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# WHAT MYANMAR MEANS FOR THE U.S.-JAPAN ALLIANCE

James L. Schoff

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## About the Author

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## Summary

The historic political and economic transition under way in Myanmar is a strategic opportunity for the United States and Japan. The allies can take advantage of solid bilateral relations to go beyond ad hoc policy coordination and develop a Myanmar-focused strategy for greater long-term impact and collective benefit. To succeed, Washington and Tokyo will have to make Myanmar a higher-level alliance issue and reconcile different priorities and domestic policy making environments to pursue shared objectives.

### Key Themes

- The United States takes a democracy-first approach to Myanmar while Japan prioritizes trade and economic relations.
- The results of Myanmar's ongoing transition have so far been mixed. Washington is concerned about stalled liberalization efforts and human rights abuses in particular.
- U.S. President Barack Obama and Japanese Prime Minister Shinzo Abe committed in April 2014 to support Myanmar's reform and reconciliation efforts. Their agreement has created alliance cooperation momentum that can be better harnessed.
- Japan's strong ties with Myanmar's government can be a valuable asset for U.S. policymakers seeking leverage to complement their civil society connections and agenda-setting power.
- With a national election planned for 2015, Myanmar is at a critical juncture. A more coordinated U.S. and Japanese approach can have a positive impact in the near term.
- Longer term, success in Myanmar could strengthen the economy and governance in Southeast Asia. Failure could undermine regional stability and weaken U.S. and Japanese influence.

### Recommendations for the U.S. and Japanese Governments

**Convene a special bilateral Development Dialogue meeting dedicated to Myanmar.** The allies should comprehensively review their Myanmar policies and programs. Interagency participation should be wider than usual, and the allies should outline a coordinated alliance strategy targeting issues of reconciliation, economic liberalization, and good governance.



**Adopt a longer time horizon for evaluating reform in Myanmar.** Progress will take time, although that should not become an excuse to pursue short-term mercantilist aims that undermine reform.

**Consider lifting sanctions to make it easier for U.S. and Japanese firms to enter the Myanmar market.** This would enhance capacity building and transparency in Myanmar, particularly in the finance sector.

**Make the most of both allies' strengths.** The allies could, for instance, adopt a burden-sharing approach in which Japan engages on issues too politically sensitive for the U.S. government. A complementary approach (that is, hardware-software collaboration) is also feasible for aid projects.

**Expand legislative dialogue between the United States and Japan on Myanmar issues.** For a coordinated approach to work, lawmakers from both countries must be convinced that their goals for Myanmar can be better served by working together.

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## Introduction

The Southeast Asian nation of Myanmar (formerly known as Burma) was for decades among the world's most politically isolated, centrally controlled, and heavily censored countries, until the military-led government adopted a new constitution in 2008 and began expanding political participation via elections in late 2010.<sup>1</sup> As Myanmar's leaders continue—cautiously—to open up the country, their efforts are being met with extensive international support and advice, producing mixed results. Among the largest contributors is Japan, which actively promoted the restructuring of Myanmar's debt burden starting in 2011 and is providing significant development aid and private investment. The United States, for its part, has been an important catalyst for broader international engagement with Myanmar, relaxing certain sanctions at key stages from 2011 and extending aid and valuable political support, including a visit by U.S. President Barack Obama in 2012. This stands in stark contrast to America's labeling of Burma in 2005 as an “outpost of tyranny,” among a handful of other countries at the time including Cuba and North Korea.<sup>2</sup>

Myanmar's political and economic transition is an important foreign policy development in its own right, but it is also a strategic opportunity for the United States and Japan occurring at a fortuitous time in alliance history. If Myanmar had gone through this process in the 1960s or 1970s, the allies surely would have framed it in a Cold War context with their assistance funneled through a fine political filter. Had it occurred during the 1980s or 1990s, the intense economic competition between the United States and Japan likely would have overshadowed their outreach to Myanmar. In the 2010s, however, Myanmar's transition is taking place amid a strong alignment of economic and security interests among the allies, against the backdrop of a dynamic Asia power landscape with an ascendant China and emerging Association of Southeast Asian Nations (ASEAN), as well as an alliance effort to forge an ever closer U.S.-Japan relationship that can underpin regional stability and cooperation. A pertinent question, therefore, is whether Washington and Tokyo are inclined to address Myanmar's transition as an alliance issue, and if they are, what they are prepared to do, individually or in concert, to smooth its way.

The answer is mixed, for despite their pursuit of many common interests, the policy priorities and policymaking environments in the United States and Japan differ significantly. In simple terms, the United States has a “democracy first” agenda with Myanmar that sometimes limits its options, while Japan

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**Myanmar's political and economic transition is a strategic opportunity for the United States and Japan occurring at a fortuitous time in alliance history.**

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takes a more flexible approach in order to maximize engagement and business opportunities. Still, President Obama and Japanese Prime Minister Shinzo Abe provided a mandate in April 2014 to strengthen alliance cooperation in Southeast Asia (and in Myanmar in particular), and the two countries have complementary strengths and local networks that can be leveraged more effectively for the benefit of all.

As Myanmar prepares for the first time to host the region's leaders at the East Asia Summit in November 2014 and conduct an important national election in 2015, U.S.-Japan policy coordination vis-à-vis Myanmar is at a critical juncture. Despite U.S. concerns about stalled political liberalization and human rights abuses in Myanmar, Washington should adopt a longer time horizon for evaluating reforms in the country, while diversifying its own means of influence beyond merely maintaining or reapplying sanctions. Japan's strong economic and political connections in Myanmar can be a valuable asset for the United States, but only if the allies find the right balance between U.S. pressure tactics and Japan's open arms. They should go beyond a simple "good cop/bad cop" approach and instead focus on empowering and incentivizing Myanmar to build a more productive and just future for its people. At times, that will entail encouraging Japan to step in where it might be politically difficult for the United States to do so.

## Opportunities and Challenges

Myanmar's transition is complex, beyond the control of any one country or political entity. It presents the United States and Japan with certain diplomatic opportunities accompanied by a myriad of challenges, many of which stem from Myanmar's troubled history and social condition. To develop and imple-

ment successful policies, it is necessary to understand these underlying dynamics, along with recognizing Tokyo's and Washington's unique perspectives and each actor's history of interaction with Myanmar.

Myanmar has not only been isolated for decades, but it is also among the poorest countries in the world. Its

social and economic infrastructure has long been underfunded.<sup>3</sup> The military and its political allies who control the government are reluctant to cede additional power to pro-democratic political forces, creating constant tension that can complicate reform and potentially escalate into violence in the future. Moreover, the country is home to what has been called "the world's longest ongoing civil war," as the Burman-dominated government has battled with a variety of ethnic minority groups along Myanmar's borderlands since 1948. The conflict has been accompanied by continued discrimination, alleged human rights violations, and economic and political exploitation, even as all sides pursue reconciliation ahead of national elections in 2015.<sup>4</sup>

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Recent socioeconomic change within Myanmar is significant. An independent business class is emerging, there is greater movement of people within and outside of Myanmar, and borderland areas that were once marginal outposts on the fringes of the realm are becoming increasingly relevant gateways to economically vibrant regions such as China's Yunnan Province.<sup>5</sup> It is unclear at this point how well Myanmar will be able to manage its "de-isolation," as there exists a deep-seated suspicion among its people, which stems from a bitter colonial experience, regarding outsiders' involvement and their promises of widespread benefits. Will the new business class see foreign firms as partners, exploiters, or rivals? Will the people view globalization as potentially positive or dangerous? And will political change enhance ethnic reconciliation or exacerbate conflict? In addition, while greater economic openness and democratic governance can support trends toward more favorable outcomes in the long run, if these coincide with inequitable growth in the short term, leaders could be tempted to pursue politics of division and scapegoating by demonizing foreign investors and ethnic minorities. All of these conditions weigh heavily on the extent to which the United States and Japan, through trade and aid, become intertwined with Myanmar during this transition period.

Moreover, Myanmar's political liberalization is not just a national phenomenon or an isolated development, but it is occurring amid a broader regional competition over the normative foundation of international relations of the region. What happens in Myanmar will both affect that competition and be impacted by it.<sup>6</sup> While several nations in Southeast Asia have been pushing members of ASEAN to embrace liberal norms—in terms of democracy, human rights, rule of law, and extra-national trade rules—others are resisting big changes to the traditional "ASEAN Way" of interaction, which values non-interference in internal affairs and handling diplomacy in a non-legalistic manner, among other principles.<sup>7</sup> This dynamic is juxtaposed with Myanmar serving as chair of ASEAN in 2014 for the first time. Thus, some outsiders might view assisting Myanmar's transition as a way to boost corporate profits and economic growth, while others see themselves playing a higher-level geopolitical game over the long term on the issue of regional governance, *vis-à-vis* China as well as within ASEAN. How the United States and Japan tread in Myanmar, then, whether acting on their own or complementing each other, must be reconciled with Myanmar's own needs and those of its citizens.

The United States and Japan recognize the multifaceted nature of this diplomatic challenge and opportunity. At their April 2014 summit in Tokyo, President Obama and Prime Minister Abe affirmed the importance of cooperating on (and with) Southeast Asia, and they outlined an agenda for policy coordination that includes regional institutions, ASEAN connectivity, women's empowerment, disaster risk reduction, and maritime security capacity building.<sup>8</sup> They also made specific mention of support for Myanmar's political and economic reform and national reconciliation efforts.

Neither Washington nor Tokyo, however, is seized with the issue of Myanmar's transition at a high political level, so the task of implementing their pledged cooperation with Southeast Asia falls to the working level in both governments. While there is plenty of goodwill and some history of policy coordination on the issues, there are also structural and political obstacles. Some of these stem from different legacies of interaction with Myanmar, in particular Japan's long-held personal ties to the country's leadership and previously strong economic relations, compared with decades of U.S. diplomatic pressure that led to closer connections with the political opposition and emerging civil society organizations. The two nations' different approaches to Myanmar are succinctly captured by the mere fact that the U.S. government officially still refers to the country as Burma, while Japan recognizes the Myanmar name that the country's military leaders adopted in 1989.<sup>9</sup> These underlying dynamics will complicate U.S.-Japan cooperation over Myanmar policy, even as the allies aim toward the common goal of assisting Myanmar's reintegration with the global community.

## The View From Japan

For Japan, Myanmar is important in both geostrategic and economic terms. Geographically Myanmar sits amid two huge countries, China and India, located near the nexus of the South China Sea and the Indian Ocean. For Yunnan Province to gain access to the Indian Ocean without taking a circuitous route through the Strait of Malacca, the road goes through Myanmar. In addition, Myanmar's large population (estimated at 60 million) and potential for economic growth make the country attractive for Japan as a manufacturing investment destination for a production platform and consumer market in the future. Myanmar's large natural gas reserves (the third-largest in Southeast Asia) also have captured Japan's attention.

Japan has a long history of relations with Myanmar, becoming particularly close from the late 1930s when Burma was still part of the British Empire. Japan started providing financial and other assistance through pro-independence leaders opposed to British rule. Within a few years of when Burma became a separate, self-governing colony in 1937, Japan was training core leadership of the Burma Independence Army (among them Aung San, father of current pro-democracy leader Aung San Suu Kyi, and Ne Win, who led the country for almost three decades until 1988). Japan's occupation of Burma for three years during World War II caused significant suffering and loss, but there also existed to some extent a perception that Japan helped to "liberate" Burma from Great Britain, and this facilitated a relatively quick restoration of Burma-Japan ties after the war when Burma gained independence in 1948. Indeed, in 1954, Burma was the first Southeast Asia country to settle on reparations and

conclude a bilateral peace treaty with Japan, and for decades afterwards Japan was Burma's largest single source of development assistance and trade.<sup>10</sup>

Moreover, Japan's so-called Burma Lobby in Tokyo included some of the country's top political leaders from the ruling Liberal Democratic Party—such as Prime Minister Nobusuke Kishi and Foreign Ministers Shintaro Abe and Michio Watanabe—who boasted personal connections to their political equals in Rangoon, the capital at the time. In one example of the benefits of these sorts of personal relationships, during the weeks and months following Burma's military coup of 1962, Japan's ambassador was the only one among the diplomatic corps in Rangoon to have regular access to coup leader Ne Win.<sup>11</sup>

Over the 1970s and 1980s, as Burma's economic situation worsened as a result of government policies and other systemic problems, Japan kept providing financial assistance. Loans, grant aid, and technical assistance from Japan amounted to nearly \$4 billion between 1978 and 1988, which for purposes of scale was well over half of Burma's total imports during that period.<sup>12</sup>

Despite this apparent leverage, Japan could not sway the Ne Win government to reform its socialist policies to improve the economy, which eventually sank near bankruptcy amid demonetization in 1987. Economic hardships endured by the people, combined with political oppression, fueled mass protests against the government in 1988. The military staged its third coup since 1958 and violently repressed the demonstrations, killing thousands. Another casualty was Burma's relationship with the rest of the world, even longtime supporters like Japan. The military junta exacerbated the country's pariah status when it voided the results of elections in 1990 and kept power for itself.

Although Tokyo kept open channels of communication and assistance, the scale of interaction shrank dramatically. Yen loans stopped completely after the coup. Japan found itself caught between a desire to maintain close relations to keep doing business and foster change in the renamed Myanmar and an increasingly critical international community that worked actively to isolate and pressure the regime. As one Japanese scholar put it, “instead of acting as a mediator, the Japanese government sometimes wavered from one camp to the other.” As a result, this scholar said, Japan was often “caught in the gap rather than filling it.”<sup>13</sup> The relationship was further frayed in 2007 during the anti-government demonstrations in Myanmar over rescinded fuel subsidies that came to be known as the Saffron Revolution for the color of the robes worn by Buddhist monks leading the protests. The killing of a Japanese journalist covering the protests alienated the Japanese public, and engagement with Myanmar reached new lows.<sup>14</sup>

The Japanese government, however, never lost its desire to improve relations with Myanmar, and this sentiment grew in correlation with China's rising influence in the country. Japan increasingly viewed itself in geostrategic competition with China, and on the Myanmar front their fortunes had essentially reversed. During much of the Ne Win period, Japan was the source for about 40 percent of Burma's imports, while China accounted for less than 5

percent. By 2007 these roles were flipped. Furthermore, China was providing low-interest loans and other forms of economic assistance.<sup>15</sup>

The political reform process that emerged in Myanmar in 2010 and 2011 offered a chance for change, and Japan seized it. The Democratic Party of Japan, the longtime opposition party, led the government at the time, and its proactive approach toward Myanmar diplomacy shows how broad-based this foreign policy strategy was in Japan. In June 2011, the government dispatched a parliamentary vice minister of foreign affairs to Myanmar, the first visit of a high-level Japanese official to Myanmar in three years. Around that time a few official development assistance (ODA) projects restarted in the country. A short time later, then prime minister Yoshihiko Noda and President Thein Sein met on the fringes of the Japan-ASEAN summit in Bali, followed by a trip to Myanmar by Japan's foreign minister a month later. This process of engagement gained momentum in 2012 as the private sector resumed regular airline service between Japan and Myanmar for the first time in twelve years.<sup>16</sup> Engagement accelerated further when the Liberal Democratic Party and Prime Minister Shinzo Abe regained power in 2013 (Abe just happened to be a direct descendant of key Burma lobby members).

The political goal of Japanese engagement is to support Myanmar's reform effort so that it can become a "partner of Japan who shares the same values."<sup>17</sup> To help reach this goal, Japan's ODA aims "to support Myanmar's efforts for reforms in various areas towards its democratization, national reconciliation and sustainable development."<sup>18</sup> Japan has also promoted debt relief and private investment to supplement its economic assistance program, among other policy initiatives. Its debt relief efforts have met with limited success, while its economic development assistance has been both broad and deep.

### **Debt Relief**

In 2010, Myanmar accelerated its process of political reform though saddled with a heavy foreign debt of some \$15 billion. Because most of this represented arrears through non-payment, the country could not obtain new credit. Japan was Myanmar's largest creditor (representing more than half of the arrears), putting Tokyo in a good position to take a lead role for resolving the issue. Although this initiative resulted in a lower debt burden for Myanmar, access to credit, and a Staff-Monitored Program with the International Monetary Fund (IMF), the process demonstrated the challenges of coordinating Myanmar policy with such a diverse group of stakeholders.

To address the debt issue, Japan's Ministry of Finance organized a series of meetings starting in March 2011 involving major donor countries and international financial institutions such as the Asia Development Bank and the World Bank. The Japanese government added momentum in April by waiving \$3.7 billion of Myanmar's unpaid debt during a summit in Tokyo, with certain conditions attached.<sup>19</sup> Another meeting in Yangon (a transliteration

reflecting the Burmese pronunciation of Rangoon) followed in May with other stakeholders including China and India, and the process concluded in Tokyo in October.<sup>20</sup> That so-called Meeting for Myanmar was scheduled just ahead of the World Bank/IMF annual meetings, allowing for maximum participation. Officials from 26 countries and the Asia Development Bank, IMF, and the World Bank participated, although China canceled high-level participation (due more to its ongoing territorial disagreement with Japan than a dispute over Myanmar policy).

In Tokyo, attendees agreed that Japan would follow through on debt forgiveness in January 2013 based on its bilateral agreement with Myanmar and that it would quickly restart developmental assistance. Attendees also agreed that Japan would provide bridge loans through the Japan Bank of International Cooperation to help Myanmar settle its arrears with the World Bank and the Asia Development Bank and that the chairman of the Paris Club would invite Myanmar to its January 2013 meeting to finalize a comprehensive solution.<sup>21</sup> At that meeting, the club recommended a 50 percent cancellation of arrears, though Japan's percentage ended up being a little over 60 percent.

Japan was highly motivated, for both economic and political reasons, to reintegrate Myanmar with the international financial system, but its enthusiasm was not universally shared by the other creditor nations. The U.S. State Department, especially the regional desks working with Japan and Myanmar, was supportive of the initiative, but the Treasury Department was wary of cutting corners or making exceptions for near-term diplomatic goals that could set a bad precedent elsewhere.<sup>22</sup> In addition, critics noted that Myanmar did not meet many of the standard qualifications for debt relief. And because the bulk of Myanmar's debt was in default (it had not made a payment for decades), the debt relief deal did not free up new resources for the country's development.<sup>23</sup>

New loans did flow into Myanmar, but some of them may be circular: it is likely that some portion of the new World Bank lending to help with Myanmar's "foreign exchange needs" is helping to pay the Japan Bank of International Cooperation loan that allowed new World Bank funding in the first place.<sup>24</sup> Other loans are financing large projects that, without careful supervision, could wind up benefiting foreign firms and local elites as much as, if not more than, Myanmar citizens. In addition, China was notably absent from the bilateral debt relief process, underscoring the diverse national interests of countries involved with Myanmar.

### **Economic Development Assistance From Japan**

An important part of the Japan-Myanmar agreement on debt relief and new loans involved working together to create an agenda for reform in areas of macroeconomic management and development policy, education and health policy, and governance. The initiative started in 2011 with assistance from the Japan International Cooperation Agency. For the next two years the Japan



aid agency brought thirty Myanmar officials to Japan for training, networking, and coordination, and these officials have become a core group shaping and implementing the reform agenda.<sup>25</sup> During this time the United Nations Development Program was reconfiguring itself in Myanmar as a government partner, and the European Union and other nations were lifting economic sanctions and establishing aid programs, all of which are contributing in some way to Myanmar's reform initiatives.

Donor coordination is a challenge but it is also imperative, and visiting officials take advantage of every opportunity they get, often holding ad hoc coordination meetings in the lobby of the Thingaha Hotel in the new capital Naypyidaw, a favorite spot to wait one's turn for a meeting with Myanmar government bureaucrats.<sup>26</sup> Japan is well represented with a high volume of Japanese officials in the capital at any given time—many visit every month, and one official involved with interagency coordination was there nineteen times in 2012.<sup>27</sup>

Myanmar's reform agenda has been broken down into policy clusters (for example, fiscal management, monetary policy, and financial sector for the economy, and anticorruption and labor policy—among others—for governance), and with Japan the countries reviewed progress during three meetings in 2013.<sup>28</sup> Myanmar's progress has been impressive in absolute terms, moving forward on a wide variety of fronts, but the country still has a long way to go to build sufficient capacity to manage its political, economic, and social affairs in a truly modern and efficient way. Every analyst, it seems, has a different recommendation for what the Myanmar government should be prioritizing: the finance sector, agriculture, energy and transportation infrastructure, property rights, foreign exchange clearance, and many others. Few are satisfied that their particular areas of interest are getting enough attention and resources, and most worry that social tension, corruption, or a host of other challenges will set back Myanmar's progress.

Japanese economic cooperation with Myanmar aims “to spread the dividends of democratization, national reconciliation and economic reforms to the people of Myanmar.” It seeks to accomplish this through balanced support that improves the livelihoods of Myanmar's people, fosters capacity building and institutions development to sustain the economy and society, and helps develop infrastructure and related systems necessary for sustainable economic development.

The first category includes support for ethnic minorities, agricultural technologies, disaster prevention, healthcare facilities, and infrastructure development for citizen needs. Tokyo places a high priority on national reconciliation and tailors its support in ethnic areas to help this cause. In addition to the Japan International Cooperation Agency's efforts on this front, the Japanese government commissioned Yohei Sasakawa, chairman of the Nippon Foundation, to be its Goodwill Ambassador and partner.

The second involves a significant amount of training, technical assistance, and human exchanges to foster capacity building, while the third is aimed

at large-scale transportation, water, and energy infrastructure including the Yangon Thilawa Development Initiative (Thilawa). Thilawa is a special economic zone east of Yangon being co-developed via a public-private partnership involving Myanmar and Japan.<sup>29</sup> It signed its first agreements with outside investors—a U.S. beverage container maker and a Japanese auto parts manufacturer—in June 2014, and production in the zone could begin in 2015.

Japan provides more development assistance to Myanmar than any other government, and no country receives more funds from the Japan International Cooperation Agency than Myanmar (at about ¥228 billion, or about \$2 billion, in 2012).<sup>30</sup> This is thanks largely to the main pillar of the aid program: the nearly ¥199 billion Social and Economic Development Support Loan.<sup>31</sup> In addition, the Japan International Cooperation Agency provided about ¥28 billion as grant aid and ¥4 billion in technical assistance.

Japan also supports Myanmar indirectly via multilateral institutions such as the Asia Development Bank, the IMF, and the United Nations. Above and beyond Japan's high level of support for the United Nations operations in general, for example, it provided over one-quarter of the funding when the United Nations Development Program revived operations in Myanmar.<sup>32</sup> Japan has also contributed more than \$400 million since 2006 to the ASEAN Integration Fund, which supports a variety of projects—including some in Myanmar—to help develop a single market and production base in the region known as the ASEAN Economic Community. The Japanese government also participates in relevant coordination bodies such as the Myanmar Development Cooperation Forum, the United Nation's Partnership Group on Myanmar, and the Partnership Group for Aid Effectiveness.

Japan's generosity toward Myanmar is, of course, about more than money; it is part of a policy that is planted firmly within a broader regional policy toward ASEAN, emphasizing "connectivity" among the members and promoting common standards similar to those of the Organization of Economic Cooperation and Development whenever possible. This is reinforced by the Abe administration's emphasis on Southeast Asia diplomacy that prompted the prime minister to visit all ten ASEAN nations during his first year in office, along with hosting the ASEAN Plus Japan summit in Tokyo in December 2013.

As one Ministry of Foreign Affairs official described it, "our number one priority is to help ASEAN integrate," particularly among the so-called Mekong Five (Cambodia, Laos, Vietnam, Thailand, and Myanmar).<sup>33</sup> Consequently, Southeast Asia and Myanmar policymaking has become an unusually intense interagency operation in Japan, linking the Ministry of Foreign Affairs with the Japan International Cooperation Agency, the Ministry of Economy, Trade, and Industry with the Japan External Trade Relations Organization, and the Ministry of Finance together with other ministries providing technical assistance support.

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**Japan provides more development assistance to Myanmar than any other government.**

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The Foreign Ministry has the lead role for coordination, but the cabinet must approve flagship projects as part of a relatively new ODA Infrastructure Strategy Meeting, which has subsequently been used for other country plans. Within this process the new National Security Council structure is becoming an important venue for policy coordination and decisionmaking, even though most of the substance for strategy development originates from the working level in a bottom-up manner, and coordination kicks in at the funding level.<sup>34</sup> The Cabinet Office also has its own coordination working group just for Myanmar. The role of the Ministry of Economy, Trade, and Industry is particularly important, as it sometimes funds work by other agencies, such as Myanmar's infrastructure master plan development, led by the Japan International Cooperation Agency.<sup>35</sup> The ministry and its partner, the Japan External Trade Relations Organization, are also vital for guiding Japanese private-sector resources toward what they hope will be productive investments in the country.

### **Economic Relations Between Myanmar and Japan**

Debt relief, macroeconomic and other government policy advice, and development aid from Japan and other governments have all been valuable contributions to Myanmar's transition, but they are just one part of international engagement with Myanmar—and not the largest part. Net official development assistance and official aid received by Myanmar in 2012, for example, was a little over \$500 million (when loan repayments and other costs associated with receiving aid are stripped away).<sup>36</sup> In comparison, net foreign direct investment in Myanmar that same year was about \$2.7 billion—with China still the biggest private investor—and the scale of such investment is expected to grow over time.<sup>37</sup>

The Japanese government is trying to encourage its companies to invest in Myanmar to benefit the Japanese economy, foster sustainable reform in Myanmar, and enhance Japan's influence along China's periphery. Accordingly, the Japan External Trade Relations Organization opened a business support center in Yangon in September 2012 to promote Japanese investment, and interest has been high. As many as one thousand Japanese business visitors flow through the office and support center in a month. The volume has prompted a staff expansion, but some lament that many visitors simply do the "4Ls"—look, listen, learn, and leave.<sup>38</sup>

According to research conducted by Japan Bank of International Cooperation in 2012, Japanese private investment in Myanmar is hindered by a lack of infrastructure, business-friendly environment including legal structure, and bilateral investment treaty. These findings were then reflected in Japan's ODA strategy in Myanmar.<sup>39</sup> In other words, the Abe administration and the Foreign Ministry see the creation of a good investment climate for Japanese firms in Myanmar as a central pillar of Japan's Myanmar policy.<sup>40</sup> There might also be

times when the government wants more than just a level playing field and a good environment; it wants results. When certain high-profile airport and telecom contracts issued by the Myanmar government went to non-Japanese firms in 2013, some in Tokyo began questioning the efficacy of the ODA strategy.<sup>41</sup>

To address these issues, the government has been working with the Myanmar government through ODA and other bilateral projects to strengthen governing institutions and economic policymaking, build capacity in the legal sector, and improve predictability and protections for outside investors. Japan and Myanmar signed an investment treaty in December 2013 that facilitated an increase in 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.

Japan's role as Myanmar's most consistently important trading partner in both imports and exports began in 1960 and lasted for three decades.<sup>42</sup> After the 1988 coup, China, Singapore, and Thailand quickly moved in and took over this role in the early 1990s. Over time, China and Thailand's share of total trade with Myanmar slowly grew to become the most significant. Japanese bilateral trade with Myanmar had dropped as low as \$225 million in 2002, but that rebounded to close to \$2 billion in 2013, with Japan importing large volumes of natural gas and some textiles, while exporting machinery and other manufactured goods.<sup>43</sup>

Today, Japan-Myanmar trade is poised to diversify in content and direction, as long as political stability is maintained and progress continues on development of the Thilawa Special Economic Zone and associated infrastructure. Japanese auto manufacturer Nissan plans to invest up to \$200 million for a new factory in the Bago Region, for example, and Myanmar is beginning to export rice to Japan with help from the Japanese logistics company Kamigumi. A separate arrangement between a Myanmar firm and Mitsui will invest up to \$100 million to facilitate the export of rice from Myanmar to Africa. Textiles, auto parts, and other light industry all have potential for trade between Japan and Myanmar, and this is drawing in the service industry, including finance, insurance, legal, and other consulting services. The main bottleneck, of course, remains Myanmar's ability to absorb this influx productively, which means that some of the onus rests with foreign investors to resist short-term profit maximization and exploitation in favor of building local capacity for the long term.

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### **Military Relations**

Japanese security cooperation with Myanmar is negligible, which makes Japan's efforts to establish better relations with the military directly all the

more significant. Tokyo sees this approach as a useful supplement to its engagement policy with the government since the military remains a decisive political actor. It also is consistent with Japan's recent policy of enhancing military relations throughout Southeast Asia as another way to check China's rising influence in the region. For legal and political reasons in Japan, however, this cooperation is not combat-oriented, but instead is focused on activities such as disaster relief or maintenance of vehicle fleets.

Early Japan-Myanmar efforts at developing some sort of direct military relations began in September 2013, when three maritime training vessels made the first-ever Japanese Self-Defense Force port call in Myanmar at Thilawa. The Japanese chief of staff followed up with a visit to Myanmar in May 2014, when he met with his counterpart and President Thein Sein.

## The View From the United States

Myanmar is not as important to the United States as it is to Japan in economic terms, but Washington does see value in Myanmar's transition—in the form of regional prosperity and stability—if the country can deliver on political and economic liberalization in a meaningful way. In the near term, Myanmar could contribute to broader Southeast Asian economic growth, which has taken a hit from Thailand's ongoing political unrest and military coup in 2014. This would be good for U.S. exporters and for the local populations in Asia. The U.S. government is also trying to sever the close military relationship between Myanmar and North Korea, which began in the mid-1990s when the two countries were both outcasts. U.S. goals are to reduce proliferation risk and further isolate Pyongyang.

In the longer term, an ASEAN community that continues to grow and coalesce can also strengthen its members' ability to rebound from natural disasters and address other common challenges, to develop common rules of the road that apply to all, and to peacefully resolve disputes with other nations without succumbing to intimidation or confrontation. This idea has been a consistent component of the Obama administration's so-called rebalance to Asia policy, which sees strengthening regional institutions and "building regional architecture" as an important foreign policy objective.<sup>44</sup> In this context, Myanmar can positively influence the character of ASEAN and its members as they try to achieve their long-articulated goal of creating a true regional community, but only to the extent that Myanmar succeeds at building a more pluralistic, democratic, and stable government of its own. This is no easy task, even in relative terms. Moreover, this sort of ambition for Washington's Burma policy is unprecedented in the post-Cold War era.

The Cold War strongly influenced U.S.-Burma relations before the 1988 coup, and it began at an early stage. The U.S. government in 1950 sent an official investigative team to Southeast Asian countries, including Burma, to

determine what type of assistance was needed to limit communist influence there, and Washington subsequently expanded its foreign assistance program to Burma from its humble origins two years earlier.<sup>45</sup> With an eye on its long border with China, however, and concern about getting entangled in China's civil war, Burma distanced itself from the United States when Kuomintang troops fled into its northern areas, given U.S. support for the guerrillas. The Burmese government rejected U.S. aid for a period of time until the program restarted in 1956.

Over the next few years, the U.S. government and private foundations became a major source of funding and economic advice, deploying missions to Burma in every conceivable field.<sup>46</sup> Washington also supported Burma's membership in various multilateral bodies such as the IMF and the General Agreement on Tariffs and Trade. While U.S. aid to Burma had a positive impact on its economy, the relationship between the two countries was much more contentious than that between Japan and Burma at the time. Disagreements over Burma's rigid socialist policy, its nonalignment policy, and its economic development approach led to another suspension of bilateral cooperation in 1964.

The attitude of Burmese politicians changed somewhat in the mid-1970s with "a sense of the need to break out from Burma's isolation," and Burma requested a smaller scaled program with the United States focused on basic humanitarian needs.<sup>47</sup> This program started in 1978 and lasted until the United States terminated it in 1988. Also by the 1970s, Burma had become a major producer of heroin (as much as 75 percent of the world's supply), which raised new concerns in Washington. Heroin production was often under the control of insurgent groups, giving the Burmese government some common cause with U.S. officials.<sup>48</sup> This intersection of interests led to counternarcotics cooperation in 1975, and it opened the door later to some international military education and training programs until 1988.<sup>49</sup> Washington also accepted Burma as one of the original beneficiaries of its Generalized System of Preference program in 1976 to promote economic growth and later granted it Most Favored Nation status.

After the military coup of 1988 and the denial of the result of the election in 1990, Washington's Myanmar policy focused almost solely on human rights and democracy promotion. The end of the Cold War reinforced this trend, as economic, strategic, and even humanitarian issues took a back seat to the fate of the National League for Democracy party and its leader, Aung San Suu Kyi. The U.S. Congress was leading the charge. U.S. stakeholders who pushed for continued engagement included energy companies with exploration partnerships in Myanmar, nongovernmental organizations (NGOs) conducting humanitarian assistance programs, and some of the Burmese diaspora in the United States. But frequently the human rights lobby proved more persuasive.

All of this led the United States to apply a series of sanctions, beginning with the Custom and Trade Act of 1990, which gave the president authority to impose "such economic sanctions upon Burma as the President determines to

be appropriate, including any sanctions appropriate and the Narcotics Control Trade act of 1986.<sup>50</sup> The first trade and investment sanction was imposed in May 1997 based on executive order 13047.<sup>51</sup> This sanction prohibited any new U.S. investment in Myanmar as a penalty for its poor human rights condition. Congress tightened and added new sanctions in subsequent years, often following major incidents in Myanmar.<sup>52</sup> The country's purchase of weapons from North Korea, including dual-use technology with weapons of mass destruction applications, in particular made Myanmar even more deserving of punishment in U.S. eyes.<sup>53</sup> When rates of HIV/AIDS infections rose dramatically a few years later, the Bush administration supported Myanmar's HIV/AIDS program in 2002 with \$1 million, but overall Washington sought to isolate and pressure the Myanmar government for almost two decades after the 1988 coup. The United States also pressed Japan and other countries and multilateral organizations such as the United Nations Development Program to distance themselves from the Myanmar government.<sup>54</sup>

### **Bilateral Relations and Intergovernmental Assistance**

Myanmar's steps toward political liberalization opened the door for a policy change in Washington, and the Obama administration conducted a policy review in 2009 that laid the groundwork for broad-based reengagement. The U.S. approach was cautious and incremental (as it had to be able to win approval in Congress), but the government pursued it consistently and with high-level political support. President Obama met then prime minister Thein Sein in November 2009 at the first ASEAN-U.S. leaders meeting in Singapore, and a

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### **Myanmar's steps toward political liberalization opened the door for a policy change in Washington.**

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series of other bilateral meetings between the two sides clarified mutual expectations about what kind of "concrete progress" on political reform would lead to removing sanctions.

The Obama administration maintained its cautious attitude after Myanmar's parliamentary elections in November 2010, with a carefully worded statement both encouraging further reform and criticizing aspects of the election. The

White House named Derek Mitchell in August 2011 to be the first special representative and policy coordinator for Burma, and Hillary Rodham Clinton became the first secretary of state to visit there since John Foster Dulles in 1955. During this time, in 2011, the U.S. government also began expanding developmental assistance to Myanmar, building on its humanitarian network in the country.

Two days after the parliamentary by-election in Myanmar in April 2012, Clinton announced a five-step engagement plan to support reform in Myanmar. These steps included the exchange of ambassadors, establishment of an in-country United States Agency for International Development (USAID) mission and support of United Nations Development Program initiatives, relaxed restrictions on nonprofit activities by U.S. organizations, facilitation

of pro-reform Burmese officials' travel to the United States, and easing of restrictions on the export of U.S. financial services and investment. A flurry of high-level meetings followed that fall, including the visit of Aung San Suu Kyi to the United States in September, President Thein Sein's appearance at the United Nations General Assembly the same month, and the first-ever visit to Myanmar by a U.S. president in November to "demonstrate the United States' continuing support to Myanmar in its political and economic reform efforts."<sup>55</sup> Thein Sein made a reciprocal visit to Washington the following May.

When President Obama visited Myanmar in November 2012, he announced a development assistance package of \$170 million for FY 2012 and 2013. USAID subsequently reopened its mission in Myanmar soon thereafter and signed a bilateral agreement in June 2013 outlining the framework for the U.S. assistance. The goals of the assistance include promoting national peace and reconciliation; supporting the development of democratic systems and institutions governed by rule of law and protecting human rights; helping Myanmar realize its transition to a transparent, free-market economy that generates growth for all regions and segments of society; strengthening livelihoods and local governance; and improving Myanmar's ability to become a contributor to regional and global security.<sup>56</sup> From the U.S. perspective, part of this last objective includes weaning Myanmar off of its military equipment relationship with North Korea. A variety of Department of Energy programs promote related nonproliferation norms and improve Myanmar's compliance with its obligations on this front.

### **Economic Relations and Trade**

Trade relations between the United States and Myanmar are improving, but from a low base and at a relatively slow pace due to lingering sanctions and limited market opportunities. Among the sanctions that were lifted, the Obama administration in July 2012 waived a ban on new investment in Myanmar and two months later loosened restrictions on the provision of financial services in the country. The following month the administration opened the door to financial support by the U.S. government and by international financial institutions, and subsequently allowed the import of goods (except for jade and rubies) from Myanmar. The two countries signed a Trade and Investment Framework Agreement in May 2013, and the American Chamber of Commerce opened a Myanmar chapter in October.<sup>57</sup> By February 2014, the U.S. Export-Import Bank was offering short-term and mid-term financing, and it was also possible for U.S. citizens to conduct most transactions with major banks in Myanmar.

U.S. companies are not allowed to invest in military-owned companies or conduct business with individuals and organizations on a list of Specially Designated Nationals (SDN), as determined by the State Department and the Office of Foreign Assets Control in the Treasury Department.<sup>58</sup> The list has been called a "deterrent" and a "minefield" with regard to U.S. direct



investment in Myanmar, due in large part to its shifting composition and lack of clarity with regard to how names move on and off the list.<sup>59</sup> The same day that the Office of Foreign Assets Control waived restrictions on conducting financial transactions with four Myanmar banks, for example, it placed one of them onto the SDN list, seemingly at odds with the spirit of “easing U.S. economic sanctions on Burma that authorized new investment in Burma.”<sup>60</sup> The U.S. government added a Myanmar military official and three Myanmar firms to the SDN list in December 2013 to punish them for purchasing military equipment from North Korea. Some members of Congress, concerned that Myanmar is backsliding on political reform, are pushing to expand the SDN list to keep up pressure.

The vice chairman of General Electric described the SDN list as “a complication” and said that it is “hard to make absolutely, positively sure” you are not doing business with a blacklisted person.<sup>61</sup> U.S. firms worry that they might become implicated with someone on the list who sits one or two steps removed from the initial investment (for example, an SDN designee with a financial interest in an office property leasing space to the U.S. company). Non-U.S. firms can suffer consequences as well, and all of this has led to calls for a more transparent and predictable process related to Myanmar.

Separate from the SDN list, the State Department has imposed extensive reporting requirements for U.S. companies that invest in Myanmar in areas related to social, environmental, security, anticorruption, and land policies and practices. Most other countries do not require their companies to disclose human rights-related information, nor do they have NGOs actively reviewing those filings and providing a public “report card” in a naming-and-shaming campaign as the United States does.<sup>62</sup>

Despite the challenges to greater U.S. investment, several U.S. firms, including Coca-Cola, PepsiCo, Microsoft, Visa, Hercules Offshore, and Ball Corporation, have begun to enter the Myanmar market. FedEx and many other companies are looking to join them. U.S. exports to Myanmar in 2013 reached \$145.6 million, which is three times the 2011 export figure. Imports, which did not exist in 2011, totaled \$30 million in 2013.<sup>63</sup> This is all happening at a very small scale compared with Japan’s trade with Myanmar, but it does signal a growing area of convergence in U.S. and Japanese interests in the country.

### **Military Relations**

In contrast to the relatively forward-leaning approach on aid and (to a lesser extent) economic engagement, the U.S. Congress has significantly restricted U.S. interaction with Myanmar’s military forces. Since 2012, the Defense Department’s engagement with Myanmar has been limited to the following:

- Participation in the first two annual U.S.-Burma Human Rights Dialogues in Naypyidaw in October 2012 and informal pull-aside meetings with Myanmar counterparts at multilateral forums such as the ASEAN Defense Ministers' Meeting Plus.
- Accounting operations for U.S. soldiers still missing from World War II.
- Academic workshops and personnel exchanges focused on promoting civilian control of the military, rule of law, international military norms, and principles for civil-military relations.
- Participation by Myanmar observers in the 2013 Cobra Gold U.S.-led military exercises in Thailand for the exercise's staff planning and humanitarian portions.

There is a debate in U.S. policy circles about the value and effectiveness of engagement between the United States and Myanmar on military issues, with some saying that principled engagement can have a positive influence (noting that the military in Myanmar often responds better to fellow soldiers), but others see it differently. As one member of the U.S. House of Representatives put it, "We know that the Burmese military wants the relationship with our military. Our actions must incentivize the military to reform." In other words, the aim should be to position military interaction as a reward for good behavior and to delay access for now.<sup>64</sup> The result is that U.S.-Myanmar military relations will remain limited in the near term, and less official interactions involving retired U.S. military officers might be a more effective way to deepen engagement.

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## Alliance Policy Coordination Challenges

The bedrock of the alliance between the United States and Japan is their Treaty of Mutual Cooperation and Security. Its focus on filling in the security gaps created by Japan's war-renouncing constitution has preoccupied officials with managing the inherent tension in Japan's provision of bases to support an active U.S. security presence in the Pacific. When the Cold War ended in the early 1990s, the allies began to expand cooperation beyond the security realm through the Global Partnership and the Common Agenda, but these initiatives were often overshadowed by prevalent trade disputes of the time. Collaboration in such areas as development aid, global health, counternarcotics, and environmental protection produced some tangible and practical benefits, but they devolved over time into tactical project coordination at the working level and fell short of a broader strategic cooperation.

Japan remains important to the United States today, of course, evidenced by comments from former national security adviser Tom Donilon, who highlighted five “lines of effort” underscoring the U.S. rebalance to Asia. The first among these was strengthening U.S. alliances in the region “beginning with Japan.”<sup>65</sup> Yet, policymakers have not described what strengthening or “upgrading” the alliance means beyond deepening security cooperation. There is no articulated vision or strategy for non-security (such as broader foreign or economic policy) components of the relationship, and not even a consensus that strengthening the alliance should be a high priority. Thus, although the alliance keeps evolving, U.S. strategy toward it appears not to have changed fundamentally since the end of the Cold War, even as the geostrategic and economic landscapes in Asia have transformed.

During the 50th anniversary of the Treaty of Mutual Cooperation and Security, respected scholar George Packard suggested that, by default, U.S. officials have forgotten “the security treaty with Japan, as important as it is, is only part of a larger partnership,” and that “Washington stands to gain far more by working with Tokyo on the environment, health issues, human rights, nonproliferation, and counterterrorism.” He called for the White House and the State Department to “reassert civilian control over U.S. policy toward Japan.”<sup>66</sup> Myanmar policy could be a potentially meaningful place to start, though numerous challenges on this front help explain why the allies have not made a concerted effort to date.

Ostensibly, U.S. and Japanese policy goals in Myanmar overlap significantly. They both focus on promoting national peace and reconciliation, democracy and human rights, and a more open market economy that supports sustainable growth. The policy environments in Washington and Tokyo, however, are vastly different, and this shapes each government’s priorities such that at times they seem to work at cross purposes. “The problem with the United States is that it’s too focused on Aung San Suu Kyi and ‘democracy first,’” said a former Japanese Diet member who remains active in promoting Japan-Myanmar relations. “Myanmar can wait for a new constitution,” as it needs time to solidify political and social stability while it grows the economy.<sup>67</sup> Another high-ranking Liberal Democratic Party Diet member has questioned the depth and breadth of Myanmar public support for constitutional revision in general and for Aung San Suu Kyi in particular.<sup>68</sup>

Right or wrong, this is a far cry from the mood on Capitol Hill in Washington, where lawmakers regularly chastise Obama administration officials for giving human rights a “back seat to strategic considerations” and looking at Myanmar with “rose-colored glasses.”<sup>69</sup> Some members of Congress lament that Myanmar’s “reforms are languishing behind a corrupt governing system . . . [while] the Obama administration has moved forward with offers of more rewards, deals and concessions.”<sup>70</sup> Given that developments in Myanmar bear out some of these concerns, U.S. bureaucrats find themselves in a policy straitjacket, especially when it comes to expanding military relations or loosening the remaining

sanctions. A Japanese Foreign Ministry official summed up his assessment of U.S. government attitudes toward Myanmar this way, “State and Defense are ‘hot’ on Myanmar, Treasury is ‘cold,’ and Congress is a black box. We need to communicate more effectively with Congress.”<sup>71</sup>

The “democracy first” versus “trade first” slogan for describing the two countries’ priorities is simplistic but not inaccurate, and it shows up in specific policy areas such as finance. Japanese officials, for example, began highlighting the importance of the finance sector in Myanmar in mid-2013, noting that U.S. dollars still could not be cleared efficiently and that “this had opened the door for Singaporean and Chinese banks to move in.”<sup>72</sup> Many Japanese analysts believe that U.S. financial sanctions are partly responsible for driving Myanmar’s international remittances via third-party countries, which is inefficient and less transparent than if U.S. or Japanese banks entered the market as local joint ventures. One Japanese scholar urged Congress to compromise for the greater good. “Lifting sanctions completely would certainly benefit military businesses in Myanmar,” he wrote, “but it would also facilitate the development of a formal payment and settlement system and thus help the country’s nonmilitary businesses.”<sup>73</sup>

Beyond clear differences between the policy environments and priorities for the allies, an element of economic competition still exists, even if not as frequently as in the past. When talking about investment and economic engagement in Myanmar, for example, State Department officials will emphasize their objectives for transparency, a level playing field, and accountability, while at times casting doubt on Japan’s commitment on this front. U.S. officials worry that their Japanese allies, influenced by domestic political and economic interests, might focus only on the benefit to Japan. Most Japanese bureaucrats dispute this and think this probably reflects the countries’ different priorities. Regardless, it has left some U.S. diplomats concluding that “Japan is still not the policy partner we want.”<sup>74</sup> On the flip side, some Japanese officials muse openly whether the U.S. government manipulates the SDN list as a way to disadvantage certain rival companies or boost the fortunes of U.S. firms.<sup>75</sup> Although this does not seem plausible, it is evidence of a persistent sense of economic competition that further complicates efforts to align diplomacy more deeply.

Closer U.S.-Japan cooperation on Myanmar policy faces a host of other challenges, including a bureaucratic structure that is poorly suited to coordinate alliance initiatives across different regional and functional offices. Although the Burma and Japan desks at the State and Defense Departments in the United States sit within the same East Asia regional office, their counterparts in Japan operate under separate North American and Asian bureaus. Another bureaucratic headache is working around different fiscal year timing and budget cycles, which can complicate efforts to align complementary aid projects.

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Project evaluation is also often benchmarked against different standards in each country. Frequent rotation of personnel at the working level makes it difficult to maintain continuity. All of these obstacles can be overcome if the perceived need is great, but this requires a mutual commitment at a higher strategic level within the alliance. The jointly released “fact sheet” at the April 2014 Obama-Abe summit is a unique—if still vaguely worded—expression of such a directive, and it is creating some momentum within the alliance for a more effectively coordinated effort in Myanmar.

The precarious nature of Myanmar’s transition at this critical point in its history, combined with the outpouring of global support, makes this a particularly important time for the alliance to step up policy coordination on the issue, starting with a more complementary strategy.

## Alliance Policy Coordination Opportunities

For the allies to align Myanmar policy more effectively, it is useful to think about the effort as a strategic alliance. The business world offers experience that can apply to this situation. In business, a strategic alliance is an agreement between firms to do business together in ways that go beyond normal company-to-company dealings but that fall short of a merger or full partnership. Companies work together to achieve strategically significant and mutually beneficial objectives.

Such alliances involve interdependence between companies that may otherwise be competitors and may have vastly different operating styles and cultures. These kinds of alliances are not easy to implement effectively. Studies by some consulting firms suggest that the failure rate for strategic alliances is about 60 to 70 percent for any number of reasons, including insufficient senior management commitment, unclear goals, poor communication or coordination by management teams, and lack of trust.

A study by the *Financial Times* found that an overarching reason that strategic alliances fail to meet expectations is “the failure to grasp and articulate their strategic intent.” Another major related reason is the “lack of recognition of the close interplay between the overall strategy of the company and the role of an alliance in that strategy.”<sup>76</sup> In a foreign policy and alliance context, it is hard not to think of the U.S.-Japan alliance as it relates to Washington’s current “rebalance to Asia” strategy, and as a subset of this, allied policy vis-à-vis Myanmar can be viewed as a topic that deserves similar strategic alignment. In other words, if the allies want essentially the same end result in Myanmar, what kind of policy coordination would truly help achieve that goal in a way that they would be unable to accomplish separately or through their normal country-to-country dealings?

Despite the allies’ different priorities in Myanmar, they share an overarching interest in the country’s successful transition and in ASEAN integration

and capacity building. In addition, both the United States and Japan want Myanmar's political liberalization to positively influence regional development and governance. Although competitive aspects of the U.S.-Japan economic relationship remain (especially at the micro level), in the case of emerging and more controlled economies they increasingly share interests with regard to open markets, high-standard trade rules, intellectual property rights, and capital mobility. In this area, they both seek regulatory coherence in Myanmar that facilitates private investment in line with international standards.

Some alliance policy coordination vis-à-vis Myanmar already takes place at the working level, and a new initiative launched in early 2014 could enhance this further. The U.S. senior adviser for Burma, for example, consults a couple of times each year with her counterparts in Japan's Foreign Ministry, in addition to occasional meetings of the Myanmar desk officers from each country. The senior adviser position is a unique role that was created by Congress when the relationship with Myanmar was renewed in 2011, and it fills a valuable coordination role (in partnership with the regular desk officer) within the government and with other NGOs and international partners to optimize U.S. policy and maximize accountability to Congress. Coordination of this sort is useful, but Japan is only one of many countries with which the senior adviser for Burma consults.

Formal State Department–Foreign Ministry consultations link more directly to policymaking, and some of these meetings take place at the assistant secretary/director general level (in the Asia Affairs bureaus). Myanmar is just one of many issues on the agenda of such a high-level meeting, however, and North Korea, East China Sea, and other regional issues can sometimes crowd out detailed discussion about Myanmar. Fortunately, a significant amount of on-the-ground policy coordination takes place between the U.S. and Japanese embassies in Myanmar.

In a potentially meaningful development for Myanmar policy, the allies established in early 2014 a new mechanism for coordinating ODA. This new U.S.-Japan Development Dialogue convened for the first time in February, bringing together leaders from the State Department, Foreign Ministry, USAID, and the Japan International Cooperation Agency at the deputy assistant secretary/deputy director general level. The goal is to maximize the effectiveness of the two countries' ODA for promoting peace, stability, and economic growth, and they identified disaster risk reduction, women's economic empowerment, and regional cooperation in Southeast Asia as key priorities. All three of these objectives come together in Myanmar.

Moreover, a memorandum of understanding signed by the Japan International Cooperation Agency and the U.S.-based Asia Foundation in April 2013 opened up a new avenue of structured aid coordination at the NGO level, which is now linked informally with the Development Dialogue.<sup>77</sup> Alliance managers are clearly pleased with this mechanism as a way to expand

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**Both the United States and Japan want Myanmar's political liberalization to positively influence regional development and governance.**

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cooperation to a wider range of foreign policy issues, but it will endure only if the ODA practitioners themselves see value in this interaction. To have any meaningful impact and longevity, cooperation of this kind needs to be more than an alliance-building or sustaining activity.

Through use of these traditional and newly established mechanisms, the United States and Japan are effectively managing their Myanmar policy within the confines of domestic restraints, but they are far from developing a joint or even coordinated strategy. This is unfortunate considering that the allies share not only several fundamental interests but also some important priorities in the areas of reconciliation, economic liberalization, and good governance. There is room to develop a complementary strategy that takes better advantage of each country's strengths and enhances their influence vis-à-vis Myanmar, but doing so requires U.S. policymakers to think of leverage in a different way and for Japan to deemphasize short-term mercantilist goals.

Overall, the challenge is to combine a sense of urgency with a long and patient time horizon for evaluating progress, given that Myanmar is trying to make up for several lost decades without forward-thinking leadership. Near-term benchmarks are not unimportant, but their true value lies in what they can help Myanmar accomplish further in the future (as opposed to being simple talking points to justify a particular policy or program). Think of the disconnect between the Iraqi Army training targets the United States strove to achieve before Baghdad took "the lead" for security in 2007 and the true long-term sources for instability in Iraq. Thus, developing a complementary Myanmar policy strategy for the United States and Japan will require some agreement on capacity-building priorities and how to evaluate progress.

The three priorities of reconciliation, economic liberalization, and good governance are interrelated, but they also have distinct characteristics and involve different policy tools. To develop a more coordinated strategy, U.S. and Japanese policymakers could convene a Myanmar-focused meeting of the Development Dialogue that involves some trade and finance specialists from other ministries and agencies. The purpose would be to review each country's Myanmar policies and programs in a comprehensive way and to consider adjustments that can promote or solidify desirable reform. If a coordinated strategy can be developed, a more enduring Myanmar-specific and interagency alliance working group will be required to carry it out.

Alliance coordination might take different forms. Japan's infrastructure development initiatives with the Myanmar government (hardware) in areas with high concentrations of ethnic and religious minorities could be linked more closely with U.S. health and education work with local NGOs (software), with an overarching goal of enhancing access and visibility into these regions and with long-term benchmarks for measuring improvement. In a possible adjustment in the area of finance, U.S. sanctions could be relaxed to the point where more U.S. and Japanese banks can enter the Myanmar market with a mutual commitment to promote high standards for conduct and transparency.

These are just two examples of a more coordinated approach, and realizing any meaningful adjustments like these will require considerable time and energy.

Given the keen interest in Myanmar and human rights policies on Capitol Hill, any new U.S.-Japan Myanmar strategy will need support from Congress if it is to succeed. Thus, it will be helpful to involve members of Congress in this process of bilateral consultation between the bureaucracies and among lawmakers. The newly created U.S.-Japan Caucus within the U.S. House of Representatives is a potentially useful entry point for discussion, but other leaders in Congress focused on Myanmar and Southeast Asia policy issues, including Rep. Steve Chabot (R-OH), Rep. Joseph Crowley (D-NY), Rep. Trent Franks (R-AZ), Dana Rohrabacher (R-CA), Senate Minority Leader Mitch McConnell (R-KY), and Rep. Ben Cardin (D-MD), should be involved as well. Ultimately, these policymakers must come to believe that their goals for Myanmar can be better served via a coordinated alliance strategy, even if it loosens certain restrictions in the near term, as long as there is agreement on penalties or the withholding of future benefits if longer-term goals are not met. In this sense, the “leverage” of U.S. sanctions could pale in comparison to that which is gained through closer coordination with Japan, given its broader government network, its larger scale of foreign direct investment and debt holdings, and its ODA, but only if the allies can agree on the parameters for utilizing this leverage.

A united U.S.-Japan front vis-à-vis Myanmar can send a powerful message to the leaders in Naypyidaw, but it cannot simply be an exercise in trying to recruit Japanese support for the U.S. policy preferences or vice versa. Instead both countries should recognize that a better coordinated Myanmar policy has a chance to draw from the bigger talent and resource pool that the two represent, as well as a wider network in Myanmar, in the region, and among the international financial institutions. Moreover, the allies’ political and diplomatic leverage vis-à-vis Myanmar will increase to the extent that they are able to agree on terms of engagement. This is a strategic benefit that might be worth some degree of compromise by each side on certain sensitive issues for the purposes of policy alignment, or at least respect for each other’s positions when alignment is difficult. This is what a strategic alliance is all about.

For all of the challenges that Myanmar faces in its process of political transition and economic liberalization, it enjoys two important advantages that many of its neighbors lacked. First, its late emergence from autarkic policies and its delayed integration with the world give it a plethora of lessons learned from which to choose the best fit for its society and economy, and it is emerging at a time of unprecedented wealth and technological achievement in the region.<sup>78</sup> Second, in Japan and the United States, Myanmar has the attention and the support of two powerful allies, both of which are central players at financial institutions and other international organizations active in

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Myanmar, and which share many of the same hopes for Myanmar's development. Effectively channeling their energy, talents, and resources for a brighter future in Myanmar is a new kind of alliance challenge, but one whose success could herald an even more productive partnership for the future.

## Notes

- 1 The *World Policy Journal* ranked Myanmar as the third-most-isolated country in the world (using a weighted series of criteria) in 2013, and the Committee to Protect Journalists named Burma as the world's seventh-most censored country in 2012 and its second-most Internet-censored country in 2014. See "Anatomy: World's Most Isolated Countries," *World Policy Journal*, March 6, 2013; "10 Most Censored Countries," Committee to Protect Journalists, 2012, <http://cpj.org/reports/2012/05/10-most-censored-countries.php>; and "Top 10 Internet-censored Countries," *USA Today*, February 5, 2014, [www.usatoday.com/story/news/world/2014/02/05/top-ten-internet-censors/5222385](http://www.usatoday.com/story/news/world/2014/02/05/top-ten-internet-censors/5222385).
- 2 Catharin Dalpino, "Second Chance: Prospects for U.S.-Myanmar Relations," in *Myanmar's Growing Regional Role*, NBR Special Report no. 45, March 2014, 27. The phrase was used by Condoleezza Rice in her testimony at her confirmation hearing before the Senate Foreign Relations Committee on January 18, 2005.
- 3 Myanmar is 201st in the world with a per capita GDP of about \$1,700 in 2013, according to the *CIA World Factbook*, [www.cia.gov/library/publications/the-world-factbook/rankorder/2004rank.html?countryname=Burma&countrycode=bm&regionCode=eas&rank=201#bm](http://www.cia.gov/library/publications/the-world-factbook/rankorder/2004rank.html?countryname=Burma&countrycode=bm&regionCode=eas&rank=201#bm).
- 4 See Stanley A. Weiss and Tim Heinemann, "How to Invest in Myanmar: Doing Well by Doing Right," *Foreign Affairs*, January 17, 2014.
- 5 For this paragraph's insights I am indebted to Thant Myint-U, speaking at the Carnegie Endowment for International Peace, "Myanmar and the World: A Historic View of the Changes Taking Place Today," February 25, 2014, <http://carnegieendowment.org/2014/02/25/myanmar-and-world-historic-view-of-changes-taking-place-today/h1w0>.
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