Japan-Myanmar: A ‘Special’ Economic Relationship

Chandrima Chaudhuri
Doctoral Candidate, Centre for Indo-Pacific Studies, School of International Studies, Jawaharlal Nehru University

Abstract: Japan’s economic relationship with Myanmar is an interesting one, as Japan, which had attacked Myanmar in 1940s, could form an intense economic relationship with Myanmar in the post-Second World War period. The focus of the paper would be to explore and examine Japan’s economic relationship with Myanmar, which is a ‘special relationship’. This relationship is very interesting since Japan had a favourable relation with Myanmar till 1988. After the military government took power, the Japanese government continued its engagement with it, despite pressure from the US. The Japanese government never cut-off its options with the military government and continued its economic engagement through humanitarian assistance. The 2011 dramatic election in Myanmar took the entire world by surprise, provided a boost to their economic engagement. This paper aims to understand the re-engagement between Japan and Myanmar at the backdrop of the democratic elections held in Myanmar in 2010.

1. INTRODUCTION

Myanmar has a huge strategic and economic importance-located between two rising nations- India and China, as well as, has huge economic potential and cheap labour. Japan has a special place for Myanmar since the Japanese army trained the ‘Thirty Comrades’ who played an important role in the independence movement. From the time of independence till 1988, Myanmar depended on Japanese aid. Unlike its Western counterparts, Japan did not close its diplomatic channels when the military government took power in 1988. The US pressurized the Japanese government to stop aid to the military government. Due to the ‘special relationship’ between these countries, Japan was in a position to influence the SLORC to adopt democracy which would improve their international standing as well. The US criticized Japan for continuing its relationship with the SLORC in the garb of giving humanitarian assistance. The Japanese government believed that engagement with the military government is the most pragmatic way to bring the military government to work towards democratization. In 2011, the democratic election in Myanmar has paved the way for Japan’s re-engagement with Myanmar. The Western countries especially, the US and EU countries were impressed by Myanmar’s efforts in bringing about reforms both in the political and economic sphere. This resulted in lifting up of sanction by these countries in 2012. Japan has always believed in the policy of persuasion rather the sanction policy of the Western countries. The relationship between these two countries is very unique. Despite the fact that the Japanese had unleashed a reign of terror during the 1940s, but this did not affect their relationship in the post-independence period. With Myanmar undertaking political and economic reforms after 2011, Japan has also adjusted its policies towards it in order not to lag behind. The Japanese government considered its engagement policy’s success, which ultimately made Myanmar adopt democracy.

2. PERIOD OF CLOSE RELATIONSHIP

Japan shared close relations with Myanmar from as early as the Second World War. The Burmese leaders who were a part of the ‘Thirty Comrades’ overthrew the British with help from Japan. Since the time Myanmar became independent in 1948, its most important economic relationship was with Japan. In 1954, Japan and Myanmar had signed a reparation treaty which marked the beginning of a ‘special’ economic relationship which continued even during the military government’s rule. Myanmar received US$ 250 million over a period of ten years, as war reparations which helped in developing productive relations between these countries. A large part of the aid was used for the construction of the Baluchaung Dam in Karkeni state and four major industrialization projects: light vehicle production, heavy vehicle production, farming production and electrical machinery production in Myanmar (Nemoto 2007:98). The Baluchaung hydropower plant was the largest post-War project that the Japanese supported, which meets 40 percent of Myanmar’s total power supply (Seekins 2007:49). The aid had kept on increasing over the years, which made Japan the highest aid donor to Myanmar. After Ne Win took power in 1962, the relationship reached its highest peak. Since Ne Win was a member of ‘Thirty Comrades’ trained by the Japanese army, he wanted to continue engaging with Japan. Ne Win’s centrally controlled economy under the name of ‘Burmese
Way to Socialism’ resulted in isolating the country. During the period of isolation, Japan had played an important role in sustaining the Ne Win government. Ne Win considered Japan to be less threatening due to its non-interfering foreign policy. This helped in enhancing the Japanese influence in Myanmar, so much so that the Japanese ambassadors were the only diplomats having direct access to Ne Win. Japan had its own economic interest in giving aid to Myanmar—firstly, Myanmar had huge natural resources as well as a huge market. Due to the close relationship with Ne Win, a Burmese lobby was formed whose members were Nobusuke Kishi (former prime minister), Shintaro Abe (former prime minister), Watanabe Michio (successor of the Nakasone faction of the ruling Liberal Democratic Party and Yoshihiko Yamaguchi (LDI member) who were sympathetic towards Myanmar (Steinberg 1990:59). In1965, additional compensation of US$140 million under the economic and the technical cooperation treaty. From the beginning of 1970s, the Japanese aid began to increase when Ne Win opened up the economy to deal with the political and economic problems. Till 1988, Japan had provided around US$ 2.2 billion aid and reparations to Myanmar. The close relation between Ne Win and the Japanese government resulted in an increase in the number of Japanese companies from two in 1960s to fifteen in 1990s. The pro-democracy protests in 1988 resulted in Ne Win resigning from Chairmanship of the BSPP. Ne Win had been very accommodating towards Japan and always emphasized the Japanese contribution in Myanmar’s nation-building process. Ne Win referred to Japan as ‘an elder brother’ of Myanmar and maintained close relations with the Japanese war veterans and often awarded them with titles. Japan's ODA to Burma became an important means to revitalize Japan’s economy (Seekins 1992: 250). Though the aid was meant to help Myanmar’s nation building process, the aid served Japan’s economic interests as well. Japan was able to create a market for its own goods, as well as, promote investments in Myanmar which helped in its own economic growth.

3. PERIOD OF LIMITED ENGAGEMENT

Ne Win’s erratic economy policies had led to mismanagement of the economy, which finally resulted in a popular uprising against him in 1988. Ne Win’s demonitization policy created hardships for both the rich and poor alike. There were huge food shortages which led to public protests and finally the BSPP collapsed. To control the political situation in Myanmar, a military government under the name of State Law and Order Restoration Council (SLORC) was set up by General Saw Maung. The 1988 military coup in Myanmar was a difficult phase for these countries that had such a close relationship. Till 1988 Japan had a pre-eminent position in Myanmar’s economy as the highest aid donor. Initially, Myanmar thought that Japan would continue giving aid because of the close relations during the previous government. Myanmar was surprised when Japan stopped its aid in 1989. The ‘8888’ uprising brought the democracy issue in Myanmar into limelight, which made Japan to sever its relations with Myanmar from September 1988 to February 1989 under the US pressure. Japan faced a dilemma on its Myanmar policy, mainly from two groups- firstly, its own business communities including government agencies (especially the Ministry of International Trade and Industry), business associations (such as Keidanren, the most important business association in Japan), individual corporations to continue engagement with the military government and the second group consisting of progressive journalists, intellectuals, lawyers, certain members of the Diet, domestic non-governmental organizations who wanted to put pressure on the military government by stopping aid (Seekins 1999: 3). This group supports the policy of the Western countries in dealing with the military government. As a result, Japan started following a ‘quiet diplomacy’ whereby providing humanitarian assistance to encourage the SLORC to stop its repressive policies and move towards democracy. But after five months, the three ministries of the Japanese government- Finance, International Trade and Industry and Foreign Affairs arrived at decision to recognize the military government in Myanmar. The Japanese government believed that this would encourage the military government to hold multi-party democratic elections. As soon as the SLORC announced its decision to conduct the election, the Japanese government decided to give aid in the form of humanitarian assistance. Thus, Japan has been always in-search of an opportunity to increase its aid to Myanmar. The election conducted in 1990, dealt a huge blow to the SLORC. The NLD won a majority by winning 392 out of 485 seats. Despite this, the SLORC refused to hand over power to the NLD. Japan tried to encourage the military government to undertake reforms so that they could justify their decision to continue aid to Myanmar. The US along with other Western countries started imposing sanctions on the country in order to isolate it, which eventually, would force the military government to transfer power to the NLD. Despite being an ally of the US, the Japanese government was reluctant to toe its line. Hence, it started following a flexible engagement policy to encourage the military government to bring about
democratization. Under the US influence, Japan had to unwillingly stop any new aid, though it continued to provide humanitarian assistance. The US criticized the Japanese assistance as it was more than the normal standards of humanitarian assistance.

In 1990, the Japanese government announced to give US$ 23.3 million as debt-relief grant in order to reward the SLORC for their decision to conduct elections. The US condemned the Japanese government who in the pretext of providing humanitarian assistance was in fact helping the military government to legitimize their rule. The Japanese government did not want to be left out in Myanmar, at a time, when countries, like Thailand, Singapore and Malaysia had started investing in a huge way. In 1995, when Aung San SuU Kyi was released from house arrest, paved the way for Japan to announce to re-start its ODA policy to meet humanitarian needs of the people in Myanmar. In 1998, Japan announced that it would give US$ 20 million for the expansion of Yangon International Airport (MOFA, Japan 11 March 1998). The international community criticized Japan’s decision since the military government had not made much effort to bring about democracy. The Japan justified its aid by pointing that this project was a part of pre-existing yen loan aid project. After 1998, the SLORC which had changed its name to the State Peace and Development Council (SPDC), marking a change in its policy and started a dialogue with the NLD members. This helped Japan to play an active role in Myanmar. Thus, Japan provided US$ 5.2 million for the repair of the Baluchaung hydropower plant. Aung San Suu Kyi also had softened her stance towards Japan by then. Whenever Myanmar undertook some political reforms, it was rewarded by Japan in the form of ODA grant. Since Japan was a close ally of the US, it could not afford to completely ignore the latter’s decision to stop engagement with the military government. Still, sometimes there were disagreements between Japan and the US over the Myanmar issue. McCarthy acknowledges that Tokyo has adopted an unusual ‘middle ground approach’, focused on ‘fostering democracy as a by-product of encouraging economic development’ (McCarthy 2000: 251).

In 2002, the Japanese government was forced to reduce its aid due to the house arrest of Aung San Suu Kyi, it still continued a low-key engagement policy. Its ODA share in 2000 to 2002 accounted for US$ 51.78, 69.86 and 49.32 million (Pongyelar 2007: 8). The Japanese government announced the provision of grant assistance to the Myanmar junta on 10 May 2002 to modernize the Baluchaung No.2 Hydro Electric Power Plant in response to the release of Daw Aung San Suu Kyi on 6 May (MOFA, Japan 10 May 2002). The sudden release of Aung San Suu Kyi in 2002, made the Japanese government announce that it would give aid to develop the Myanmar’s information technology sector (Pongyelar 2007:8). The 2003 ‘Black Friday’ incident, where Aung San Suu Kyi’s convoy was attacked by a mob, backed by the military government, whereby she was again put under house arrest marked a low in Myanmar’s image in the international community. The US reacted to this incident by imposing its second round of sanctions by banning imports from Myanmar for three years, to place Myanmar’s top leaders’ financial transaction restrictions, asset freezing and visa grant control (Seekins 2007:439). Japan also had to stop its aid, but it tried to persuade the military government to release Aung San Suu Kyi, which would enable the Japanese government to resume its aid. As a result, when the military government released 91 political prisoners, Japan grabbed the opportunity and announced to resume its aid. In 2004, Japan gave the regime human resource development scholarships to the value of about US$4.86 million and in July a grant of about US$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 (Akimoto 2004).

In 2007, the death of the Japanese photographer Kenji Nagai in Yangon marked a low phase in their relationship. There were widespread protests going on against the government led by the monks against the rise in the price of fuel. Japan had repeatedly told the SLORC to stop using brutal methods to deal with protests. The death of the Japanese photographer who was filming the protests was an insult to Japan. The SLORC clearly denied that they had any role in the death of the photographer and The Japanese foreign minister Komura Mashahiko mentioned in a press conference that Japan did not support Myanmar’s stand and announced the reduction in the humanitarian assistance to only those projects which directly benefit the people. During this period, the Japanese companies had their branches in Myanmar and continued doing minimal business. Japan also indirectly helped Myanmar by supporting projects related to ASEAN, which benefited Myanmar also. Hence, this incident did not bring much of a change in Japan’s policy towards Myanmar.

In 2008, Myanmar suffered from a huge natural disaster-Cyclone Nargis, causing huge destruction and large number of fatalities. The Japanese government offered 28 million yen in aid to the
Myanmar junta to help tackle the aftermath of the cyclone (MOFA, Japan 5 May 2008). The amount of aid granted to Myanmar in response to the devastation caused by Cyclone Nargis total approximately 437 million yen. In addition, the Japanese Prime Minister Fukuda Yasuo urged Chairman Than Shwe to accept Japanese emergency medical teams in a letter dated 9 May 2008 (MOFA, Japan 25 May 2008). Due to the Japanese government’s close relation with the military government, Myanmar accepted aid from Japan. The Japanese government also tried to mediate between the military government and the Western countries, trying to convince Myanmar to accept assistance from these countries.

4. REASONS BEHIND JAPANESE AID TO MYANMAR

The Japanese government’s decision to continue aid to the military government, despite, pressure from the US to impose sanctions indicates that Japan was interested in following an independent foreign policy towards Myanmar. There were mainly two strategic reasons behind the Japanese government’s decision to continue aid to the military government, despite no substantive improvement in the political conditions in the country. The first intention was to counter the Chinese economic clout in Myanmar. The sanctions imposed by the US forced the military government to turn to China, who itself suffering from international criticism for human rights abuses, decided to help the military government in Myanmar. The geo-strategic location of Myanmar, made the Japanese policy makers to adopt a unique policy of flexible engagement towards Myanmar. Japan realized that the US policy of sanctions will not be favourable to its national interest. Japan needed to maintain its position in Myanmar, in order to prevent the military government from coming under the complete influence of its arch-rival, China. Japan believed that the policy of isolation instead of pushing the military government to adopt democracy and market-economy, would further push Myanmar towards China. Japan became concerned with the deepening engagement between China and Myanmar, which made Japan to also continue engagement with the military government. As a result, whenever the military government took steps towards initiating a dialogue with the NLD or release political prisoners, Japan quickly announced more aid. Hence, Japan’s aid was a strategic tool to increase its economic influence in Myanmar.

The second motive behind Japan’s policy was to tap the business opportunities in Myanmar. Myanmar’s geo-strategic location along with its huge natural resources and cheap labour makes it an attractive investment location. After the military government took power in 1988, the ASEAN countries, namely Singapore, Thailand and Malaysia, on the pretext of a ‘constructive engagement’ policy, increased their investment in Myanmar (Yoshimatsu 2004: 417). Japan did not want to lose out on the economic opportunities in Myanmar and hence, continued to maintain its economic presence through ‘humanitarian assistance’ to the military government. The Japanese companies who were already involved in various projects in Myanmar, also forced the government to continue engagement with the military government, in order to prevent them from suffering losses. Due to these motives, the Japanese government refused to change its policy even in the wake of 2007 riots and 2008 Cyclone Nargis.

5. JAPAN’S RE-ENGAGEMENT WITH MYANMAR

The historic election in 2010, where Thein Sein formed the government was an important marked the beginning of a new chapter in Japan-Myanmar economic relationship. In 2011, when most of the Western countries announced the lifting of the sanctions and started renewing their ties with Myanmar, Japan, which had hugely invested in Myanmar, quickly jumped in to take advantage of the opportunity. The economy had stagnated during the two decades of military rule due to the sanctions imposed by the Western countries, which had affected infrastructural development as well as training of the work force. The visit of the Japanese Parliamentary Vice Minister of Foreign Affairs resulted in the resumption of aid. Myanmar had invited many business groups from Japan to discuss economic opportunities there. The Japan International Cooperation Agency (JICA) announced that it would give US$ 503 million for infrastructural development in Myanmar. Thein Sein has reaffirmed his commitment to improve the conditions for investment in the country. The total trade has increased almost five fold to US$822 million in 2012. With Shinzo Abe becoming the prime minister in 2012, it has helped in developing close relationship between these countries. Taro Aso during his visit to Myanmar pledged a loan of US$ 942 million to show their support for the reforms in Myanmar. He mentioned that ‘the Myanmar side has thanked us for waiving their debts, many times. Wing Aung, head of the Japan-Myanmar Association from Myanmar side also confirmed that, with the help of Japan and its technology, we will be able to create jobs for the people and enter a new age of economic development’ (Reuters 4 January 2013). These countries have agreed to cooperate on a bilateral
investment agreement as well as a bilateral agreement on technical cooperation. In 2013, Shinzo Abe visited Myanmar to announce Japan’s decision of waiving off the debt of US$ 1.74 billion and also ODA loan US$ 503 million for three projects. During Abe’s term, there has been a flow of investments along with waiving off debt. Both ‘the governments also shared the intention to work together in various areas such as acceleration of their work towards the early signing of a bilateral investment agreement, an enhancement of their efforts towards a bilateral agreement on technical cooperation and the development of the Thilawa Special Economic Zone (SEZ), in order to strengthen bilateral economic relations including through trade and investment’ (Myanmar Embassy).

The decision of Thein Sein to suspend the Chinese funded Myitsone dam project also sends a signal to the world that Myanmar was interested in diversifying its foreign relations. Myanmar’s Construction minister stated that Aung San Suu Kyi’s ‘Made in Myanmar’ campaign has helped in attracting foreign currencies through exports, which is a change from the earlier time of importing materials for infrastructure construction. With the help of Japan, Myanmar is trying to develop into an export hub. Myanmar has requested the Japanese government to start investing in the country. Myanmar has also appreciated Japan’s decision to waive off its debts. Win Aung, who was the head of the Myanmar side of the Thilawa SEZ, stated that ‘with the help from Japan and its technology, we will be able to create jobs for the people and enter a new age of economic development’ (Taipei Times 6 January 2013). Thilawa is going to be Southeast Asia’s first industrial park where the financial, insurance and medical service sectors, light industries (labour intensive, but nontraditional sector), logistics and transportation sectors, New Township and commercial sectors, and R&D, Incubation, and vocational training are likely to form the major component of Thilawa (Mishra 2014:3). Myanmar also took help from Japan to clear its arrears at the international financial institutes. In 2016, Japan has announced to finance 49 percent of the new Yangon International Airport. In 2014, Myanmar became the largest recipient of Japanese aid. Myanmar was always on a look out for a chance to resume its ties with Japan. Thein Sein after coming to power began a series of reforms to remove economic distortions like a new foreign investment law, introduction of a daily foreign exchange action and reunification of market and official exchange rates. The growing camaraderie between Myanmar and the US has helped in removing problems between Japan and the US. This has paved way for full engagement between Myanmar and Japan.

Shinzo Abe is the son of Shintaro Abe and Kishi Nobusuke, who were part of the ‘Burma lobby’, so he is eager to develop close relations with Myanmar. Aung San Suu Kyi visited Tokyo in November 2016 to ask for more investment and aid from Japan. Abe promised 800 billion yen over a period of five years for peace building and development efforts. Out of this 40 billion yen is to be used for the development of ethnic minorities in Myanmar. Myanmar needed Japanese help for developing a market economy system. Thein Sein wanted to improve his image so he wanted more investments from Japan, which would create more employment opportunities. As a result, Myanmar’s Commerce Minister U Win Myint attended a seminar in Tokyo, where he called on the Japanese enterprises for their active investment. The Japanese vice minister of the Ministry of Economy, Trade and Industry reciprocated by promising support for infrastructure and personnel training. Japan knew that with the US lifting up the sanctions, there would be a huge competition between countries to take advantage of the economic opportunities there (Shihong 2016:167). Japan has always rewarded Myanmar in order to encourage them to bring about reforms. Myanmar has very few indigenous industry due to several years of economic negligence by the military government. Myanmar became eligible for new loans. The amount of aid that Japan has been providing Myanmar is huge when compared to Japan’s support for democracy in other countries. Myanmar signed an investment treaty with Japan in December 2013 to enhance Japanese investments for infrastructure-related projects, including a hydropower plant by Marubeni; air transportation and related technology by Sumitomo, NEC, and Toshiba; a water supply project by Kubota; and a steel production joint venture between JFE Steel and Myanmar’s Ministry of Construction (Schoff 2014).

The 2015 election, which was a milestone in Myanmar’s democratic process, whereby the NLD won a majority and formed the government has provided more impetus to Japan’s relationship with Myanmar. Initially, the Japanese government was skeptical about the NLD’s approach towards Japan, for Aung San Suu Kyi was critical about the Japanese engagement with the military government. Hence, the Japanese government started holding meetings with the NLD members and pledged their full support to help Myanmar in its democratic process. The visit of Aung San Suu Kyi, who is the State Councillor as well as the foreign minister, to Japan in November 2016, put to rest all suspicions and requested Japan for economic assistance for Myanmar’s development.
The main intention behind this visit was to convince Japan about the improved investment opportunities in Myanmar, which would enable more and more Japanese companies to invest in the country (Reuters 1 November 2016).

6. CONCLUSION

The 1954 reparation agreement helped in establishing a 'special' economic relationship between Japan and Myanmar, which has been continuing, though at a reduced scale during the military government’s rule, has once again gained pace with the civilian government coming to power in 2011. Myanmar was depended completely on Japanese aid for nation building after its independence. The huge amount of aid and reparations provided by Japan helped Myanmar when the Western countries had isolated it. Despite the US pressure, the Japanese government did not sever its ties with the military government. The Japanese approach was based on the principle that ‘economic stability would help in bringing about democracy and market-economy’. Hence, Japan tried to encourage the military government in Myanmar to work towards democratization by providing with aid. The Japanese government’s Myanmar policy was consistent, where the aid was used as an important foreign policy tool.

With the civilian government coming to power in 2010, Japan had shown the most enthusiasm in re-engagement with Myanmar. Myanmar-Japan relationship based on traditionally friendly relations is moving forward with vigour in the 21st century. A strong trust has developed which helps these countries to keep their relationship on a positive track. Japan’s active engagement with Myanmar serves its strategic interests. After some many decades of civil war and poor governance has left the Myanmar’s economy in a poor condition. Japan believed that the sanction policy caused greater harm to the public. Japan believed that the engagement policy would help it to take advantage of the improved political situation in Myanmar. Japan tried to maintain a balance between engaging with the military rulers as well as supporting democracy. Japan has always supported Myanmar’s efforts in bringing about reforms. Japan was of the opinion that the military government would be able to move towards democracy in a supportive environment as sanctions would have a negative impact on the country. The Japanese government knew that one cannot completely neglect the military government. Whereas, the civilian government coming to power in 2010 removed a major barrier in their relationship, the NLD government coming to power has set the pace for a robust economic relationship.

REFERENCES


Seekins, Donald M. (2007), Burma and Japan Since 1940: From "Co-prosperity" to "Quiet Dialogue", Copenhagen: Nordic Institute of Asian Studies Monograph


Shihong, Bi (2016), “New Developments in Japan-Myanmar Relations after the Thein Sein administration came to power”, in Li Chenyang, Chaw Chaw Sein and Zhu Xianghui’s Myanmar: Re-integrating with the International community, Singapore: World Scientific Publishing Company


The Myanmar Embassy (2013), “Myanmar and Japan leaders welcome comprehensive assistance projects ongoing or under consideration by relevant organizations including Government of Japan and NGOs confirm to further promote cooperation”

The Taipei Times (2013), “Japan seeks opportunity in Myanmar”