

## **Japan's "Last Hope": Myanmar as an arena for Sino-Japanese competition, coordination and global standardization**

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*Despite competing strategical interests over Southeast Asia that have emerged in the last decade, with the launch of wide scope geopolitical strategies Chinese and Japanese initiatives have been characterized by a certain degree of implicit coordination, particularly in offering support to the Myanmar state's territorializing strategies for economic development. The case of the Thilawa Special Economic Zones (SEZ) is exemplary, as it was a Japan-led project which became a model and benchmark example for similar development initiatives supported by the People's Republic of China.*

*Keywords: Japan, Myanmar, Special Economic Zones, competitive partners, territorialization*

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## 1. Introduction

Over the last decade, along with other major regional actors such as Singapore and South Korea, Chinese and Japanese private and state actors have contributed to Myanmar's economic survival through investments, aid, and diplomatic mediation both with ethnic militias controlling the Northern and Northeastern borders and with the international community (Goh & Steinberg, 2016; Lintner, 2007; Woods, 2011, 2016). Given the country's geographic location and its being surrounded by China and India, periodical reorganizations within the state since the late 1980s have had an impact on Myanmar's relations with neighboring countries, such as India, Thailand and the People's Republic of China (PRC) (Goh & Steinberg, 2016; Han, 2019; Kudo, 2008, 2009, 2010; Rippa & Saxer, 2016; Woods, 2011; Yeophantong, 2016), as well as with farther countries such as Japan that, since the end of World War II, have continuously supported both military and civilian elites' attempts at fostering state-building and economic development in Myanmar (Kudo, 2009, 2014b, 2014b; Steinberg, 1991; Strefford, 2005, 2016).

Particularly, since the early postwar years, Myanmar-Japan relations have been embedded in economic and technological asymmetries that have produced mutually dependent relations between the two countries (Strefford, 2005; Takeda, 2001). More recently, with the People's Republic of China (PRC) emerging as a central power in the Asia-Pacific, asymmetries and mutual dependence between China and Myanmar have attracted scholarly attention (Goh, 2016; Han, 2019).

This paper will address the following research questions. Can Myanmar be considered the latest Asian frontier of Sino-Japanese competition? Is Japan investing in Myanmar in an attempt to balance against China? Are there aspects other than competition at play between the two largest East Asian economies in their respective strategies in Myanmar? The core argument is that, despite the competing strategic interests over Southeast Asia which have emerged in the last decade with the launch of large-scale geopolitical strategies (e.g. the PRC's Belt and Road Initiative and Japan's Partnership for Quality Infrastructure) (Gong, 2018; Katada & Liao, 2020; Kudo, 2009; Lam, 2016; Strefford, 2005), Chinese and Japanese initiatives have actually been characterized by a certain degree of implicit coordination. Following Yang (2019), it will be argued that, since the beginning of Myanmar's socioeconomic reforms under former president Thein Sein, Japan and the PRC, in their respective geoeconomics strategies in Myanmar, have acted as "competitive partners", challenging the Washington consensus' orthodoxy regarding tied financing and the imposition of strict political conditionalities on the local government, thus establishing a new pattern of aid financing (Yang, 2019).

With the launch of a reform process in 2011, backed by battling international partners, the Burmese state has adopted new policy instruments to capture the country's natural and labor resources, such as Special Economic Zones (SEZs). Through such instances of localized infrastructural and industrial development that will be further discussed below, the state has succeeded in promoting capital reproduction in Myanmar, and, on the other hand, further empowering state agencies, particularly, the hegemonic military fraction within the Burmese

state, which has regained its centrality in the country's affairs following the February 2021 coup, vis-à-vis local communities.

In the following section, the main theoretical and analytical concepts used in this paper will be discussed.

## **2. Turning Sino-Japanese 'rivalry' into an Opportunity: SEZs as state-led capital reproduction strategy**

In world politics, rivalry generally indicates a relationship between two states which, enjoying similar capabilities in terms of relative power, each perceive the other as a competitor or even as a threat to its own security. Rivalries are the product of decision-making elites' categorizations based on a) the environment in which the actors are entrenched; b) the identified rival's past behavior; and c) forecasts on the rival's future actions. At their foundations, as in conflicts resulting from specific rivalries, there is substantial "goal incompatibility" between adversaries over certain issues, including trade and development, deployment and circulation of new strategic technologies (Colaresi & Thompson, 2002, p. 265; Thompson, 2020).

Moreover, a history of hostility between two actors leads them to behave based on the expectations of renewed threats or, ultimately, physical attacks from the rival, nurturing what Thompson (2001) defines as "cognitive rigidities" informing foreign policymaking. Inevitably, such barriers help "create and sustain dyadic relationships of structured hostility", that, once in place, might hinder cooperation and conflict de-escalation (Thompson, 2001, pp. 561–562). Even in the case of rivalries which have not previously escalated into violence, the very presence of an external threat emanating from the rivalry itself, particularly when it is considered salient to the state's security interests, may mobilize domestic consensus toward specific political groups by lobbying to maintain the rivalry and by aiming to instrumentally maximize their political power and share of state resources (Bak et al., 2020).

Despite having a history of violent hostility between the early 1930s and mid-1940s, post-WWII Sino-Japanese relations until the early 2010s were characterized by economic cooperation, mainly through public aid, private investments, and trade, leading to the increase of Japan's economic interests "embedded" in continental China and a gradual integration of the two countries' economies. Specifically, this led to a "rational foreign policy" on both ends "aimed at the maximization of economic gains". However, particularly after the re-emergence of the Senkaku-Diaoyu islands dispute in 2010-12, this Sino-Japanese equilibrium was destabilized by "irrational threat perceptions" informed and fed by nationalism both at the elite and societal levels. As a result of re-emerging bilateral hostility, a multilevel competition has emerged in areas such as the military, and economic statecraft, and even at the intellectual level, through bilateral efforts at constructing narratives that might nurture this rivalry (Pugliese & Insisa, 2017).

In this context, Southeast Asia has become the stage of Sino-Japanese politically determined economic competition in providing technologies and infrastructures in the transport

and energy sectors (Pugliese & Insisa, 2017, pp. 88–98; Yang, 2019; Yoshimatsu, 2017; Zappa, 2021). Given the structural asymmetries informing the region’s economic and political arrangements, the governments of key countries in the region, such as Thailand, Laos, Indonesia, and, as will be discussed below, Myanmar, have attempted to profit from Sino-Japanese rivalry, actively bending Tokyo and Beijing’s respective geo-economic strategies to fit their own interests and agendas in order to attain risk diversification and external balancing (Jones & Hameiri, 2020; Pugliese & Insisa, 2017, p. 89).

Myanmar has coped consistently with asymmetrical relations with the PRC since the late 1980s, following a devastating economic crisis and international sanctions provoked by the military’s violent crackdown on demonstrators in 1988. Conflict-ridden border areas started attracting foreign capital from neighboring China in exchange for the approval on crucial infrastructure development projects such as the Myitsone Dam and the Kyaukphyu-Kunming oil and gas pipelines, and extraction and logging licenses granted by the central government, overriding local elites and projecting its sovereignty and jurisdiction over previously *de facto* autonomous regions (Steinberg, 1991, pp. 736–737; Taylor, 2009, p. 398; Woods, 2011, 2016).<sup>1</sup>

However, a few decades later, in the mid-2000s, when the ruling military junta became frightened of U.S. military intervention and wary of Chinese activities in border regions, undermining its own sovereignty over the nation, it initiated a process of reforms aimed at ending its *pariah state* condition (Chow & Easley, 2016). This process climaxed with the 2008 ratification of a new national Constitution by referendum, paving the way for the 2010 parliamentary elections that ended in a landslide victory for the Union Solidarity and Development Party (USDP), the junta’s political arm.

In March 2011 the junta was dissolved, and the nominally civilian cabinet presided over by former Prime Minister General Thein Sein took over initiating a new course of policy, elucidated by a series of economic and social reforms which led to a semi-normalization of Myanmar’s diplomatic relations with the US and the EU. Among the many steps taken by the Thein Sein administration, the decision to open three SEZs deserves attention.

Particularly in an era of increased global capital circulation, it is crucial, where conditions allow, for states in developing countries to act as “facilitators” of internationalization and “catalysts” for trade and investments both abroad and domestically (Weiss, 1997, p. 17). In this sense, SEZs are a useful policy instrument to achieve several targets ranging from attracting Foreign Direct Investments (FDI) in the country to spurring socio-economic development. Among their distinguishing features are a defined geographic perimeter, reduced tax burden, access to infrastructural networks, and simplified administrative procedures. Such concessions to business operators are expected to have a direct socio-economic impact, for instance, by creating jobs, developing export-oriented industries and boosting productive capacity (OECD, 2020).

Coincidentally, in the early 2010s, Senior General Than Shwe instructed his collaborators to set off to planning the construction of three SEZs. These were officially established in 2014

under Thein Sein's quasi-civilian government. The first SEZs to be identified were Thilawa (South of the largest city Yangon), Dawei (close to the border with Thailand) and Kyaukphyu (in Southwestern Rakhine State, on the Bay of Bengal). As a result of elite negotiations, as will be illustrated below, Thilawa was "awarded" to Japan, while Dawei and Kyaukphyu were given to the PRC and Thailand, respectively, somehow reflecting Myanmar's historical relational asymmetries (Han, 2019; Lam, 2016; Strefford, 2016).

In the following sections, aspects of competition and implicit coordination between the PRC and Japan in the context of their respective geo-economic strategies targeted at Myanmar will be analyzed in the light of the recipient's (namely, Myanmar's military elite's) needs, to establish legitimacy across the country. The case of the Thilawa SEZ will be used as an explanatory case-study, as it served as a model area for future SEZ development in Myanmar. Particularly, our analysis focuses on ministerial statements, donor agencies and non-governmental agencies' reports in addition to the existing literature on Japan-Myanmar relations, Sino-Japanese relations and PRC-Myanmar relations. Furthermore, technical surveys on the Thilawa SEZ development published since 2014 are considered and triangulated with information retrieved on both Japanese media and English-language media in Myanmar.

### **3. Myanmar's Reforms: forget not old friends**

To better understand the Japanese government's approach to new investment and aid opportunities in Myanmar after the dissolution of the junta in 2011, it is important to first discuss Beijing's diplomatic engagement with Myanmar. Indeed, the Japanese approach, which will be discussed in detail later, cannot be understood in isolation. Instead, on the one hand, it is path-dependent, as it was the result of instigation from the Japanese private sector aimed at bringing the state to support business internationalization and international competitiveness, as in the pre-reform period; on the other hand, it was informed by strategic contingencies, namely by a) Myanmar's overt dependence on China as its largest trade partner and investment provider (recipient-end); and b) Japan's political leadership's geopolitical ambitions (donor-end). In this section, Japan-Myanmar relations will be analyzed in the context of Sino-Burmese and Sino-Japanese relations.

#### **3.1 Fraternal neighbors? China's role in shaping contemporary Myanmar**

As Myanmar normalized its relations with the US, the EU and Japan, the PRC leadership was eager to keep its competitive advantage over Myanmar.<sup>2</sup> Indeed, from 2006 on, the State Peace and Development Council (SPDC) government (the official name the junta assumed in 1997) granted preferential access to the country's water resources in the upper Irrawaddy river, and offshore gas fields in the Andaman Sea and in the Bay of Bengal, off the Rakhine State coast, to Chinese state owned enterprises (SOEs), expecting substantial growth in tax revenue in addition to economic and non-economic benefits, such as poverty reduction through local job creation in peripheral areas, energy shortages alleviation and even mitigation of environmental degradation (Yeophantong, 2016, pp. 180–182). The PRC's financial and technical backing was

key also to the construction of the new capitol Naypyidaw, completed in 2005 (The New York Times, 2008).

Bilateral relations are discursively framed in terms of “fraternity” (*phaukpaw* in Burmese or *baobo* in Chinese) and, in fact, despite the 2011 normalization of ties with the US and EU, are mutually beneficial for both states. Specifically, after the 2003 US sanctions, Beijing became Myanmar’s primary source of finance for infrastructural development. Until 2010, the PRC and regional public utilities had disbursed more than USD 2 billion in loans and technical assistance in various sectors ranging from hydropower, mining, oil drilling, telecommunications and crop-substitution (Zhu, 2010, pp. 79–81). Then, in 2010, after the State Council underwrote another USD 4.2 billion-worth interest-free loan to Naypyidaw in support of Myanmar’s economic development, in 2011, the two governments agreed on a comprehensive strategic cooperative partnership (Li, 2012).

In April 2013, Chinese President Xi Jinping reiterated his intention to maintain friendly relations with Myanmar, and to resist being “distracted by outside forces” (Ministry of Foreign Affairs of the People’s Republic of China, 2013a). In fall of that year, Xi pledged to cooperate with several countries in both Central and Southeast Asia to create “a Silk Road economic belt (...) to open up the transportation channel from the Pacific to the Baltic Sea and (...) form a transportation network that connects East Asia, West Asia, and South Asia” (Ministry of Foreign Affairs of the People’s Republic of China, 2013b; Xi, 2013). In 2019, meeting with Aung San Suu Kyi, Chinese Foreign Minister Wang Yi underscored the importance of the creation of the China-Myanmar Economic Corridor (CMEC) which the two countries had agreed upon in 2017 with fresh investments in railway connectivity and transport infrastructures linking the Indian ocean to China’s southern province of Yunnan, particularly after the largest state-run conglomerate CITIC Group was awarded permissions to develop a Special Economic Zone (SEZ) and a deep-sea port in Kyaukphyu (Waijiao bu wangzhan, 2019; Xinhua, 2015, 2017). The relevance of Myanmar in this plan is clearly underscored in the PRC’s basic document on “Development Cooperation in the New Era” in which the country is mentioned several times as the frontier of Beijing’s projects in regional connectivity, trade capacity development, poverty reduction, vocational training and fighting climate change (The State Council Information Office of the People’s Republic of China, 2021). It is hardly surprising that as of 2019, the PRC had invested USD 19.8 billion in sectors such as power generation (57%), oil and gas (18%), mining (17%) and agriculture (5%), with a peak of USD 8.2 billion in 2010-11, followed by a steep decline between 2011 and 2014 and then a rebound in 2015-16. (Han, 2019; Lwin, 2019).

As various studies demonstrate (Ganesan, 2011; Goh, 2016; Han, 2019; Yeophantong, 2016), China’s influence in Myanmar has not expanded coercively, that is, by changing its partner’s preferences; rather, it has worked as a “preference multiplier”, “identifying common imperatives” whereby to initiate policy action and commit financial resources (Goh, 2016, p. 13; Yeophantong, 2016, p. 175). Despite the reach of the PRC’s influence on Myanmar, chronic suspensions and delays of Sino-Burmese infrastructural projects highlight the fact that they have been subject to the ruling elite’s evaluation of cost and benefits in terms of regime security.<sup>3</sup>

### 3.2 Japan' historical entanglement in Myanmar

Despite the geographical distance separating the two countries and US influence over Tokyo's diplomatic posture, Japan has proactively engaged with Myanmar even during times of international isolation (Strefford, 2005; Takeda, 2001). Since the 1950s, Japanese policymakers had seen cooperation with Myanmar as a long-term investment that would eventually pay off, given Myanmar's strategic position between India and China (Strefford, 2005, 2016). It was in this period that Tokyo started providing aid and investments for infrastructural development to Myanmar, nominally under the guise of war reparations.<sup>4</sup> As a corollary of this strategy, Japanese goods became widespread in the country. As one historian recalls, referring to a popular Japanese carmaker in Southeast Asia, "In Burma, Japan's goods were becoming so prominent that people ran to catch the 'hino' rather than the 'bus'" (LaFeber, 1997).<sup>5</sup> By 1988, Japanese loans, grant aid and technical assistance amounted at USD 2 billion, almost half of the total assistance received by the country during its Cold War isolationism. Personal relations between the two countries' leadership and initiatives by consultants such as Nippon Koei helped to strengthen bilateral ties and forge a positive environment for the operation of business conglomerates such as Mitsui and Marubeni. At the same time, granting access to land and labor to Japanese capital further legitimized Myanmar's military regime, as the case of the Mitsui-led Mingaladon Industrial Park project, completed in 2002, demonstrates (Chow & Easley, 2016, p. 531; Kudo, 2009, pp. 269–270; Mørch, 2019; Taylor, 2009).<sup>6</sup>

Japan's engagement approach finally paid off beginning in late 2011. In this period, the DPJ and subsequent Liberal Democratic Party (LDP) cabinets stepped up diplomatic efforts, promising aid for a total of USD 4 billion and a USD 3.7-billion debt cancellation, instrumental to the allocation of new loans in FY 2012 (Reilly, 2013). Besides geography and worsening relations with China following tensions on the Senkaku/Diaoyu islands in 2010 and 2012, informal ties between Japanese and Burmese elites played a role in laying the groundwork for economic cooperation, particularly in the form of aid and investment. A case in point is the April 2012 "Memorandum of Intent on the Cooperation for the Development of the Master Plan for the THILAWA Special Economic Zone (SEZ)" in the outskirts of Myanmar's largest city signed by PM Noda Yoshihiko and negotiated personally by President Thein Sein and DPJ member and former Post Minister Watanabe Michio (JICA & Sanyu Consultants, 2014; Lam, 2016). Furthermore, the US decision to ease economic sanctions in 2012 was the ultimate factor behind the so-called "Myanmar boom".<sup>7</sup> Japanese companies could restart their operations in the country with the support, as in the pre-1988 period, of Japanese international cooperation (Kudo, 2014a, p. 3; Strefford, 2016).

Official agreements were signed in May 2013 during Prime Minister Abe Shinzō's visit to the country. During his visit to Myanmar, Japan's PM, accompanied by the representatives of 40 Japanese companies, pledged to promote a public-private partnership approach (*kanmin ittai* or *ōru (all) Nippon*) to cooperation with Myanmar aiming at state- and nation-building (*kunidzukuri*) through a) the improvement of people's livelihood; b) the enhancement of institutions and human resource capacities to foster economic and social development, and c) the

promotion of key infrastructure systems for sustainable economic growth. For these tasks, the government of Japan (GOJ) showed its resolve to disburse 91 billion yen in grant and loan aid by mid 2014. In the final document released after the Abe-Thein Sein summit, the two parties recognized the importance of increasing people-to-people exchanges, through cultural exchange programs and scholarships for Burmese citizens to attend universities in Japan, and of maintaining high-level dialogues on security issues to maintain peace and prosperity in the Asia-Pacific and Indian Ocean regions (*Nichi Mianmā (Myanmar) Kyōdō Senmei - Atarashii Yūjō No Ishizue*, 2013).

At the same time, by publicly sharing memories of his first trip to the country as aide to his father Foreign Minister Abe Shintarō in 1983, and of his grandfather Kishi Nobusuke’s accounts of his diplomatic trip to Myanmar back in 1957, Abe emphasized the long friendship between Japan and Myanmar (*furui yūjin*). Most notably, Abe referred to the agreement on Japan-Myanmar joint construction project of the Thilawa Special Economic Zone (SEZ) as the “symbol” of the two countries’ bilateral cooperation (*kyōryoku no shōchō*) and “triggering explosive” of job creation in Myanmar (*koyō sōshutsu no kibakuzai*). Therefore, it was imperative that the project “did not fail” (Ministry of Foreign Affairs of Japan, 2013; Seifu intānetto terebi, 2013). In 2013, the GOJ became Myanmar’s top DAC bilateral donor with a total aid disbursement to Naypyidaw of USD 5.3 billion. In 2019, before a new aid suspension in 2021, the GOJ disbursed USD 1.8 billion. Aid initiatives focused on power generation and distribution, infrastructural and rural development (loan aid), education, healthcare and support to ethnic minorities (Ministry of Foreign Affairs of Japan, n.d.), but, as indicated in a 2016 joint cooperation program agreed upon by the Abe and Htin Kyaw cabinets, cooperation has regarded the financial and telecommunication sectors (Government of Japan & Government of the Republic of the Union of Myanmar, 2016).

#### 4. Recentring Territoriality

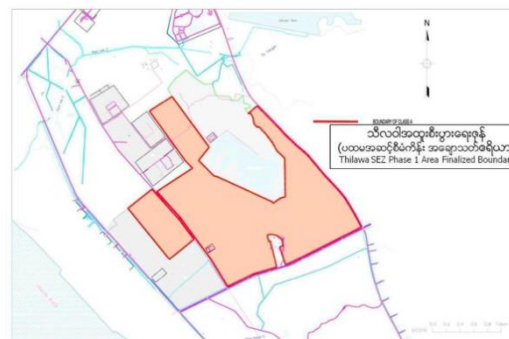


Figure 1. SEZ typifications: Thilawa SEZ Phase 1 Area map. Source: (Yangon Region Government, 2013)

We will now turn to the case of Thilawa SEZ to further elaborate the concept of *territorialization*. Integrating the official OECD’s definition, a SEZ can be described as a *locale*,



that is, a physical region with definite boundaries where the interaction between social actors is subject to the “production and reproduction of spatial enclosures” (*territoriality*) where interaction is intensified and enforced into boundaries (Soja, 1989, p. 150). Similar strategies rely on the capacity of state administrators to enhance the *legibility* of the environment and societies within the territory over which one authority claims exclusive sovereignty, adopting and imposing schematic categories and typologies (maps, charts, etc.) which increase the state’s ability to deliberately intervene (Scott, 1998, pp. 76–83).

Against this backdrop, Thilawa’s relevance is twofold. First, it is an example of a territorial strategy aimed at strengthening the state’s reach in an area close to its core, as opposed to territorial practices in borderlands. Second, being the first operational SEZ in the country, it will likely function as a model area for land policies, community relocations and compensations (Kyaw, 2020).

Located 20 km southeast of Yangon, at the confluence of the Yangon and Bago Rivers, Thilawa is the only fully operational SEZ in Myanmar of the three planned by the Union government in 2011 (the others being Kyaukphyu in Rakhine State, Southwestern Myanmar, and Dawei, in Southeastern Thanintharyi Region). It has an area of 2,400 hectares and is an integrated manufacturing, logistics and commercial area designed to host, at its full capacity, 208,000 workers and 156,000 residents with an 800MW and 117,000 m<sup>3</sup> power and water demand. As of December 2019, more than 110 investment projects were approved for a worth estimated at USD 760 million, while 76 companies have started commercial operations with more than 20,000 jobs created since 2015, of which 9,000 are permanent (H. L. Aung, 2016; JICA, 2019; Lynn, 2019).

#### **4.1 Rules and actors involved**

SEZs in Myanmar are regulated by 2014 legislation and a set of rules published in 2015, drafted with JICA’s assistance (JICA, 2019). Investors are allowed a 50-year land lease contract with the possibility to extend it for another 25 years after the contract expires. Current provisions allow for several incentives to prospective investors, such as tax exemptions lasting up to 7 years and tax deductions for research and development and training activities (OECD, 2020). At the same time, they provide that the state ultimately has the power to appoint managing bodies and to identify “suitable areas” and select “developers” to implement a SEZ. First, these must be linked to “international gateways” such as airports or ports, or to domestic and international markets through transport and communication networks, considering “sufficient” land areas, availability of water and power, skilled workers, or the capacity to design workers training programs. Second, developers should in principle be actors with experience in SEZ management and a record of benefitting the State and the citizens, creating “favorable conditions for speedy implementation of the project”, and fostering stakeholder and residents’ participation and transparency. Moreover, developers and investors must bear the cost for relocation and resettlement of residents of designated SEZs in coordination with the MC, while the Ministry of Home Affairs is tasked with takeovers and transfers of land to the MC (*Myanmar Special Economic Law 2014*, 2014).

In this context, the Directorate of Investment and Company Administration (DICA) and the MC granted the Myanmar Japan Thilawa Development Ltd (MJTD) the rights to develop the SEZ with JICA's assistance. The MC and JICA hold each a 10% stake, while the remaining 80% is owned by public and private investors from both countries, most notably by large Japanese conglomerates such as Marubeni, Mitsubishi and Sumitomo. Furthermore, the Myanmar majority stakeholder, Myanmar Thilawa SEZ Holdings (MTSH), raised capital selling shares on the stock market. The Japanese and Myanmar governments had initiated negotiations, as previously illustrated, already in early 2012. On the initiative of the Ministry of Energy, Trade and Industry (METI), the first project feasibility study was conducted. After the signing of the May 2013 Memorandum of Understanding (MoU) on the Thilawa SEZ development, the Japan International Cooperation Agency (JICA) started providing funds to and overseeing the enhancement of the power supply and transport network in collaboration with the SEZ managing committee, central state agencies, utilities and the Yangon region local administrative boards. JICA also provided support to Myanmar authorities in the resident relocation process taking part in stakeholder meetings and surveying project affected household feedback and requests (JICA & Nippon Koei Co., LTD., 2014, p. E-1-17).

#### **4.2 Enhancing the locale's *legibility***

Before the construction works started in late 2013, months before the law was enacted, the area was, according to a YRG report, mainly rural farmland with most of the local inhabitants employed in low-wage occasional jobs. This simplification naturally overlooked the diversity of employment patterns in the Kyauktan-Thanyin area, where 37.9% was employed in agriculture, livestock and fishery sectors, almost 27% in trade and 26% in industry. Agricultural cycles were also important variables in determining the local unemployment rate, varying from 2.4% in the harvesting season to 31.5% in the off-season (JICA & Sanyu Consultants, 2014, pp. 2–8).

On average, however, the local annual food expenditure amounted to nearly 50% of the available income (Yangon Region Government, 2013, p. 13).<sup>8</sup> The land which the SEZ encompasses was in fact acquired by the central government in 1997 to be developed into an industrial zone by a joint venture of state agencies (the Ministry of Construction [MOC] and the Department of Human Settlement and Housing Development [DHSHD]) and a Singaporean investment fund. Although the plan never materialized, the government proceeded with the identification of relocation sites and the disbursement of compensation to the local inhabitants who were forced to resettle. After the project stalled for a decade, however, several members of the local community went back to living and farming on the SEZ-designated land. In August 2013, however, the government announced a new resettlement scheme involving more than 70 households (382 people in total) from the Thilawa site Class A/Phase 1 area (the first to be developed).<sup>9</sup> The identified relocation site was, at its farthest end, 8 km southeast of Thilawa Class A/Phase 1 area. Thilawa evacuees were given the choice of accepting a house provided by the state (some of which were provided by JICA), or building a house by themselves.

### 4.3 Double relocation

The relocation site land had been acquired by the MOC in 1996 to accommodate relocated households from the Zarmani-Inn water reservoir construction project. In its environmental and social assessment on the relocation site, the YRG clearly states that the impact of the relocation work in terms of pollution and disruption of the local ecosystem was negligible, as the site was “open land” originally used as farmland for rice cultivation. Moreover, the environmental impact could be further minimized by instructing the relocated community members regarding “proper use and management of natural resources”, such as the use of wood chips collected for fuel. The presence of another relocated community, however, could originate conflicts and tensions for resource use and access to social infrastructures such as schools and health centers; it was therefore crucial for local and state authorities to coordinate and oversee consultation meetings. Specifically, the organizations tasked with implementing and monitoring the relocation process included local township officials as well as representatives from Ministries and the Myanmar Police Force (Yangon Region Government, 2013, pp. 31–39).

Given that the land had already been confiscated by the state in 1997 in return for compensations to residents amounting at around USD 15,000 per acre, the government did not pay new compensations to the relocated community but, instead, opted for reparations for crop losses and compensations for the costs of relocation. Relocated community representatives have repeatedly denounced cases of compensation-related corruption and “substandard” living conditions, particularly regarding access to reliable sources of clean water, waste management and use of farmland. Despite the fact that the NLD government reviewed the compensation process, the issues of fair payment and farmland use resurfaced in 2016 with the beginning of the construction works for Thilawa SEZ zone B, and were still at the center of local disputes in April 2020 (Kyaw, 2020). The government of Myanmar has however on several occasions defended relocations and training programs for farming households as being compliant with international standards (N. N. Aung, 2013; S. L. Aung, 2016).

Nevertheless, the successful completion of the construction and development works in Thilawa combined with the start of the economic activities in the SEZ were expected to produce a “trickle-down effect” for the relocated population, identified as Project Affected People (PAP) or Project Affected Households (PAH) which would benefit from new job opportunities in manufacturing and retail, as illustrated by the figure below.

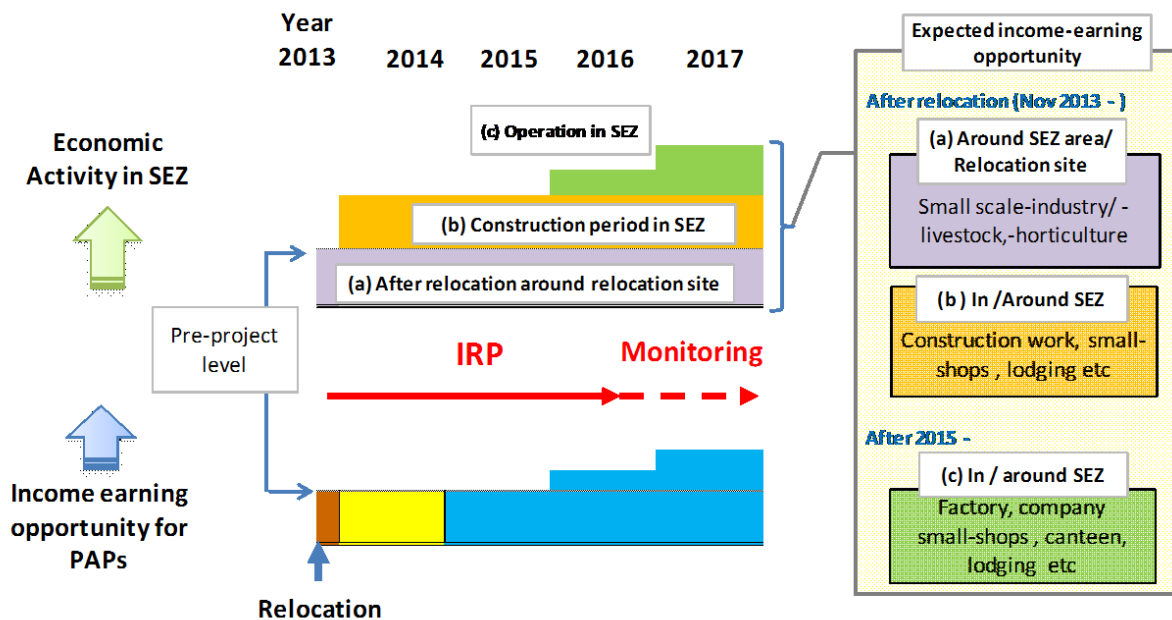


Figure 2. Thilawa labor substitution scheme. Source: (Yangon Region Government, 2013)

As of late 2019, JICA’s assessment of the Thilawa SEZ project was extremely positive: the Japanese development agency triumphantly described the “miracles” of Thilawa as a generator of “decent job opportunities” and world-class hygiene, safety and social welfare conditions, and as a catalyst for “quality investment” in support of domestic and export markets at a strategic node on the East-West corridor of Southeast Asia connecting Myanmar to Thailand and Vietnam (JICA, 2019).

## 5. Conclusion

By focusing on a specific project financed by Japan’s development assistance, that of the Thilawa SEZ, this paper has attempted to show how state-centered geopolitics, state-led governance and global capital flows can affect people’s daily lives in developing countries, disempowering them vis-à-vis state authorities.

Territorial projects like the one discussed in this paper had been implemented in border areas since the late 1980s (Woods, 2011). This is something common to other ethnically diverse and conflict-ridden Southeast Asian countries, particularly in borderlands; it is used to achieve both exploitative and conservative aims, such as consolidating the state’s control over land resources and over the people who use them (Vandergeest & Peluso, 1995). However, pushes from international investors and partner governments to create business opportunities in relatively logistically convenient areas such as Thilawa have led to the implementation of territorial strategies even in non-border areas.

In their approach to the opening of the Thilawa SEZ, Japanese governmental agencies involved in the project have been particularly keen to avoid risks and level off, as quickly as possible, China's strategic edge over Myanmar gained in pre-reform decades through a strategic use of aid and FDI in a context of rivalry with Beijing.

However, despite clashing interests between Chinese and Japanese development assistance and investment initiatives in Myanmar, their methods, aims and discourses share similarities. PM Abe's pledges and rhetoric during his 2013 visit to Myanmar were revealing of Tokyo's grand strategy to counter China in Asia by engaging with Naypyidaw and leveraging on its "friendship" with the Burmese people (a concept which is recurrent also in Chinese diplomatic discourse). In addition, the reiterated "urgency" for both countries, but particularly on the part of Japanese businesses, reflected the image of Myanmar as the "final frontier" of Asian development constructed at a global level after Myanmar's 2011 political transition. Hence, the representation as the "last chance" for Japanese businesses to maintain *competitiveness* in the region versus other regional actors. Outsourcing manufacturing and assembly processes in cheap labor-rich Myanmar was instrumental, especially for carmakers like Honda and Toyota, to gain a foothold in developing export markets such as India and Thailand, where production costs were comparatively higher than in Myanmar (Yomiuri Shimbun Ōsaka Keizai-bu, 2015).

Against this backdrop, Myanmar state authorities and Japanese agencies have defended the SEZ as a success, despite local opposition. This has, on the one hand, likely led the Myanmar government to remove a Thai developer from the Dawei SEZ project and to call for greater participation from GOJ agencies and Japanese investors (Muramatsu & Nitta, 2021). On the other hand, Thilawa is a benchmark case for further SEZ development, including that of Kyaukphyu, whose development permits have been granted to a Chinese SOE, in terms of relocation and compensation policies (Kyaw, 2020). Therefore, Chinese actors will likely operate in an institutional and financial framework by and large developed through Japan-Myanmar cooperation. In light of these facts, one might agree with Yang (2019) that, despite their ongoing rivalry, Japan and the PRC have exerted mutual influence on each other's development financing strategies, opting for "tied commercial financing, heavy government involvement, a focus on physical infrastructure and industrialization, and respect for the host country's forms of governance," much like in the heyday of Japan as "aid superpower" in the mid- and late 1980s (Yang, 2019, pp. 21–22). In retrospect, this might also explain why Tokyo, as opposed to the international community, has remained ambivalent toward the new military junta led by General Min Aung Hlaing (Akimoto, 2021; Kasai, 2021).

Despite its trumpeted success, the actual impact of the Thilawa SEZ on local employment could not be evaluated. Early Japanese media reports indicated that workers for the Thilawa SEZ needed to be recruited in Yangon rather than locally. Consulted reports and literature point in fact to processes of labor substitution, following a territorializing scheme aimed at creating a clearly defined environment for capital reproduction and restructuring. As shown in previous paragraphs, however, such a scheme was based on a simplified representation of the local socio-environmental reality and on the state's blind faith in progress as the ultimate solution to social

issues. Once again, Thilawa seems to elucidate a transition from the Keynesian model of infrastructure development for the broader public to a more “thinned-out” differential one, designed to further underscore inequalities and asymmetries within the local society (S. L. Aung, 2016).

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<sup>1</sup> Although Beijing refuses to recognize any official relation with these organizations, the PRC’s influence in the border regions is undeniable. For years, before the 2011 ceasefire breakdown, Beijing had maintained an ambiguous policy between ethnic militias and the *tatmadaw*, seeking to make certain that neither side overcame the other, for fear that the civil war could spill across the border. Such balance was however critical to creating the conditions for Chinese investments in the border regions and for gaining access to natural resources across the border (Ganesan, 2011; Han, 2019, pp. 109–115; Rippa & Saxer, 2016).

<sup>2</sup> An in-depth analysis of PRC-Burma/Myanmar relations since the end of World War II would be beyond the scope of the present contribution. Suffice it to say, however, that throughout the 1960s until the early 1980s, neighborhood relations between the two states oscillated between neutrality and resistance (Goh & Steinberg, 2016, pp. 62–65; Haacke, 2011; Han, 2019, pp. 137–156).

<sup>3</sup> The Myitsone dam project, a 6,000 MW-hydropower plant in Kachin State, was halted indefinitely in 2011 due to pressures within the administration against it and its environmental impact. In addition, the military-civilian government led by Thein Sein also feared that the project could further exacerbate the conflict with the local militias in KIA-ruled areas. Popular demonstrations also played a part: the partial democratization of public life led to the resurfacing of a wave of anti-China sentiment that could undermine the government’s own approval rates. On the other hand, the completion of the Kyaukphyu-Kunming oil and natural gas pipeline, a project worth a total of USD 2.5 billion, was halted only temporarily in 2015, while it underwent scrutiny by an ad hoc commission appointed by the NLD to investigate land-grabbing allegations. In April 2017, however, the two governments reached an agreement to open the pipeline, which has a transport capacity of 22 billion barrels of oil per year (Poling, 2018).

<sup>4</sup> The Baluchaung hydropower plant 2, the symbol of Japan-Myanmar ties in this period, is still at the center of bilateral cooperation. In 2012, when Japan restarted aid disbursement to Myanmar, the hydropower plant rehabilitation was part of a public-private partnership agreement which saw the participation of consultancy firm Nippon Koei and Japan’s number one energy utility, Tokyo Electric (TEPCO). See (TEPCO, n.d.).

<sup>5</sup> Hino, today a brand of the Toyota Group, was one of the first Japanese carmakers to outsource part of its production in Southeast Asia, establishing a manufacturing plant in Thailand in 1964. (Hino Motors, n.d.)

<sup>6</sup> As Kudo notes, the so-called “Burma faction” in the Japanese ruling Liberal Democratic Party (LDP) comprised eminent figures such as former Prime Minister Kishi Nobusuke (1957-60), former Foreign Minister Abe Shintarō, respectively grandfather and father of former Prime Minister Abe Shinzō (2006-7, 2012-2020), LDP-power broker and former Minister Watanabe Michio and actor than politician Yamaguchi Yoshiko (Kudo, 2009). Kishi is associated to another important figure in Japan-Myanmar relations: Sasakawa Ryōichi, suspected class-A war criminal, Sugamo Prison inmate with Kishi until 1948, and pre-war ultra-nationalist turned philanthropist with direct connections to General Ne Win, who, during the Japanese occupation of Burma, received training from Tokyo’s special secret police, the *Kempeitai* (Lintner, 2007).

<sup>7</sup> Immediately after the partial lifting of sanctions, Myanmar relaxed its import policies on a range of consumer goods such as automobiles and home appliances. Consequently, an increase in Japanese exports of such products,

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especially in the automotive sector, was noted and was reported by media outlets (Wedge Myanmar shuzai ban & Inoue, 2013; Yomiuri Shimbun Ōsaka Keizai-bu, 2015).

<sup>8</sup> According to US Department for Agriculture data, food expenditure in high- and middle-income countries ranges from about 10 to 20%. Food expenditure rates in low-income and developing countries comprise between 30 and 50% of total consumer expenditure per capita. See “Share of consumer expenditure spent on food in 2016”, *Our World in Data* online at: <https://ourworldindata.org/grapher/share-of-consumer-expenditure-spent-on-food>.

<sup>9</sup> This figure applies only to the Thilawa SEZ development Phase-1. The Yangon Region Government report actually recognizes that, as of November 2013, more than 1000 households lived and worked in the designated SEZ area. (Yangon Region Government, 2013, p. 7).

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