Overcoming Bottlenecks:

Japan-led Support for Myanmar's Transition

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ボトルネックを克服

――ミャンマーに対しての日本主導の支援――

ストレフォード・パトリック

Introduction

It has been just two and a half years since the new President of Myanmar, Thein Sein, came to power in March 2011. At the time, many within the international community were (at best) skeptical that an ex-General could undertake the massive reform effort that would be needed to bring Myanmar back into the international community. However, after a cautious response in 2011, in 2012 the international community, acknowledging the very real, concrete reforms being undertaken, began to reengage with the Myanmar government. By 2013, this reengagement had become a torrent of visits, agreements and press conferences. After 25 years of international sanctions and the accompanying vilification, Myanmar is now *the* destination of choice for the world's political and business elites. Donors of development aid too, have been swept along in this new "rush for Myanmar". Almost all OECD donors have both dramatically upgraded their in-country offices, and significantly increased their aid budgets for Myanmar. This paper will investigate this "rush for Myanmar" by focusing on two multilateral donors, the World Bank and the Asian Development Bank, and one bilateral donor, Japan.

These donors have been selected for a number of reasons. Japan has a long history of providing significant aid to Myanmar. It was the number one donor to Myanmar during the entire Cold War period. Yet, Japan also has its own particular set of circumstances that determine its foreign policy towards Myanmar, the prime one of which is countering the 'Rise of China'. Throughout the sanctions era, this has resulted in Japan taking a significantly different approach than that of most other OECD countries, especially the US and EU members states. Indeed, it could be said that the US and the EU are now following the type of 'constructive engagement' policy that Japan has long advocated. The World Bank and Asian Development Bank have been selected because they will invariably play a crucial role in Myanmar's transition, and also because, being multilateral donors they have similar institutional restraints, whilst also having somewhat different perspectives and imperatives.

While the international community has been justifiably cautious in its diplomatic response to the long-overdue 'opening up' of Myanmar, this is just one aspect of the process of reengaging with Myanmar. Since the initial outbreak of the prodemocracy movement in Myanmar, the sanctions became steadily more comprehensive over the years. These sanctions are in fact a formal bottleneck to economic development, the specified purpose of which is to restrict the flow of resources into Myanmar. Undoing these sanctions is therefore akin to overcoming the first international bottleneck that is hindering economic development in Myanmar.

Needless to say, during the 20-plus years between the beginning of sanctions in 1988–1990, and the opening up of Myanmar that began in 2011, the amount of ODA received by Myanmar was minimal. As we can see from Figure 1, whilst ODA to Myanmar in the years 1980–1987 averaged about US$330 million a year, in the next twenty years between 1989 and 2007, it averaged just US$86 million. Needless to say, this is a direct result, indeed the purpose of the sanctions policy.

Arguably, one other result of the sanctions policy was the dramatic deterioration in public health in Myanmar during the 1990s. Whilst it must be recognized that public health is the responsible of the government, the extremely limited humanitarian aid, as well as the intentioned squeeze on the government budget (that was anyway prioritizing military spending), directly led to the public health crisis that began to emerge in the early 2000s. Indicators for a number of high-priority and high profile Millennium Development Goals (MDGs), such as Infant and Under-5 Mortality, showed that Myanmar was performing comparatively worse than its peers[1)]. Figures for the incidence of HIV/AIDS and malaria also indicated that public health in Myanmar was in a considerably poorer condition than in other countries at similar levels of development.

In response to this crisis, some members of the international donor community did in fact increase ODA to Myanmar, and this is the reason for the slight increase in the first few years of the 21st century, as shown in Figure 1 below. The Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM) began financing UNDP programs in the early 2000s. Britain began also to increase its ODA from about £1 million in 2000 to £5 million a year in 2004–6.

However, in terms of international assistance to the people of Myanmar, it was to take more than the slow creep of a public health crisis to spur action. The real *tipping point* came with cyclone Nargis in 2008. This was

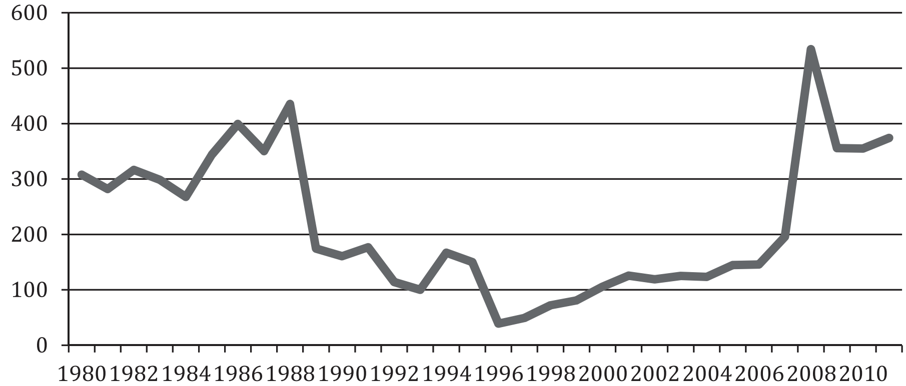

Figure 1: Total ODA to Myanmar, 1980–2011 (Net ODA, US$ millions current prices)

the natural disaster that showed the world not just how low relations between the international community and Myanmar had become, but also vividly highlighted the consequences of such poor relations. It was only after the intervention of UNSG Ban ki Moon that the Myanmar government allowed the large-scale inflow of foreign assistance. Importantly also, this natural disaster showed the Burmese leadership itself just how bad governance had become in their country. President Thein Sein later said that he was shocked at both how ill prepared the government was, and at how poor their response was.

Figure 1 shows the dramatic decline in Official Development Assistance (ODA) to Myanmar after 1988. The rise to nearly US$200 million in 1995 was due to a large debt relief grant from Japan. This debt relief grant was part of the Japanese government's 'constructive engagement' policy towards Myanmar, in that it was intended to both prevent Myanmar from going into arrears and to reward positive political developments in Myanmar, which in 1995 included the release from house arrest of Aung San Suu Kyi.

ODA: Theoretical Rationale

The role of the state in economic development has long been debated, although with the rise of the so-called "Washington Consensus" in the 1980s, the predominant view has been one of assuming that market forces drive growth and that the state impedes the efficient operation of such forces. However, the success of the East Asian model of economic development, and Japan's role in this model provides a clear and compelling alternative model. Even the World Bank itself, in its 1993 report, *The East Asian Model: Economic Growth and Public Policy*, concluded that the extensive role of the state in the economies of East Asian countries had contributed to their success[2). The economist Jeffrey Sachs has long-argued that public investment is necessary for economic growth. It underpins private sector investment by providing public goods, such as infrastructure and education, which the private sector is unable to provide, especially in developing countries[3). On the assumption that capital is in relatively short supply in a developing country, such public goods must be financed by foreign capital, and the cheapest form of foreign capital available to developing countries is generally Official Development Assistance (ODA) from OECD donor countries and International Financial Institutions (IFIs), such as the World Bank and the Asian Development Bank. Parenthetically, before the current reform effort and the lifting of sanctions, the government of Myanmar's primary source of foreign finance was the People's Republic of China. It has been widely recognized that Japanese ODA has played a key role in providing the infrastructure that facilitated the private investments of Japanese businesses in East Asian countries, which in turn enabled such countries to successfully pursue export-led economic growth strategies[4). This experience, coupled with the imperative to counter Chinese influence in Myanmar, have long provided the foundation for engagement with the government of Myanmar. However, while Myanmar will invariably be in need of foreign finance to support its economic development, this need entails much more than merely the provision of capital.

With its current reforms, Myanmar is now the latest country to join a long list of "countries in transition", a term initially used to refer to the countries of Central and Eastern Europe after the break up of the Soviet Union. In East Asia, Cambodia, China, Laos and Vietnam are identified by the IMF as being in transition. Because this term refers to the economic transition from a planned economy to a market economy, it involves the immense task of reforming the legal system and building new public and private institutions. Governance, of the new market economy, as well as of the reform process itself will be a key issue.

The World Bank's Worldwide Governance Indicators rank Myanmar in the bottom 10% of 215 economies, for "Government Effectiveness", "Regulatory Quality", "Rule of law", and "Control of Corruption"[5]. These Governance indicators represent the capacity of the government to provide services to its citizens. Years of military rule prioritised military over non-military institutions, and military officers manage most non-military public institutions. The priority given to the military is a common result of military rule, and it has been estimated that upwards of 40% of the national budget went to the military[6]. However, outside of the military, the provision of public services is extremely limited, and this has drastically reduced trust between the state and the citizenry. The restoration of this trust requires strong signals of real change, which must include the expansion of government services. It is here that international assistance can be of value to the reform process, although it must be recognised that there are no 'quick fixes'.

According to the World Bank's 2011 World Development Report, "It took the 20 fastest-moving countries an average of 17 years to get the military out of politics, 20 years to achieve functioning bureaucratic quality, and 27 years to bring corruption under reasonable control". The same report advocates a minimum of 15-years of international assistance as being necessary to support most long-term institutional transformations[7].

The economist Paul Collier has argued convincingly that ODA "can potentially help turnarounds" in three ways; as an incentive, in building up skills through technical assistance (TA), and as a reinforcement (in the later years of the reform process)[8]. Collier argues that ODA in the form of Technical Assistance "has a big favourable effect" on maintaining reform momentum, and also "substantially reduces the chance that the reform will collapse altogether"[9]. Collier states that up to US$250 million a year of TA can have a positive impact in the early years of transition. However, conversely, large amounts of non-TA aid will undermine the reform effort by disincentivizing and distracting reformers from the task at hand. This then, is the 'fine line' that donors are walking in their efforts to assist the transition process in Myanmar.

Overcoming the *First* International 'Bottleneck'

After twenty-plus years of what was perceived to be stagnation and stalemate, in March 2011, the new President Thein Sein began implementing a vast array of reforms; political, social and economic. It soon became obvious that the President had chosen the "shock therapy" approach to reform, the rationale for which is that reformers are able to seize the political moment and overcome vested interests so as to maintain the momentum of the reform effort that is expected to lead to broad-based economic, political and social progress that will improve lives. The economic transition, away from the "Burmese Way to Socialism" and towards an open market economy, began more than twenty years ago, but still has a considerable way to go. The social transition, resolving the long-standing conflicts between the Burman majority and the ethnic minorities, also began twenty years, but has yet to reach any lasting political settlements. The political transition is equally challenging. Whilst the East Asian model has been generally characterised by political liberalisation only after economic liberalisation had enabled the country to achieve middle-income status, the Thein Sein government is attempting to reverse this trend. President Thein Sein has stated that his aim is to build a "modern, developed democratic nation"[10).

Importantly, it has been clear from the outset that the government of Thein Sein seeks the removal of (primarily US and EU) sanctions as a necessary component of their reform efforts. This means that certain reforms are carried out for dual purposes, one of which is to create an environment favourable for the removal of sanctions. It seems plausible to assume that the government of Myanmar view the sanctions as akin to a 'bottleneck' that is hindering the process of economic development in Myanmar. In this way, the removal of this 'international bottleneck' that is severely restricting the inflow of resources is of primary importance. Indeed, it is the first vital step, and recognised as such by all stakeholders, both domestic and external.

In terms of concrete, high profile reforms, a large number of political prisoners were released in 2011. This was a long-time demand of the international community, and it was soon followed by a visit to Myanmar by US Secretary of State, Hillary Clinton. Also in September 2011, a National Human Rights Commission was established, consisting of retired academics, diplomats and civil servants. One month later, a new ILO-approved Trade Union Law was passed, allowing for the formation of unions and for the right to strike. In 2012, the government began to drastically reduce press censorship, while at the same time reducing restrictions on Internet access. In the words of long-time Myanmar scholar Robert Taylor there is, in general, a "more open approach to government"[11)]. In the economic field, there have been reforms on anti-corruption, currency exchange, foreign investment and taxation.

From the international perspective, the arrival in office of the new US President, Barack Obama in 2009 brought new opportunities. The new President almost immediately ordered a review of US policy towards Myanmar, and this review resulted in a significant policy shift. It seems that this policy shift was the first sign of what would later become the new US policy of "rebalance" towards the Asia-Pacific. Myanmar would inevitably become a region in which the US could counter the 'Rise of China'. This shift did not include the dropping of sanctions, but did importantly include the opening of dialogue. Indeed, it could be said that the US had finally and adopted Japan's long-advocated policy of constructive engagement[12)].

Through 2011, the international community responded cautiously to the reform enacted by President Thein Sein. The real 'rush for Myanmar' began after Aung San Suu Kyi was elected to office in the by-elections of April 2012. Secretary of State Hillary Clinton said of the elections,

> "The results of the April 1st parliamentary by-elections represent a dramatic demonstration of popular will that brings a new generation of reformers into government. This is an important step in the country's transformation, which in recent months has seen the unprecedented release of political prisoners, new legislation broadening the rights of political and civic association, and fledgling process in internal dialogue between the government and ethnic minority groups."

In May 2012, on the occasion of Myanmar's Foreign Minister, Wunna Maung Lwin, visit to Washington, Secretary Clinton announced what she termed “the most significant adjustments to our previous policy that have been taken to date”[13], which was specifically referring to the lifting of sanctions on American private investments in Myanmar.

Also quickly following the 2012 by-election, the Japanese government announced it would cancel 303.5 billion yen, (about US$3.7 billion) of Myanmar’s debt to Japan. While the cancelation would be contingent on the joint monitoring of the continued progress towards reform in Myanmar over the following year, it allowed the Japanese government to disburse new ODA loans[14]. Throughout the 1990s and 2000s, Japanese constructive engagement policy had included the promise of new ODA loans contingent on political and economic reform in Myanmar, and thus the cancellation of debt was equivalent to the lifting of Japanese economic sanctions against Myanmar.

The Council of the European Union announced on 23rd April 2012 that it would suspend sanctions/ restrictive measures on the government of Myanmar, “as a means to welcome and encourage the reform process”[15]. This would enable EU member states to dramatically expand their ODA efforts from humanitarian assistance to full-scale development aid.

Therefore, in 2012, the international sanctions against Myanmar that had been steadily broadened and deepened over the twenty-plus years since they had first began in 1988, finally began to be dismantled. The process of overcoming this first international bottleneck had begun. There was however another, equally important bottleneck that had to be dealt with.

Overcoming the *Second* International ‘Bottleneck’

Even before it became clear that EU and US sanctions against Myanmar would be lifted, Japan began the process of unblocking the second international bottleneck that was hindering the inflow of resources to support the transition in Myanmar. As previously outline, after the 2012 elections, Japan announced it would cancel a considerable portion of Myanmar’s outstanding debt. However, it was, at that time, only able to do that for Myanmar’s arrears that were owed to Japan. It was imperative that the issue of Myanmar’s debt to other donors, and in particular, to the International Financial Institutions (IFIs) was dealt with as soon as possible. This is because the IFIs cannot disburse new loans to a country that is in arrears, and Myanmar went into arrears in 1995. The debt issue was therefore, severely restricted the ability of the IFIs to support the reform process in Myanmar. In some ways, this second bottleneck can be viewed as Myanmar’s self-inflicted sanction because by suspending debt repayments, it essentially prohibited the disbursal of any new ODA loans. According to the Paris Club, Myanmar had $15.3 billion in foreign debt, $10.3 billion of which is owed to member states of the Paris Club. In January 2013, the Paris Club announced that it would cancel over US$5.5 billion of the total US$9.8 that was in arrears[16]. As previously outlined, in April 2012, Japan announced that it would cancel 127.4 billion yen in Myanmar’s outstanding debt, *provided* that the process of democratization continues. The Japanese government would monitor the process over the coming year, and in May 2013, it was announced that a further 176.1 billion yen of Myanmar’s debt would be cancelled in accordance with the previous year’s agreement. It must be concluded that the Japanese government was sufficiently satisfied with the progress of reform carried out by the Myanmar government through 2012.

However, Japan was also working on the issue of Myanmar's debt to the IFIs. In October 2012, after a Meeting for Myanmar held on the sidelines of the IMF/World Bank annual meeting in Tokyo, the Japanese government announced that it would also provide a $900 million bridge loan to Myanmar so that it can clear its arrears with the ADB and WB[17)]. This would then open up the bottleneck and allow both IFIs to resume lending to Myanmar. As previously outline, since the late-1990s, Japan has been trying to use the lure of vast development loans to pry the Myanmar government away from its increasing dependence on China. In 1999, PM Obuchi offered Japanese assistance to Myanmar's economic reforms, which led to a flurry of JICA-funded development studies[18)]. Known as the Myanmar Economic Structural Adjustment Program, the studies were carried out by groups of Burmese and Japanese experts in the following four areas: fiscal and monetary policy, trade and industrial policy, information and communications technology, and agriculture and rural economy. Part of this engagement process was a 2002 agreement to cancel a portion of Myanmar's debt to Japan. However, because of the 2003 Depayin incident and the removal of General Khin Nyunt, neither the recommendations of the development studies nor the agreement on debt cancellation were carried out. The 2003 debt agreement was incorporated into the April 2012 debt agreement.

Therefore, it seems evident that the Japanese government was proactively taking action to unblock the second international bottleneck to Myanmar's economic development. Not only did Japan swiftly deal with Myanmar's arrears to Japan, it also initiated the process that would cancel Myanmar's arrears to the World Bank and Asian Development bank. The IFIs reengagement with the government of Myanmar then, was enabled and instigated by the Japanese government.

Japan

Japan has always followed a different approach to Myanmar than the US or the EU member states. Japan, being much more sensitive to the rise of China, has long recognized the geo-strategically important position of Myanmar. Added to this is the legacy of considerable Japanese ODA provided to Myanmar all through the Cold War. For these two reasons, Japan has been much more inclined to engage with the Myanmar government, and this was true in the 1990s and 2000s. The current Chief Representative of JICA in Myanmar, Masahiko Tanaka articulated the Japanese perspective in a November 19, 2012 article in the *Myanmar Times*. Reflecting on the importance of the November visit to Myanmar of President Obama, Tanaka argued that US engagement would allow Myanmar to "break away from China". Tanaka further went on to say that, due to the long history of Japanese aid to Myanmar, JICA is in an "extremely unique position in Myanmar as an international development agency". It is indeed true that during the Cold War, Japan was the largest donor to Burma, and it is also true that during the sanctions era, the JICA office was by far the largest donor representative in Yangon. It seems likely that there may exist a widely held belief that Japan has a special role to play in Myanmar's transition. However, the special relationship between Japan and Burma during the Cold War, supposedly based on some ill-defined cultural affinity, was largely a myth constructed by elites to further their political and economic interests. Having said that, as a result of years of Human Resource Development Scholarships that finance the study of foreign students at universities and other educational institutions in Japan, elite level connections between Japan and Myanmar certainly exist. Indeed, it is the expecta-

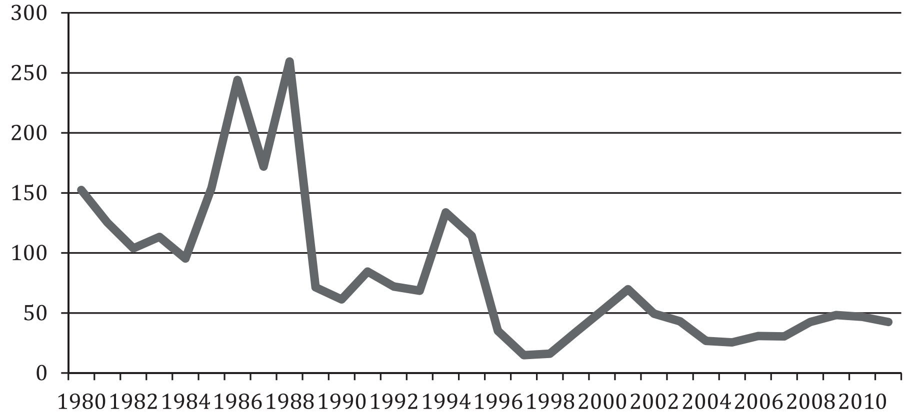

Figure 2: Japanese ODA to Myanmar, 1980–2011 (Net ODA, US$ millions current prices)

tion of establishing such networks that provides the primary rationale for the Scholarship program. In the case of Myanmar, the Minister of Science and Technology is a graduate of Osaka University, the Minister of Education is a graduate of Hokkaido University, and the Rector of Yangon University and the Pro-Rector of Yangon Institute of Technology are both graduates of Tokyo University. According to a JICA official in Yangon, there are also a large number of mid-level managers in public institutions that also have experience studying in Japan[19)]. It is likely that no other donor can match this size of transnational elite-level network, although that stems merely from the fact that the Japanese Scholarship program was more extensive than others, and was running even during the sanction period. It is important though, that the existence of such a network is perceived by many within the Japanese ODA machinery as being evidence of a special relationship.

In fiscal year, 2012–3, the Japanese government committed to provide ODA to Myanmar worth over US$700 million, which included US$500 million in concessional loans, and US$200 million in grant aid and technical assistance.

At the previously outlined Japan-Myanmar Summit that took place on the sidelines of the Fourth Mekong-japan Summit Meeting on April 21, 2012, the Japanese government announced two new ODA grant projects for Myanmar. One was a Project for Mangrove Rehabilitation Plan for Enhancement of Disaster Prevention in Ayeyawady Delta, which totaled 583 million yen. The second was a Project for Human Resource Development Scholarship, which totaled 251 million yen. According to JICA, this was the first step in what would be a considerable expansion of the scholarship program[20)]. Upon completion of their studies, these officers would then return to Myanmar and “support market-oriented economic reform”. Also, in April 2012, the Japanese government announced that it would extend grant aid of 814 million yen through the World Food Programme (WFP) for food aid to Ethnic Minority Areas in the Magway region of Central Myanmar.

In September 2012, JICA provided support to a seminar that was jointly organized by the Ministry of National Planning and Economic Development of Myanmar, and the Ministry of Planning and Investment of Vietnam. It seems likely that JICAs support for this seminar is based on an understanding that elements of the Myanmar government will be more receptive to advice from a fellow developing country. JICA is also conducting workshops in Thailand where officials from Myanmar study alongside their counterparts from other South East Asian countries. It seems that JICA regard such South-south cooperation as both worthwhile, and an area in which they have some advantage over other donors[21)]. Another example of JICA technical assistance to Myanmar is the October 2012 Seminar on Reforming Legal Systems of Public Company and Corporate Governance, co-sponsored by JICA and the Union Attorney General's Office. Lawyers and Legal scholars from Japan participated in the seminar, as did Burmese bureaucrats.

For the Japanese government, if 2012 was the year of overcoming the debt bottleneck, then 2013 was the year to start capitalizing on such efforts. On May 26, 2013, Japan and Myanmar exchanged notes on two projects both of which relate to the water supply of Yangon city. On the same day, three new Yen Loans, totaling 51.052 billion yen, were announced. One of these was a Regional Development Project for Poverty Reduction, the aim of which was to build and upgrade infrastructure across Myanmar. The second project was for the rehabilitation of thermal power stations and substations in the Yangon area. The third loan was connected with the Thilawa Special Economic Zone, which is located south of Yangon. Just the day before, on May 25, a consortium of Japanese private companies (including Mitsubishi, Marubeni and Sumitomo) signed a MoU with the Union of Myanmar Federation of Chambers of Commerce (UMFCCI) on the joint development of the Thilawa SEZ. Japanese Prime Minister Shinzo Abe was visiting Myanmar at this time, and was present at the signing[22)]. The Prime Minister of Japan was putting the full weight of his office behind this project. Back in April 2012, at the same time as the Japanese government agreed to cancel a large proportion of Myanmar's outstanding debt, Prime Minister Abe, along with his Myanmar counterpart signed a Memorandum of Intent on the Cooperation for the Development of the Master Plan for the Thilawa. The Yen Loan was a very concessional, in that interest was just 0.01% p.a., with a repayment period of 40 years. The Loan was also untied, meaning that the Myanmar government is not restricted to procuring goods and services from Japanese private companies. However, in August 2013, it was announced that Itochu Corporation would build a bridge across the Bago River connecting Yangon with the Thilawa SEZ[23)]. It was also announced that Marubeni Corporation would be involved in electricity generation, upgrading railroads and other infrastructure projects connected with the Thilawa SEZ. Both Itochu and Marubeni have long histories of being involved in ODA-financed development projects. The previous year, in October, the Japan External Trade Organization (JETRO) and the Japan Myanmar Association organized a seminar and site tour of the Thilawa SEZ in Yangon. Representatives of 160 Japanese companies attended, as did senior members of the Myanmar government[24)]. From the traditional analysis of Japanese ODA, the Thilawa SEZ is a classic example of the use of public finance to underpin the private investments of Japanese corporations. Traditionally, the *chusha seido*, or 'injection system', in which Japanese corporations are the instigators of ODA-financed development projects[25)] resulted in a situation whereby, "the source for almost all project proposals for yen loans from developing countries is overseas branches of Japanese business firms"[26)]. While this was mostly put forward as a criticism of the system of Japanese ODA, there is much more acceptance of private-public cooperation in development in the 21st century than there was in the 20th century.

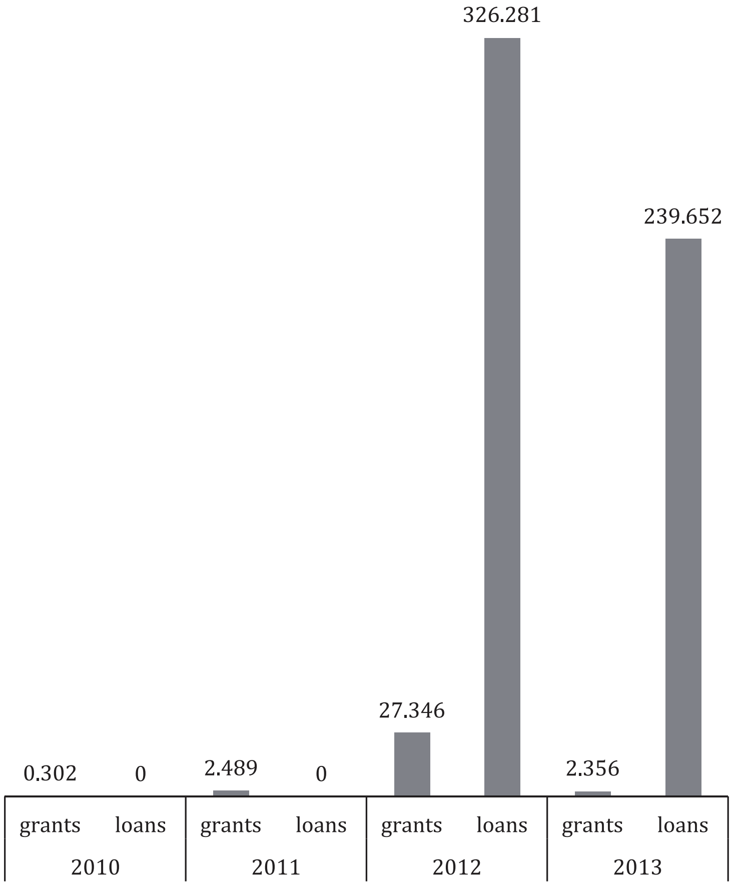

Figure 3: Japanese ODA to Myanmar, 2010–2013 (Exchange of Notes, billion yen)

Also, in May 2013, it was announced that a further 456 million yen would be provided in Grant aid for Human Resource Development Scholarships. This was almost double the figure for 2012. As previously stated, the administrative officers from Myanmar who study in Japan are, "expected to contribute to the construction of mutual understanding and friendly relationship between Japan and Myanmar"[27).

Figure 3 clearly shows the response of the Japanese government to the opening up of Myanmar. It shows the new ODA agreements that have been signed between the governments of Japan and Myanmar between the years of 2010 and 2013. Although this graph does not show Japanese efforts on the multilateral level, the evidence of Japan's bilateral efforts are incontrovertible.

World Bank

The World Bank had made no new loans to Myanmar since 1987, and in 1998, the government of Myanmar went into arrears. It was thus necessary to clear these arrears (US$406.5 million as of August 2012) before any new lending could begin. However, this was not the only restriction on World Bank lending to Myanmar. Because

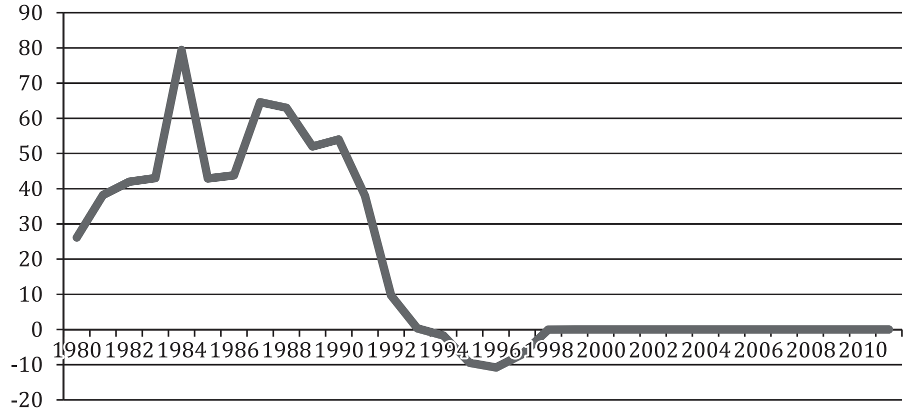

Figure 4: World Bank (IDA) ODA to Myanmar, 1980–2011 (Net ODA, US$ millions current prices)

the distribution of voting power at the Bank is according to the size of the member state's economy, the US and EU states could effectively reinforce their bilateral/multilateral sanctions by blocking any Bank cooperation with Myanmar. Furthermore, the "Washington Consensus", and the associated conditionalities, provided another foundation for reinforcing non-cooperation with the Myanmar government. An example of this is the fact that Myanmar was excluded from the HIPC (Heavily Indebted Poor Countries) Initiative. Myanmar did not qualify for the Initiative because it could not meet the entry requirements: compliance with economic (and political) reform conditions[28)]. Figure 5 shows the dramatic fall in World Bank lending to Myanmar in 1990. It also shows the zero level of aid from 1992 until 2010. The minus between 1994–1997 reflects the continued repayment of debt, before going into arrears in 1998.

As an attempt to overcome the constraints under which the World Bank was operating vis-à-vis Myanmar, in February 2012, the UK's Department for International Development (DFID) began a project that provided £750,000 in "Support to the International Financial Institutions to conduct work on the economic opportunities and challenges for Burma"[29)]. Recognizing both the opportunity (as a result of the reforms) and the constraints (on the operations of the WB that remained as a result of the sanctions and the arrears), DFID financed a World Bank study on the economy of Myanmar, the results of which would become a public good. "Because of Burma's human rights record and its debt arrears, IFI engagement is currently limited and the IFIs are not able to work directly with Government." It was thus the case that it was not just the Japanese government that was attempting to facilitate the operations of the IFIs in Myanmar. Elements of the UK government too were attempting to circumvent their own sanctions and nudge the IFIs into action in Myanmar. A few months later, in August 2012, the World Bank announced its intention to open a new office in Yangon, and this was the beginning of its formal reengagement with the government of Myanmar.

In November 2012, the Executive Directors of the World Bank approved a grant of US$80 million for the National Community Driven Development Project for Myanmar. Importantly, approval for this project was given *before* Myanmar had cleared its arrears with the World Bank. The Bank has trust funds which it administers independently of the capital provided by member states. These trust funds, the State and Peacebuilding Fund and the Korea Trust Fund for Economic and Peace-building Transitions) allow the Bank to fund programs even in countries that are in arrears. A total of 14 townships, one in each of the administrative states and divisions of Myanmar, would participate in this project, which would begin in January 2013 and run through to January 2019. As of May 2013, three townships had been selected in the Tanintharyi Division, the Shan State and the Chin State. The townships were selected by the government through a process that began with consultations and workshops that brought together various stakeholders. These workshops drew up short lists of potential townships from which the government selected one from each region. Five more townships will be selected in 2014. The rationale for providing this grant, prior to the clearance of arrears, was to support "an urgent government priority critical to the success of Myanmar's triple transition—moving from top-down decision making to participatory approaches and bottom up planning"[30). This illustrates the imperative of the donor community to support the Myanmar government in providing the populace with tangible benefits. Such tangible benefits will generate further support for reforms among the population, which will in turn undermine any counter-reform initiative. This represents a paradigm shift in the perspective of the World Bank towards Myanmar, and is just another example of the positive response that Myanmar's ongoing reforms evoked from the international donor community. Importantly, projects such as this will be held up as flagship projects of the Bank's early engagement with the government of Myanmar, and its support for the reform process. Because of this, the Bank is playing a two-level game of supporting the government of Myanmar, whilst at the same time, following its own standards and norms and satisfying its own set of stakeholders.

In its Interim Strategy Note (ISN) for FY2013–14, the World Bank stated that it would focus on supporting "national efforts to rebuild and transform Myanmar's institutions"[31). However, recognizing that transforming institutions takes time, the Bank will also focus on building confidence in the reform process, and this is the rationale behind the previously outlined National Community Driven Development Project. According to the ISN, the World Bank will also provide technical assistance to support the economic reform process.

In December 2012, the International Development Association (IDA) proposed an IDA Credit of US$440 million to support Development Policy Operation (DPO). The objectives were twofold: to support Myanmar's reforms and to assist in the clearing of Myanmar's arrears. The Bank, jointly with the IMF, had carried out a debt sustainability analysis and determined that Myanmar was in debt distress, but that also, were the arrears to be cleared, Myanmar would be at low risk of debt distress, meaning that total debt is not at an unsustainable level. In January 2013, US$419.6 million of this DPO was disbursed, thus providing the financing for the clearing of Myanmar's arrears to the IDA.

In September 2013 the Board of the World Bank approved the Electric Power Project for Myanmar, the purpose of which is to increase electricity generation in Myanmar. Power generation and power infrastructure are important bottlenecks, and it is estimated that 20–30% of the country is covered by the electricity grid. The Bank project will begin with the upgrading of gas turbines at the Thaton Gas Turbine station in Mon State. The Environmental and Social Assessment Report for this project, published in August 2013, highlights one of the key challenges for the international donor community.

"A lack of legal requirements and limited institutional capacity for ensuring effective safeguard preparation and implementation in infrastructure projects is one of major hurdles for international financial institutions and responsible investors in Myanmar."[32)]

So, the World Bank is trying to undertake relatively large-scale infrastructure projects, with the specified aim of supporting the reform process, despite recognizing that legal frameworks and institutional capacity are far below its own operating standards. The report further states that of a list of 10 World Bank Safeguard Policies (a list of policy areas that, being especially vulnerable to negative impacts from development projects, must be safeguarded against), one concerning indigenous peoples will be triggered[33)]. Such a prediction will place the Bank in the same territory as the Chinese builders of the controversial Myitsone Dam that was suspended by President Thein Sein in September 2011, in response to the "the people's will", or the Monywa Copper Mine, that was once owned by Canadian Mining company Ivanhoe Mines. Both these projects have generated considerable resistance and negative publicity due to the environmental and social impacts. Through development projects such as this, the World Bank will be jointly, implementing a development project, and attempting to raise the Myanmar government's operating standards to that approaching the global standard. Having said that, it must surely be the case that Myanmar is not alone in being in such a situation, and it must also be the case that the World Bank has considerable experience of operating under such conditions. What is perhaps unusual is the extraordinarily high level of attention that Myanmar is receiving, not only from the international donor and business community, but also from the global mass media and transnational civil society networks. As a flagship project of the nascent reengagement between the World Bank and the government of Myanmar, the Electric Power Project will be especially scrutinized by the global community.

The World Bank is supporting the Peace Donor Support Group, along with Norway, Australia, the UK, the EU, the UN, the US, Japan and Switzerland. The Group is part of the overall Myanmar Peace Support Initiative

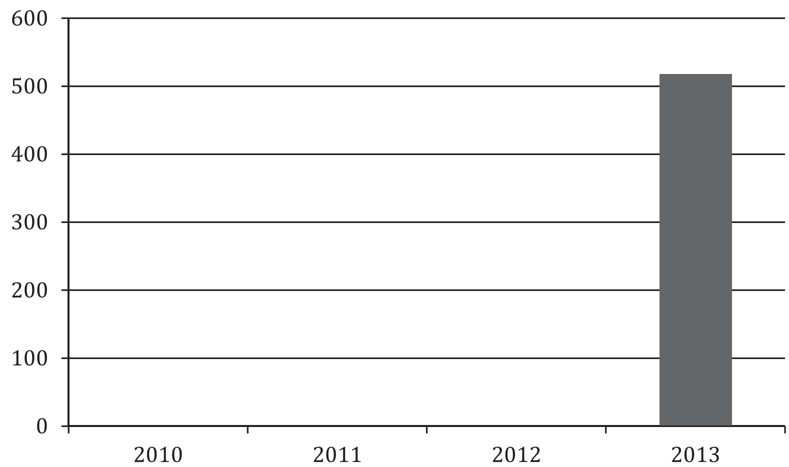

Figure 5: World Bank (IRBD and IDA) commitments to Myanmar (US$ millions)

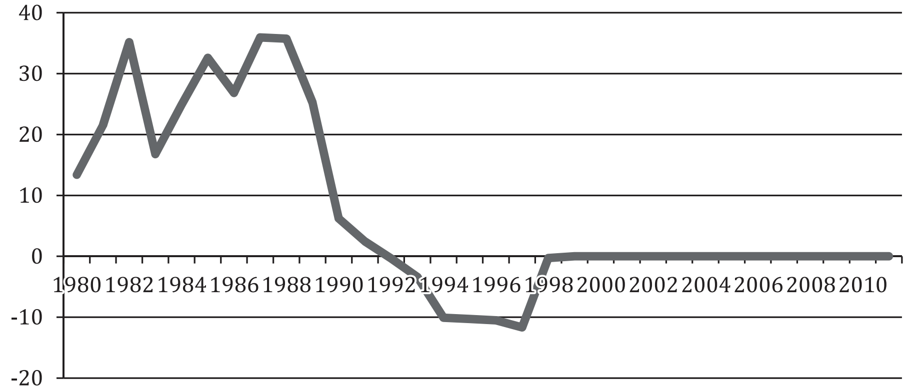

Figure 6: ADB ODA to Myanmar, 1980–2011 (Total ODA, US$ millions current prices)

which is a Norwegian-led initiative to support the ceasefires. The Myanmar Peace Centre, the the secretariat for this initiative, is headed by Aung Min, a Minister in the President's Office, and run by Soe Thein (President's Office Minister) and Khin Ye (Home Affairs Minister). Supporting the peace process was one of the stated aims of the October 2012 ISN[34)], and the previously outlined National Community Driven Development Project is presumably one effort "to promote peace, including by generating a tangible peace dividend for conflict-affected communities"[35)]. Japan too, is providing considerable support for the Myanmar Peace Centre. In March 2013, the Japanese government provided a US$1.2 million grant, and the Nippon Foundation is a major financier. Indeed, in February 2013, the Japanese government appointed Sasakawa Yohei, Chairman of the Nippon Foundation, as Special Envoy of the Government of Japan for National Reconciliation in Myanmar[36)].

The new World Bank Yangon office, which includes the International Finance Corporation, opened in May 2013. There are a total of about 30 employees, which includes 10 foreign experts.

Figure 6 shows the dramatic increase in World Bank commitments to Myanmar from its level of zero in 2010–2012, to over US$500 million in 2013.

Asian Development Bank

The Asian Development Bank (ADB), like the World Bank, agreed to no new loans or technical assistance after 1987. However, some loans agreed to before that time have continued to be disbursed. Cumulative lending to Myanmar had amounted to $530.9 million for 32 loans (corresponding to 28 projects) by 2005. Of this $530.9 million, $411.8 million has been disbursed. The graph in Figure 7 is remarkably similar to Figure 5 that shows ODA to Myanmar from the World Bank. It shows the dramatic fall in ADB lending to Myanmar in 1990. It also shows the zero level of aid from 1992 until 2010. As was also the case with the World Bank, the minus between 1994–1997 reflects the continued repayment of debt, before Myanmar went into arrears in 1998.

Like the Interim Strategy Paper of the World Bank, in October 2012, the ABD published an Interim Country Partnership Strategy (2012–2014) that outlined its framework for full resumption of operations in Myanmar. According to the strategy, the ADB will focus on the following three objectives: human and institutional capacity building, “an enabling economic environment”, and infrastructure and rural development. In line perhaps with the recommendations as previously outline by the economist Paul Collier, the ADB is beginning its reengagement with Myanmar with a substantial effort of Technical Assistance.

In the second half of 2012 alone, the ADB approved US$5.4 million worth of 12 technical assistance (TA) projects, “for policy advisory, capacity development, and institutional strengthening in some critical areas”[37]. The two major TA projects during 2012 were for Capacity Building Support for Project Identification (US$1.5 million) and Capacity Development and Institutional Support (US$1.5 million), both approved in December 2012. The TA for Capacity Development and Institutional Support will focus on civil servants in government ministries and related public companies. The executing agency will be the Ministry of National Planning and Economic Development (MNPED), and a sub-committee under the government’s Aid Management Working Committee that coordinates TA activities will select participants for the various components (seminars, workshops, etc.) of this TA support. International advisers will also be placed in key ministries.

The second US$1.5 million TA project was for Capacity Building Support for Project Identification. Recognizing the need to raise the capacity of public civil servants to prioritize potential projects, identify feasible investment projects and prepare pre-feasibility analysis of pilot projects in the four key sectors of transport, energy, water supply and other municipal services and agriculture and natural resources. According to the ADB, “these sectors have been identified based on the expressed priorities of the government and the results of the preliminary assessments, strategies, and road maps conducted by ADB staff”[38]. Needles to say, the inability of civil servants to identify and implement projects will become a serious bottleneck that will impede growth and slow the reform effort.

As of October 2013, a further 11 projects had been approved for 2013. Of these 11 projects, 10 were for technical assistance, and one was a highly concessional (1–1.5% interest) US$575.5 million loan. The Support for Myanmar’s Reforms for Inclusive Growth was an Asian Development Fund-financed policy-based loan (PBL) to

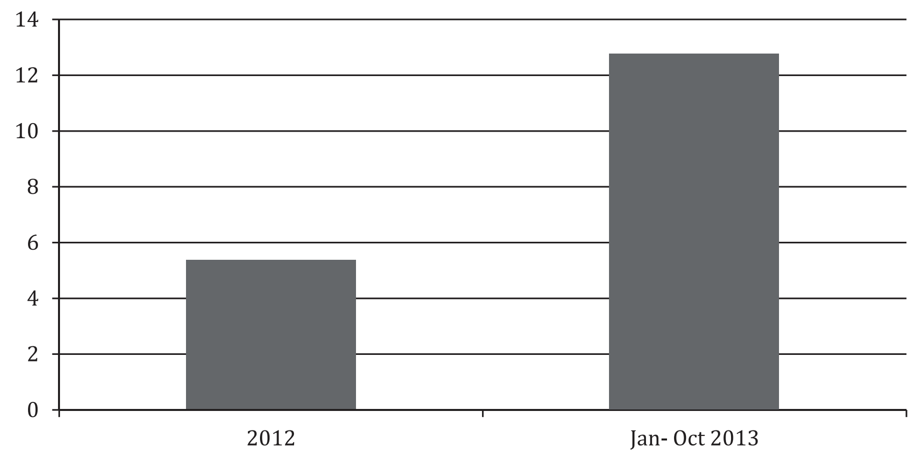

Figure 7: ADB Technical Assistance to Myanmar (Approved, US$ millions)

support Myanmar's re-engagement with global markets. According to the ADB, the PBL "covers policy reform accomplishments from August 2011 to December 2012", and it can thus be interpreted as being a *reward* for past accomplishments. Importantly, the specific purpose of this PBL is to assist the government of Myanmar in repaying the previously outlined October 2012 Japanese-financed bridge loan that allowed the Myanmar government to clear its arrears to the World Bank and ADB. Importantly too, the ADB implemented a waiver to its policy that allows no loans to a borrower with arrears, so as to minimize the tenure of the Japanese bridge loan. This meant that the Japanese government and the two potentially most important multilateral donors for Myanmar went to considerable lengths to coordinate their efforts to reward and assist in Myanmar's reforms.

In recognition of past mistakes, especially with reference to Cambodia, the ADB is planning on taking a long-term approach to capacity building in Myanmar. Whilst the standard project cycle for TA does not allow for this, the ADB is in the preliminary stages of planning a two-prong approach. The first prong, beginning in 2013–14, will include the traditional dispatch of experts to ministries. The second prong will be the long-term focus on education, utilizing the internal mechanisms that are already in place. The current plan seems to be for creating a new type of TA that will be much more flexible to recipient needs[39)]. The plan has been formalized in the Long-Term Capacity Building for Civil Servants and Institutional Development project that was proposed in July 2013. Amounting to US$4.5 million, and funded through the Technical Assistance Special Fund, this TA will finance the first three-years of a 10-year vision for capacity building in Myanmar. This project will establish a Forum that will act as the "long-term capacity development body"[40)]. This is the first time that the ADB has formally adopted a long-term approach to Capacity Building, and it will thus be seen as something of a flagship of ADB aid to Myanmar. It could also become a model for long-term capacity building in countries in transition.

As a complementary project to the previously outlined long-term capacity building project, approved in June 2013 was a US$1.8 million TA project to Support Post-Primary Education Development. Utilizing a US$0.5 million grant from Australia, the Policy and Advisory Technical Assistance (PATA) will directly support Myanmar's Comprehensive Education Sector Review, which is a Ministry of Education-led review of the entire education sector in Myanmar. Education reform is a particularly hot issue because of the involvement of Aung San Suu Kyi as the head of the Parliament Higher Education Law Committee. Running in parallel to the Ministry of Education-led review, the National League for Democracy has drafted a new education policy proposal that was submitted to parliament in the summer of 2013. According to a member of the NLD Education Committee, there may exist a considerable gap between those recommendations of the NLD and those favored by the Minister of Education[41)].

Another example of ADB TA is the July 2013 US$1.525 million TA project for Design of e-Governance Master Plan and Review of Information and Communication Technology Capacity in Academic Institutions. Utilizing US$0.5 million in TA from the People's Republic of China, this project will create a common framework for ICT systems in government ministries. Given the considerable inflow of donors into Myanmar since 2012, the ADB seems to have identified the potential for waste and duplication in the provision of ICT systems. Needless to say, this is an attempt to coordinate donor activity in line with the 2005 Paris Declaration on Aid Effectiveness, which called greater harmonization between donors so as to reduce the burden on recipients.

Importantly, Japan has been working not just on bilateral ODA projects to Myanmar. Of the 10 TA projects approved for 2013 (up until October) four are funded by the Japan Fund for Poverty Reduction (JFPR). These four amounted to US$5.9 million, about half of the total for 2013. “The administration of JFPR projects does not follow standard ADB processes. The projects require approval by the Japanese embassy at the concept stage and by the Government of Japan at the final design stage ...”[42]. From this, it seems plausible to conclude that the government of Japan is taking all possible measures to maximize its potential input on the reform process in Myanmar. According to the ADB,

> “JFPR grants are not for technical assistance (TA), but are to finance investment grants linked to ADB loans to pilot test innovative poverty reduction approaches that may later be up-scaled under loan conditions and mainstreamed in ADB operations. It provides opportunities for ADB to work more directly with civil society, such as non government organizations (NGOs) and community-based organizations, and with communities themselves.”[43]

Such grants are intended to provide the ADB with flexibility to test “innovative ... approaches”, and it seems that Myanmar’s transition is the testing ground.

Conclusion

There is no doubt that Myanmar is in a ‘transition moment’; a time of great change in which widespread reforms will dramatically change all aspects of the state and the nation. There is also no doubt that the Japanese government and ODA bureaucracy hold the opinion that Japan is especially well placed to support Myanmar’s transition. This perspective is supported by the evidence presented here on Japan’s proactive approach to dealing with Myanmar’s outstanding debt. Japan’s efforts resulted in surmounting the second international bottleneck. It is also supported by the figures regarding Japan’s bilateral ODA commitments in 2012–3.

The reform efforts of President Thein Sein have convinced the international community of his sincerity, and the international community has responded by suspending/lifting sanctions against Myanmar. However, it will take time for the sanctions to be completely removed. In the case of US sanctions for example, President Obama was renewing the JADE act (barring imports from Myanmar to the US, even through third countries), while at the same time, following a constructive engagement policy. Many of the US sanctions have been made in Congress, and it is here that they will need to be unmade. Likewise, EU sanctions have been formally suspended.

Japan has been waiting for its chance to continue its economic cooperation with Myanmar. Because of the long-term underdevelopment of the Myanmar economy that was a cause of the political crisis of 1988, and because of the inability of Myanmar to repay its ODA debt to Japan, it must be concluded that Japan-Myanmar economic cooperation during the Cold War was a failure. However, this resulted from the fundamental incompatibility of the Burmese Way to Socialism and the Japanese model of *keizai kyoryoku* (economic cooperation), which was intended to penetrate overseas markets and capture resources, both of which the Burmese Way to Socialism was intended to prevent. Having said that, the Thein Sein model of development is based on an open economy that is much more conducive to Japanese economic cooperation. However, it remains to be seen whether the Japanese public-private ODA model will withstand the scrutiny of the open society that Thein Sein also intends to create.

Both the World Bank and the Asian Development Bank will play key roles in the international effort to support Myanmar's transition. Both Banks, but especially the ADB, have responded positively to the reform efforts of Thein Sein. Both seem to be using all the tools available to provide whatever support they can to the reform process, although it remains to be seen whether both Banks are also equally aware of the dangers of overwhelming the Myanmar government. It seems likely that both Banks, and other ODA donors too, see Myanmar's transition as the testing ground for new ideas and new models, the success or failure of which will be used to judge them, as well as Myanmar.

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