA disbursements. What one must assume therefore is that elements of the engagement coalition within

the Japanese policymaking process had sufficient power with which to be able, in this case, to triumph over the sanctions coalition.

The decision to disburse grant aid for the renovation of Baluchaung was also surrounded by controversy, and does highlight the main issues and problems of Japanese diplomacy towards Myanmar. It was widely thought that there was a connection between the grant aid and the UN-sponsored, but very secret, dialogue between Aung San Suu Kyi and the SPDC,³⁸ which led to the lifting of restrictions on the movements of Aung San Suu Kyi in May 2002. However, it was stated that the Cabinet had *already* made the decision to disburse this grant aid, based on a number of studies,³⁹ and indeed in April 2001, Kono Yohei told the visiting Myanmar Foreign Minister that Japan had decided to provide a ¥2 billion grant for the renovation of Baluchaung.⁴⁰ On 10 May 2002, just 4 days after the release of Aung San Suu Kyi, there was an Exchange of Notes between Ambassador Tsumori and Minister for National Planning and Economic Development, U Soe Tha, in Yangon. This exchange of notes was only for the first instalment (¥628 million) of the total grant aid which was now announced to be ¥3-3.5 billion. Before this, the former Japanese Ambassador to the UN Owada Hisashi, visited Myanmar where he met with Aung San Suu Kyi (under house arrest at that time), to discuss the issue of grant aid for Baluchaung. The grant aid was therefore announced to be an element of the Razali diplomacy, and was endorsed by the UN. Furthermore, the renovation of Baluchaung was one of the recommendations of the Structural Reform Program that had been set up by PM Obuchi in June 2000. Indeed, the supply of hydroelectric power fell by 46.1% in the fiscal year 1998/99,⁴¹ and according to MOFA, Baluchaung supplied 24% of Myanmar's total electricity production.⁴² It therefore seemed imperative that, if electricity production was to be sufficiently restored, Baluchaung would need renovating.

However, there is another angle to this story. Nihon Koei, which was, as expected, awarded the contract for the project to renovate Baluchaung, opened a new office in Yangon on 1 October 1999, citing the likelihood that Japanese ODA will soon be resumed.⁴³ It seems implausible that the opening of the new office in Yangon was not in preparation for the upcoming grant project for

the renovation of Baluchaung. However, the aforementioned Structural Reform Program did not even begin until June 2000, more than six months after the opening of the Nihon Koei Yangon office, and the Razali-dialogue began in October 2000, a year after the opening of the new office. This raises the question of why Nihon Koei publicly said, in October 1999, that Japanese ODA will soon be resumed.

This takes us to yet another angle of the Baluchaung project. While there were considerable international objections to the project and the questionable involvement of Nihon Koei, within the Japanese government itself, there seems to have been significant disagreement. While the Baluchaung project needed Cabinet approval, it also needed approval from the LDP's Overseas Economic Cooperation Special Committee, and at the time this committee was chaired by Suzuki Muneo. It was alleged that Suzuki supported the complaint by committee member Muto Kabun (former Foreign Minister) that it was not necessary for former UN Ambassador Owada to discuss the project with Aung San Suu Kyi, and instead, he himself should visit Myanmar and meet with the government. This led Suzuki, as committee chairman, to stop the grant aid until Muto could visit Myanmar.⁴⁴ Muto had visited Myanmar and met with Generals Khin Nyunt and Abel in February and November 1998, and again in December 2001. Indeed Muto was one of the main driving forces behind the Baluchaung project, and had been working hard behind the scenes since early 2001 to see the project reach fruition.⁴⁵

In August 2002, Foreign Minister Kawaguchi Yoriko became the first foreign minister to visit Myanmar in 19 years. She met with government leaders, Aung San Suu Kyi, and with UN Envoy Razali, who was also visiting Yangon at that time.

This engagement policy that can be characterised as "based on the core premise of economic cooperation",⁴⁶ has resulted, not only from the realisation of the ineffectiveness of any overt Japanese attempt at encouraging democratisation, but also from the reality of East Asian integration which is essentially business-led,⁴⁷ as well as from one aspect of Japanese (and indeed East Asian) Conservatism. If one assumes that the official government policy

of encouraging democratisation is not merely a 'smokescreen', then it must be thought that such economic cooperation will lead to democratisation, and this rests upon the premise that economic development leads to democratisation (which seems to have been integrated into East Asian Conservatism⁴⁸). However, the inability of the *tatmadaw* (Burmese Army) to institute widespread economic reforms does severely undermine such an assumption. An example of this one aspect of East Asian Conservatism can be seen by looking at the dual processes of national reconciliation in Myanmar. On the one side is the Razali dialogue between the SPDC and Aung San Suu Kyi, which does not include ethnic minority groups. Running in parallel to this is the National Convention, which does include members from ethnic minority groups, but does not yet include members of the NLD. This dual process highlights the contrasting perspectives of the *tatmadaw* and their domestic and international critics. While the *tatmadaw* see future developments (whether economic or political) as being dependent on reconciliation between themselves and the ethnic minority groups, advocates of democracy in Myanmar argue that it depends on reconciliation between the *tatmadaw* and the entire population of Myanmar, regardless of ethnic group. While foreign critics argue that Aung San Suu Kyi is an essential element of democratisation in Myanmar, the *tatmadaw* often say that she is in fact, impeding the process of national reconciliation (and hence democratisation). Such a viewpoint is often voiced by Japanese politico-economic elites, and evidence of this is the phenomena of "Suu Kyi Bashing"⁴⁹, whereby Aung San Suu Kyi is depicted as a 'pawn of the US', and a burden on development in Myanmar.⁵⁰ Japanese bureaucrats have often expressed such comments to the author during the course of this research. In contrast to this perspective is the seemingly overwhelming support for Aung San Suu Kyi among the Japanese public at large, as is shown by the weekly publication in the *Mainichi Shimbun* of Aung San Suu Kyi's "Letter from Burma" in 1995-6.⁵¹ Of course, what one must conclude from this is that the academic debate on the link between economic development and democracy is reflected in the clash between the official foreign policy and the diplomatic practice of the Japanese government. Essentially, the dual negotiations reflect both the contrasting

perceptions on economic development and democratisation in Myanmar, and the contrast between the domestic reality and international idealism.

Conclusion

One must conclude first with the seemingly obvious; Japanese foreign policy towards Myanmar in the post-Cold War era is a direct result of the failure of the ODA policy of the Cold War period. The *keizai kyoryoku* policy did achieve its goals of nurturing path dependence (i.e. future dependence on Japanese capital, goods and services) and hence also mutual dependence, but failed to develop the economy of Burma. This dependence was fulfilled and hence also perpetuated by Japanese ODA through which Japanese capital, goods and services were almost exclusively provided.

A classical analysis of such a bilateral relationship would explain Burma's dependence on Japan as being largely determined by the position of each country within the international economic system. Japanese dependence on Burma however, stemmed from geopolitical considerations and those factors that led Japan to first conclude a reparations agreement (access to markets and acquisition of natural resources), as well as from what would become the basic mechanisms of ODA disbursal. Firstly, Japanese foreign economic policy provided a dominant role for Japanese corporations and also for their access to state resources (the ever-expanding ODA budget), and such firms were reaping economic benefit from the status quo regardless of the decline in the Burmese economy. Secondly, bureaucratic inertia resulting from the dominant role of business and the increasing ODA budget provided almost no evaluation of aid effectiveness, and allowed politico-business elites to continuously harness state resources. Thirdly, the prevalent large-scale infrastructure projects required continual disbursals of ODA that, given the traditional implementation system of Japanese aid, inevitably flowed through the project initiators and hence supported existing transnational coalitions, and this resulted in path dependency. These factors were supplemental to the underlying strategic security rationale that is Burma's geographical location, which, when combined with Burma's staunch non-alignment, provided non-economic justifications for

ODA during the Cold War.

Despite (or because of) large amounts of Japanese ODA, the Burmese government displayed a continuous inability to change its policies. This led to a complete economic collapse in 1987-8, and made the maintenance of the status quo increasingly untenable. This provided the 'shock' that forced change and highlighted Burma as an example of Japan's failed foreign economic policy. However, the Burmese economic collapse increased Japanese dependence on continuing ODA disbursements *and* further constrained diplomatic manoeuvrability. While ODA disbursements were a core component of Japanese diplomatic efforts towards Myanmar, it was also imperative for Japan to prevent Myanmar from defaulting on its foreign debt (most of which was owed to Japan), and Japan was therefore dependent on disbursing debt relief, regardless of diplomatic developments. In this way, the very failure of Japanese foreign economic policy towards Burma increased Japan's dependence on Myanmar. The case studies of Yangon International Airport and Baluchaung have shown that relics of the traditional system of ODA disbursement still remain, and this, as shown, provides one aspect of the existing mutual dependence. Importantly though, the level of mutual dependence does *not* mean that Japan must provide ODA to Myanmar, only that the pressures to do so stem in part from the conditions of mutual dependence as outlined here. By far the largest outlay of Japanese ODA to Myanmar over the last 15 years has been debt relief. In this way, Japan has surely been paying for its past mistakes.

Notes

- 1 Burma was renamed Myanmar in 1989. The author will follow the line of the United Nations and use 'Burma' for the years preceding 1989, and for the years thereafter, 'Myanmar'.
- 2 See, http://www.mofa.go.jp/mofaj/gaiko/oda/shiryo/jisseki/kuni/j_99/g1-11.htm, and http://www.mofa.go.jp/mofaj/gaiko/oda/shiryo/jisseki/kuni/02_databook/eaj/top_eaj.html, visited on 22 June 2005.
- 3 See for example, IOKIBE, Makoto. "Gaikosenryaku no naka no nihon ODA [Japan's ODA as a Diplomatic Strategy]", *Kokusai Mondai*, No.517, April 2003, p.7.
- 4 See, for example, STOCKWIN, J.A.A. *Governing Japan: Divided Politics in a Major Economy* (Blackwell Publishers, Oxford), 1999.
- 5 According to the ADB, GDP growth rates for the 1990s averaged 6.1%. In FY2001, annual growth was recorded at 11.1%. See, <http://www.adb.org/Documents/Books/ADO/2003/>

mya.asp, visited 21 June 2005.

- 6 See, INOGUCHI, Takashi and NEWMAN, Edward. "Introduction: "Asian Values" and Democracy in Asia" Introduction to the conference *Asian Values and Democracy in Asia*, held on 28 March 1997 at Hamamatsu, Shizuoka, Japan, <http://www.unu.edu/unupress/asian-values.html>, visited on 21 June 2005.
- 7 This is an opinion the author has heard numerous times when talking with Japanese bureaucrats. See also, UCHIDA, Ichiro. "Embracing the Future: Japan must Rethink its Myanmar Policy", *Burma Debate*, Aug-Sept 1995. <http://www.burmadebate.org/>, visited on 21 March 2001, p.1. Also, TAKEDA, Isami. "*Nihon no tai Myanma- gaiko no yongensoku to wa*" [Japan's Myanmar Policy: Four Principles], *Gaiko Forum*, No.154, May 2001, (Toshi shuppan, Tokyo), p.56.
- 8 It should be added of course, that at the 9th ASEAN Summit in Bali in October 2003, ASEAN states showed universal support for Myanmar and its recently announced "Roadmap to Democracy". See Press statement by the Chairperson, 7th October 2003, <http://www.aseansec.org/15259.htm>, visited on 9 September 2004.
- 9 For example, Kyuma Fumio, then acting chairman of the LDP's Policy Research Council, concerning Japan's position regarding a US invasion of Iraq, said in 2002 that, "After all, Japan is like an American state", "Show understanding not support for the U.S. Interview with Kyuma Fumio", *The Asahi Shimbun*, 19 February 2002.
- 10 INOGUCHI, Takashi. *Japan's Foreign Policy in an Era of Global Change* (Pinter Publishers Ltd., London), 1993, p.107.
- 11 The "Agreement for Reparations and Economic Cooperation" was signed in Rangoon on 5 November 1954. See, *UN Treaty Series*, No.3543. The agreement for quasi-reparations, termed "The Agreement on Economic and Technical Cooperation" was signed in Rangoon on 29 March 1963. See *UN Treaty Series*, No.7490.
- 12 Between 1960 and 1988, Japan disbursed \$2 billion in aid to Burma. In 2001 prices this was equal to about \$6 billion. Source: "OECD: International Development Statistics" at <http://www.oecd.org/dataoecd/50/17/5037721.htm>, visited on 23 September 2004.
- 13 *Keizai Kyoryoku*, meaning 'economic cooperation', is the term used to encompass all aspects of Japan's foreign economic policy.
- 14 The following quote from PM Yoshida vividly illustrates such a perspective, "Although the Burmans called it reparations, for us it was an investment." BERNSTEIN, Gail Lee & FUKUI Haruhiro (Eds.). *Japan and the World. Essays on Japanese History and Politics in Honour of Ishida Takeshi* (St. Martin's Press, New York), 1988, p.181.
- 15 SUDO, Sueo. *The Fukuda Doctrine and ASEAN: New Dimensions in Japanese Foreign Policy*. (Institute of Southeast Asian Studies, Singapore), 1992, p.41.
- 16 YANAGA, Chitoshi. *Big Business in Japanese Politics* (Yale University Press, New Haven), 1968, p.204.
- 17 See, for example, OKANO, Kanki. *Nihon Baishoron* [Theories of Japanese Reparations] (Pacific Economic Shimposha, Tokyo), 1958, p.330. Also, YOSHIKAWA. *Nichihi Baisho Gaiko Kosho no Kenkyu* [Research on the diplomatic negotiations for Japan-Philippine Reparations] (Keiso Shobo, Tokyo), 1991, p.303.
- 18 MOFA, 1964 *Gaikoseisho* [Diplomatic Bluebook], p.87.
- 19 WALINSKY, Louis, J. *Economic Development in Burma, 1951-1960*, (Twentieth Century Fund, New York), 1962, p.93.
- 20 Ibid, p. 139.
- 21 The 33rd Diet Session, Foreign Affairs Committee (No. 16), 11 December 1959.

- 22 Yanaga, p.211.
- 23 The “up-down” style of formulating the content of ODA was introduced by PM Tanaka, and led to the ODA doubling plans in which total amount was more important than effectiveness. See Sudo, 1992, p.125.
- 24 Evidence of this is the self-advertised histories of both companies. For Nihon Koei, see <http://www.n-koei.co.jp/profile/history.html>, for Kajima Corporation, <http://www.kajima.co.jp/prof/overview/hst2.htm>, visited on 10 October 2004.
- 25 KUDO, Toshihiro, “Industrial Policy in Myanmar: Lessons from the Past”, p.227, Chapter 8 in KIRYU, Minoru (ed.). *Industrial Development and Reforms in Myanmar: ASEAN and Japanese Perspectives*, (White Lotus, Bangkok), 1999.
- 26 See for example, MURAMATSU, Michio and KRAUSS, Ellis S., “The Conservative Policy Line and the Development of Patterned Pluralism”, pp.516- 554, in YAMAMURA, Kozo and YASUKICHI, Yasuba (editors), *The Political Economy of Japan: Volume 1, The Domestic Transformation* (Stanford University Press, California), 1987. Also, INOUCHI, Takashi. *Japan's Foreign Policy in an Era of Global Change* (Pinter Publishers Ltd., London), 1993.
- 27 ‘1990 MOFA White Paper on ODA’, from ZHAO, Quansheng. *Japanese Policymaking: The Politics Behind Politics: Informal Mechanism and the Making of China Policy* (Praeger, Westport), 1993, p.178.
- 28 IMF, *Myanmar: Recent Economic Developments* (Washington, DC: IMF, 1 October 1995), pp.18-19. Quoted from MYA MAUNG. *The Burma Road to Capitalism: Economic Growth versus Democracy* (Praeger, Westport), 1998, p.138.
- 29 <http://www.adb.org/Documents/Books/ADO/2003/mya.asp>, visited on 23 September 2004.
- 30 http://www.worldbank.org/data/countrydata/aag/mmr_aag.pdf, visited on 23 September 2004.
- 31 The author has heard such comments while conducting interviews at MOFA, JBIC and JICA in 2003-4.
- 32 MOFA “The ODA Charter”, Ch 12 in Japan’s ODA Annual Report 1998. <http://www.mofa.go.jp/policy/oda/summary/1998/12.html>, visited on 24 September 2004
- 33 MOFA Press Release, 11 March 1998. <http://www.mofa.go.jp/announce/announce/1998/3/yanmar.html>, visited on 24 September 2004.
- 34 Nikkei Weekly, 27 April 1998, pp.1-2.
- 35 Ajinomoto, MFC, Postarion, TI Garment and Famoso Clothing. See, http://www.mingaladon.com/our_tenant_industries.htm, visited on 14 September 2004.
- 36 Japan’s ODA Summary 1998, <http://www.mofa.go.jp/policy/oda/summary/1998/12.html>, visited on 20 September 2004.
- 37 A full two years before the decision to finance the upgrading of Yangon International Airport, in 1996, ANA announced plans to begin twice-weekly direct flights from Osaka to Yangon. See, *Far Eastern Economic Review*, Vol.159, No.21, 23 May 1996, p.71.
- 38 State Peace and Development Council- the army junta.
- 39 MOFA Press Conference, 7 May 2002.
- 40 “Japan hit for Myanmar grant”, *The Japan Times*, 17 May 2001.
- 41 IMF Country Report No. 01/18, *Myanmar: Statistical Appendix*, January 2001, p.12.
- 42 MOFA Press Statement, 10 May 2002, <http://www.mofa.go.jp/announce/announce/2002/5/0510.html>, visited on 24 August 2004.
- 43 Nihon Koei News Release, 27 September 1999. <http://www.n-koei.co.jp/news/1999/1001.html>, visited on 15 September 2004.
- 44 “Munee ha giin no Myanma ODA toketsu jiken [The Myanmar ODA Freeze Affair of the

- Muneo Group of Lawmakers]", *Shukan Post*, 29 March 2002, http://www.weeklypost.com/jp/020329jp/news/news_9.html, visited on 6 November 2004.
- 45 "Dam Politics", *The Japan Times*, 13 May 2003.
- 46 Takeda, p.57.
- 47 See, for example, SHIRAIISHI, Takashi & KATZENSTEIN, Peter J. (editors). *Network Power: Japan and Asia* (Ithaca, New York), 1997.
- 48 Such East Asian Conservatism is perhaps best expressed by the 'Asian Values' debate, which has centred around the core premise that social and political stability are not only prerequisites for economic development but are themselves core values. Therefore any premature democratisation could severely threaten the twin goals of economic growth and maintaining social harmony.
- 49 NAGAI, Hiroshi, "Yuganda Media No Naka No Biruma [Burma as depicted in warped media]". *SEKAI*, no. 638, August 1997: pp.293-304.
- 50 OHMAE Kenichi, "Mrs. Suu Kyi is becoming a burden for a developing Myanmar", *SAPIO*, 12 November 1997.
- 51 The *Mainichi Shimbun* won the *Nihon Shimbun Kyokai* (Japan Newspaper Publishers & Editors Association) Award on 4 September, 1996 for carrying the series "Letter from Burma".

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