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***Session IV: New and old donors -
Complementing or competing approaches to development?***

Prof. Dr. Marie Söderberg
The European Institute of Japanese Studies
Stockholm

Asian Security and the Role of Japanese ODA

Marie Söderberg

Lacking the capability to send troops abroad, due to constitutional restraints, ODA (Official Development Assistance) has since the end of the 1970s been one way for Japan to contribute to international society and peace and stability on a global basis. Main focus has been on Asia and the development of economic infrastructure such as roads, railways and ports. This also assisted Japanese industry in establishing itself in the area and promoted an increase of trade. In Japan there is a strong belief in development through industrialization, the way Japan developed itself.

As a responsible DAC¹ member Japan has poverty reduction and the achievement of the Millennium Development Goals as main goals for its foreign aid something which is shared by other donors. Security has been seen as a prerequisite for this and there is an increased securitization of aid, not only in Japan, but among all the DAC members. Again and again during the 1990s it had been proved that years of development could quickly be wiped out by internal fighting as well as war with neighboring states. In 2004 a security system reform was endorsed and DAC guidelines specify a number of recommendations for action in order to promote peace and security.

In the revised Japanese ODA charter of 2003 it is clearly stated that 'The objectives of Japan's ODA are to contribute to peace and development of the international community and thereby to help ensure Japan's own security and prosperity'. In this charter four priority issues are set out; poverty reduction, sustainable growth, addressing global issues and peace building. In the new expanded priority for international cooperation adopted in 2007 there were some changes in the sense that poverty reduction is no longer a priority issue of its own, the fight against terrorism has been added to the part on peacebuilding and human security has become a priority issue of its own.²

Later this year (2014) a new revised ODA charter will be announced again. Some indication on what this charter will contain can be found in Japan's New Security Strategy³ announced in December 2013. According to this document Japan should step up its activities and in the future make 'proactive contribution to peace' which stipulates 'strategic utilization of ODA'. The present government led by Prime

1 DAC is the Development Assistant Committee of the OECD.

2 Marie Söderberg, „Foreign Aid as a Tool for Peace Building: is the goal security or poverty reduction?“, in: Marie Söderberg and Patricia A. Nelson, *Japan's Politics and Economy; Perspectives on change*, Routledge, London and New York 2010, p.105.

3 <http://www.cas.go.jp/jp/siryou/131217anzenhoshou/nss-e.pdf> (accessed May 30, 2014).

Minister Abe has inaugurated a National Security Council which has a new secretariat in charge of planning and coordinating security issues. This will surely also include utilization of some of the ODA funds.

Japan's New Security Strategy puts an emphasis on strengthening the US-Japan alliance. Here ODA has for a long time played a role. Already in the 1980s there was this talk of burden sharing (*yakuwari buntan*) where the US was to take the military responsibility in wars and Japan would thereafter assist in peacebuilding by providing ODA.⁴ In the 21st century there have so far been two major interventions, both with strong US leadership, one in Iraq and one in Afghanistan. In 2005-06 Iraq became the top recipient of Japanese ODA, indicating that peacebuilding and the fight against terrorism was given considerable space within the budget. Japan was however not alone, 9 other DAC countries also had Iraq as a top recipient. Japanese contribution was second only to the US.

Concerning Afghanistan Japan's Self Defense Forces in 2001 conducted refueling mission for US vessels (and later also allied naval vessels) conducting anti-terrorism activities outside Afghanistan in the Indian Ocean.⁵ Japan hosted the International Conference on Reconstruction Assistance (ICRA) to Afghanistan in 2002 and yet another donor conference in 2012. At first Japanese ODA to Afghanistan was quiet small in numbers but when the Self Defense Forces was withdrawn from refueling missions in 2009, Japan pledged 5 billion US dollars in ODA to Afghanistan and thus became a major donor.

Another objective stated in Japan's new National Security Strategy is to improve the security environment of the Asia Pacific region. North Korea with enhanced capability of WMD (Weapons of Mass Destruction), including nuclear weapons and ballistic missiles, is seen as a threat. So is China's rapid advance in military capability and intensified activities in various areas in East China Sea including the Senkaku/Diaoyu islands as well as the Chinese Air Defense Identification Zone announced in November 2013. South China Sea is deemed important, especially the sea-lanes that are vital for transportation of goods as well as bringing oil from the Middle East to Japan. As China is advancing its presence in the South China Sea Japan has felt that it should cooperate with the ASEAN countries that also have territorial disputes with China to find legal solutions to those. A major goal is to protect freedom of navigation in the region.

4 Yasutomo, Dennis T., *The manner of giving: strategic aid and Japanese foreign policy*, Lexington Books, Lexington, Mass., 1986.

5 Paul Midford, „Japan: balancing between a hegemon and a would be hegemon”, in: Marie Söderberg and Patricia A. Nelson, *Japan's Politics and Economy; Perspectives on change*, Routledge, London and New York 2010, p. 50.

Japan has been promoting multilateral regional security cooperation when it comes to maritime safety and antipiracy activities. It has played a vital role in the formation of RECAAP (Regional Cooperation Agreement on Combating Piracy and Armed Robbery) through which information exchange is conducted regarding crimes at sea. Besides multilateral arrangements Japan is also working bilaterally concerning maritime security with many of the ASEAN countries. Here large scale ODA packages are part of the deal. In 2006 Japan announced that it would provide Indonesia with three patrol boats financed through ODA. Although officials in charge of ODA are averse, aid has gradually been used more often for 'non-traditional' security issues such as antiterrorism and piracy. Labeled law enforcement issues these 'grey zones' became eligible for Japanese ODA.⁶ The Japanese Coast Guard has through aid money provided education and training on antipiracy with Southeast Asian countries and last year (2013) the Philippine Coast Guard received 10 patrol boats financed by Japanese ODA. This kind of assistance has become an important tool in the Japanese balancing strategy towards China. It assists the countries to build capacity to defend themselves but also to build a network of security partners among maritime countries facing China and is partly made to make up for relative US decline. Although the patrol boats are meant for antipiracy and safety of navigation and not for challenging other states on territorial issues it still sends a political signal. The impetus given to 'strategic use' of ODA in Japan's new national security strategy makes it likely that we will see more of this kind of aid in the future.

Since 2011 Japan has been acting proactively and in fact has taken a leadership role in preparing for other donors to enter Myanmar again. Japanese assistance to Burma (now called Myanmar) started with war reparations in 1954. During the time of General Ne Win's Revolutionary Council (1962-88), Japanese ODA to Myanmar was unusual for several reasons. Burma was a one-party military-controlled state that ran a centrally planned Soviet-style economy. It ordered a massive nationalization of foreign firms as well as the closing down of private enterprises for the benefit of state corporations that were to control most aspects of the economy. Capitalist Japan provided assistance although there was no significant trade (apart from the ODA-driven trade) or Japanese investment. Over the period 1970-88 two-thirds of all bilateral aid to Burma came from Japan. In September 1988 when nationwide protests broke out in Burma and the system collapsed ODA was stopped but after five months Japan gave formal recognition to the new government and reopened aid for projects that were already in the pipeline (although new loan projects were not allowed as debts had not been repaid). In spite of human right abuses and the fact that the new

6 Céline Pajon, „Japan's 'Smart' Strategic engagement in Southeast Asia", The Asan Forum, December 06, 2013 p. 5.

junta abolished the constitution, a sanctions policy in line with those of the US and other Western powers was not considered appropriate from a Japanese perspective. The Japanese government kept a low profile but would rather encourage the process of post-colonial and economic development in Myanmar and support its leaders in this through a policy of non-intervention.⁷

From 1997 (the same year Myanmar joined ASEAN) Japan took a more proactive stand but policy fluctuated. Aid was stopped after the so-called Depayin incident⁸ and the US ban on financial transactions with Myanmar and exports to the US, but was quickly resumed again in the form of grants for humanitarian and grassroots assistance. From 2004, the new military regime became more determined to pursue its own policy towards what it called “disciplined democracy”. It was a more confident government that was tired of Western countries’ criticism and sanctions policy. It put less effort into gaining political and economic assistance even from Japan and ASEAN, instead focusing on cooperation with China as well as countries such as Thailand, India, Russia and even North Korea. The Japanese government still kept its engagement policy, kept up its contacts with the Myanmar government and continued with the ODA but on a smaller scale.⁹

Even if yen loan assistance was cut, humanitarian assistance on a lower level has been ongoing all the time. Education has been one of the areas that Japan has focused on and around 300 people a year have received some kind of education through various forms of Japanese ODA projects. Two of the ministers in the present government hold PhDs from Japanese universities.¹⁰ The health sector is another area where Japan has traditionally been active. The Myanmar regime held general elections in November 2010 with 25 per cent of the seats reserved for the armed forces. The military-backed Union Solidarity and Development Party (USDP) won 80 per cent of the votes.¹¹ Shortly afterwards a number of military officers took off their uniforms and formed a nominally civilian government. Myanmar’s parliament convened in January 2011 and the following month selected Thein Sein as President. A process of economic and political reforms was initiated.

Most of Myanmar’s old payment arrears were cleared in a series of operations in which the Japanese government played a major role. At the time of President Thein

7 Kazunari Morii, *Japan’s persistent engagement policy towards Myanmar in the post-cold war era: a case of Japan’s “problem driven pragmatism”*, PhD thesis at the Department of Politics and International Studies, University of Warwick, September 2011, p. 148.

8 On May 30, 2003 Aung San Suu Kyi and her followers were attacked just outside Depayin by a gang armed with bamboo staves and swords. As many as 70 or 80 of her followers were killed.

9 Ibid Morii, *Japan’s persistent engagement policy*, pp. 241-44.

10 Interview with Tanaka, March 2013.

11 Gaens, Bart, *Political change in Myanmar: filtering the murky waters of “disciplined democracy”*, Finnish Institute of International Affairs, FIIA Working Paper, February 2013.

Sein's visit to Tokyo in April 2012, debt cancellation and a rescheduling of a total amount of 50 billion yen (\$600 million) were announced. In November 2012 then Japanese Prime Minister Yoshihiko Noda pledged a new loan package of roughly \$600 million. This loan aid was to be mainly used for economic infrastructure such as the rehabilitation of electricity in Rangoon, the building of a structure for a Special Economic Zone in Thilawa, and regional and rural development of electricity, water and roads. In January 2013 Myanmar's arrears to the World Bank and the Asian Development Bank were also cleared through bridging loans of \$900 million from the Japan Bank for International Cooperation.¹²

When the new Japanese Prime Minister, Shinzo Abe, visited Rangoon in May 2013 – the first visit by a Japanese Prime Minister in 36 years – he approved the assistance being conditioned on the reform process as well as the debt relief. The expectation is that as ODA has resumed for Myanmar, it will very quickly reach the same level as Japan is providing for Vietnam and India, which is roughly \$600 million a year. Other donors are now also pouring in. EU opened a representative office in 2012 and lifted most of its sanctions in 2013 citing Myanmar's 'remarkable process of reform'. In 2012 US President Barack Obama paid a visit as well.

There are several political incentives for increasing Japanese ODA to Myanmar. One is hedging against Chinese influence in Southeast Asia. While Western countries refrained from giving development assistance due to human rights violations, until 2011 China had two decades of relatively smooth political friendship and economic cooperation with Myanmar. The Chinese government had become increasingly assertive in its policy towards Myanmar and did not think that the elections in November 2010 would imply any substantial changes for the country. When Thein Sein visited Beijing in May 2011 the Chinese talked about a "comprehensive strategic cooperative partnership" and in their new five-year plan launched the same year Yunnan Province was seen as the bridgehead for Chinese engagement in the Indian Ocean. Thanks to the oil and gas pipeline built through Myanmar, China was no longer to be confined to routes through the Pacific Ocean but would have a second option for receiving oil and gas from the Middle East. It was not until the suspension of construction of the Myitsone dam after local protests that China realized that there were changes going on in Myanmar. By China the suspension was seen as a result of Western efforts to sabotage Chinese investment in Myanmar.¹³

In the spring of 2011 Thein Sein went not only to Beijing but also to Tokyo, which promised to provide ODA. At that stage tension between Japan and China, which

12 Rieffel and Fox, *Too much, too soon?*, pp. 46-47.

13 Sun, Yun, "China's strategic misjudgment on Myanmar", *Journal of Current Southeast Asian Affairs*, 31, 1 (2012), pp. 73-96. 42

raised in connection with the Senkaku/Daoyutai dispute in 2010 when the captain of a Chinese fishing boat was arrested for ramming one of the vessels of the Japanese coastguard, had increased substantially. Japanese ODA to Southeast Asia during the 1970s and 1980s, compared with ODA to geographically more distant places, was seen quite positively both by Japanese domestic public opinion and by the recipients. Industrialization and living standards in this part of the world have increased substantially, although this is surely not only due to Japanese ODA. The Japanese model of development through industrialization, a strong state and export-led economic growth gained some fame. In Japan there was a sense of pride in what was happening and the Japanese government sponsored a report by the World Bank on the development in East Asia.¹⁴ As Myanmar was starting to open up some people saw this as a new chance for Japan to make a positive contribution to Asian development.

From a political angle ODA to Myanmar could also be seen as way for Japan to exert stronger influence in ASEAN where Myanmar this year holds the chairmanship. Chinese expectations of Myanmar are support for China's position on South China Sea issues at ASEAN. Three key ASEAN members – Vietnam, the Philippines and Malaysia – have major territorial disputes with China in the South China Sea, with the tensions rising since 2011. ASEAN claimants have been seeking to engage in multilateral negotiations with China, through ASEAN as a group, to mitigate the overwhelming leverage of a powerful China during bilateral negotiations with individual countries. This kind of multilateral negotiation would certainly have been in Japan's political interest, not least with its own territorial issues in mind. China, however, has consistently pursued a bilateral negotiation formula to settle the disputes. China has insisted that Myanmar support its positions, especially the 'bilateral negotiations' formula at ASEAN.¹⁵

Another political incentive for Japanese ODA to Myanmar is on a personal level. The present Prime Minister, Shinzo Abe, has long-established relations with Myanmar. As he expressed it himself at a meeting with President Thein Sein in May 2013, on the first visit to Myanmar of any Japanese Prime Minister in 36 years, 'My grandfather, former Prime Minister Nobusuke Kishi, and my father, former Foreign Minister Shintaro Abe, have visited (Myanmar), so it is my family's third visit.' Thein Sein replied that '(Abe) is a close family friend', referring also to the determination of Abe's wife, Akie, to build schools in the country. For years, she has been involved in raising funds in that effort.¹⁶ During Abe's visit in May 2013, he and President Thein

14 *The East Asian miracle: economic growth and public policy*, Oxford University Press for the World Bank, Oxford, 1993.

15 Sun, "China's strategic misjudgment on Myanmar", pp. 73-96.

16 http://ajw.asahi.com/article/behind_news/AJ201305270087 (accessed June 6, 2013).

Sein agreed that the two nations would also enhance dialogues on security issues and facilitate cooperation between defense authorities.

From an economic point of view there are several incentives for ODA to Myanmar. Toshihiro Kudo, a senior research fellow and expert on Myanmar issues at the Institute of Developing Economies, says that Japanese companies are increasingly seeking alternative investment destinations to China, and that together with Myanmar, which is trying to diversify its economic partners, Japan can establish a win-win relationship. Trade and business people, however, note other things as well. One is that Japanese investment in large-scale manufacturing follows cheap labor. According to a Jetro survey published in December 2012, Myanmar has the cheapest wages in Asia. It showed the annual pay burden for a worker in manufacturing totaling \$1,100 per year. That compares with \$1,478 in Bangladesh, \$2,602 in Vietnam and \$6,704 in neighboring Thailand. About 4000 Japanese executives per month visited Myanmar in 2012, making it the second most popular destination after Thailand.¹⁷ Cheap labor and an untapped market of more than 60 million people are attracting Japanese companies.

During his official visit to Myanmar Prime Minister Abe was accompanied not only by government officials but also by representatives from 40 different Japanese companies who were brought along to various receptions and were able to meet the Prime Minister as well as other top people within the Myanmar government. In the international aid regime such as the Busan Agreement of 2011, cooperation with private industry has recently been given greater emphasis. In Japan this has been an old tradition, especially in Asia where Japan liked to use the broader concept of economic cooperation rather than ODA. This, besides ODA, also encompasses other official flows (that is official credits that are not concessional enough to be classified as ODA) as well as private investment.¹⁸

According to the Japanese officials in Rangoon, so far there has not been that much investment. There is a great deal of what is nicknamed NATO, No Action Talk Only, and there are several reasons for this. One is the lack of infrastructure such as roads, energy, railways and ports. Besides this there is also a lack of soft infrastructure, which means rules and regulations. The Myanmar government has difficulty processing all the projects requested and there are a number of new laws waiting to be adopted. In spring 2013 it was not yet possible to send money out of the country and some US sanctions against companies cooperating with Myanmar were still in place.

17 <http://www.bloomberg.com/news/2013-05-24/abe-heads-to-myanmar-as-japan-inc-eyes-cheapest-wages-in-asia.html> (accessed June 6, 2013).

18 Söderberg, Marie (ed.), *The business of Japanese foreign aid: five case studies from Asia*, Routledge, London, 1996, pp. 31-50.

Currently China remains Myanmar's biggest patron. Led by investments in energy, China and its companies pledged more than \$14 billion for Myanmar in the fiscal year ended March 2011, nearly 70 per cent of total foreign investment. Japanese companies invested just \$212 million in Myanmar between 1988 and 2011.¹⁹ From a very low level Japanese investment in Myanmar has risen more than tenfold between the end of 2012 and 2013. China, in turn, has significantly reduced its foreign investment. In the fiscal year ended April 2013, China had pledged \$407 million in new investments in Myanmar, about a tenth of the \$4.3 billion the year before. Between April 2013 and January this year, Chinese investment in Myanmar was only \$46 million. Still, China is Myanmar's biggest source of foreign direct investment, and its largest trading partner.²⁰

Thai, South Korean and Indian companies are other investors that have entered the field and are ready to step up their activities if the situation improves. So are a number of other Western companies, so the situation may look quite different in a few years' time. ODA is one way for the Japanese government to assist Japanese companies in positioning themselves for future growth.

According to the multidimensional poverty index²¹ which takes into account such things as access to clean water, to healthcare and to education, quality of housing, and so on, Myanmar ranks 14th from the bottom out of 109 nations for which data are available. So Myanmar is indeed very poor. This has not always been the case. Situated on the trade route between India and China, historically speaking it has been a rich country and one of the world's biggest rice exporters. Poverty has only been a feature since independence from the British after World War II, under harsh military regimes and during the recent decades of Western sanctions.

There are thus clearly humanitarian incentives for providing ODA, which Japan has been doing all the time, although it was somewhat scaled down after Western sanctions were imposed. Japan is assisting agriculture and rural development as well as giving assistance to ethnic minorities. It is also taking part in Myanmar's action plan to combat human trafficking. This is a severe problem with people being sold as slave labor or for prostitution.²²

Recent years the link between peace and development has been clearly established. This is part of a broader "human security" agenda developed under the leadership of

19 <http://uk.reuters.com/article/2012/10/02/uk-japan-myanmar-idUKBRE89118P20121002>. (Accessed May 15 2013)

20 <http://online.wsj.com/news/articles/SB10001424052702304655304579552963238417846> (accessed May 31 2014).

21 <http://www.ophi.org.uk/policy/multidimensional-poverty-index/>.

22 The author visited such a project in February 2013 and interviewed the leader of the project.

UNDP in the 1990s.²³ This is also highly relevant for development in Myanmar where there has been fighting between various ethnic minorities as well as between minorities and the government. Especially in the northern state of Kachin, which is rich in natural resources and serves as a vital transport route to China, there has been fierce fighting since a 17-year truce between the Burmese military and the Kachin Independence Army collapsed in 2011. Ethnic tensions are also running high in the western state of Rakhine where there has been fighting between the majority Buddhist Rakhine and the Muslim Rohingya. Japanese ODA money is supporting the Myanmar Peace Center, a semi-governmental organization that assists in trying to broker peace in the country.

From a Japanese perspective there are a number of incentives for providing ODA to Myanmar. The relationship between Japan and Myanmar is considered by many to be special and cordial, and there are a number of people who have kept their contacts with the country. The Japanese government also kept up its contact with the Myanmar government throughout the years of sanctions. Myanmar is a member of ASEAN that receives general support from Japan. That way it feels natural for Japan to support this country as well. Other East Asian countries have achieved substantial economic growth fairly quickly and to many Japanese it is obvious that Myanmar will as well once it turns in a more democratic direction and starts to open up. The country is also rich in many of the natural resources that Japan lacks. ODA to Myanmar has strong domestic political support in Japan and from a foreign policy perspective it also makes sense to provide ODA to Myanmar. It is in line with Japanese support for ASEAN and it is also a way of hedging against the Chinese influences which currently prevail. There are strong incentives for Japan to take the lead to get other donor countries involved and that way break Myanmar's dependence on China. From a security perspective, peaceful development in Myanmar is also of importance for Japan and for Asia in general.

23 Söderberg, Marie, "Foreign aid as a tool for peace building" in: Söderberg, Marie and Nelson, Patricia A. (eds), *Japan's politics and economy: perspectives on change*, Routledge, London, 2010, pp. 100-101.