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Yasutami Shimomura

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JICA Research Institute
10-5 Ichigaya Honmura-cho
Shinjuku-ku
Tokyo 162-8433 JAPAN
TEL: +81-3-3269-3374
FAX: +81-3-3269-2054

The Role of Emerging Donors in the Transformation of Traditional Donor Recipient Relationships: The Case of China in Myanmar

Yasutami Shimomura *

Abstract

The aid recipients have suffered from bargaining power inequality under traditional donor-recipient relationship. This article explores how an aid recipient could overcome their position through leveraging the role of emerging donors, or non-traditional providers. This article illustrates the two stages of transformation in the traditional donor-recipient relationship, through the standard theories of rational choice and an in-depth case study.

One of the recipients' objectives is to maximize the amount of financial inflows. Financial flows, in particular aid, is assured as far as the recipient conforms to the prevailing development norm, which is usually expressed by the OECD-DAC members as a set of aid conditionality, economic and political. The recipient has the two courses of action: to conform or not conform to the norm. If a recipient does not conform, as a matter of principle, aid could be suspended and other financial flows, such as foreign direct investment (FDI), would not be available under the economic sanction. However, the recipient can secure financial flows from the emerging donors, who tend to be indifferent to the norm.

Once the financial flows from the emerging donors is secured, the next task for a recipient is to improve their position, more precisely to increase financial inflows, introducing the traditional donors' flows. One realistic solution is mutual concession; the recipient agrees a part of the norm, and the traditional donors resume a part of financial flows, maintaining its own principle as far as possible. This could be attained if the traditional donors regard the recipient's market and/or natural resources attractive. The traditional donors might be concerned about the emerging donor's monopolistic position in the recipient market/resources, and look for their shares. The aid recipient and the traditional donors could explore mutual concessions; both sides can improve their position by partial acceptance of the other's principle.

This was exactly what occurred in Myanmar where China has played a pivotal role. The in-depth case study of Myanmar illustrates how a recipient could overcome the bargaining power asymmetry through leveraging the emerging donors. It is desirable that other developing countries draw hints from the Myanmar's experience and enhance their bargaining power in the asymmetric donor-recipient relationship.

Keywords: donor recipient relationship, course of action, outcome, leverage, emerging donors

* Professor Emeritus at Hosei University (y-shimomura@movie.ocn.ne.jp).

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1. Introduction: Power Inequality in Traditional Donor (DAC Donor) Recipient Relationships

This article explores how an aid recipient country could improve its position in traditional donor (DAC¹ donor) recipient relationship by leveraging emerging donors. For this purpose, we adopt the case of Myanmar and analyze the country's choices in search of preferable outcomes.

One notable feature of traditional donor recipient relationships is bargaining power inequality between the provider and the receiver of “development cooperation,” defined as the total flows of financial flows to developing countries. This paper focuses the attention on public flows and foreign direct investment, in particular.

As is shown in the Paris Declaration on Aid Effectiveness of March 2005, traditional donors have repeatedly stated that they respect the leadership of their partner (recipient) country. However, there is a large gap between rhetoric and reality. While a developing country's leadership is respected theoretically, their policy choices should be in compatible with the recommendation of the international aid community that is composed of the OECD-DAC members and the World Bank; otherwise, major donors could suspend their aid commitment and the flow of private investments could also be affected. This is particularly so in the cases of small/ordinary recipients who lack “strategic influences.” While the traditional donor recipient relationship had been unequal, the aid recipient's bargaining power has deteriorated as a result of the following three initiatives taken by the donor community between the 1980s and 2000s.

The first was the launch of structural adjustment lending (SAL) by the World Bank in 1979. SAL is defined as “rapidly disbursing, policy-based lending,” with the objective of removing the “most important distortions that hinder the allocation of resource and limit growth” (Corbo and Fischer 1991: 1, 7, 16). This implied the World Bank's shift from project aid to

¹ The OECD set up the Development Assistance Committee (DAC) in 1961 in order to secure a sufficient volume of resources for development cooperation activities and improve effectiveness. Today, the overarching goal is to promote the Sustainable Development Goals (SDGs). There are 30 members as of October 2019.

policy-based program aid² (Nissanke 2006: 2). An essential feature of SAL is the introduction of “conditionality” to the World Bank operation. Conditionality was originated by the IMF in 1952, as the “set of policies that governs the use of Fund resources” so as “to ensure the efficiency of the adjustment process” (Guitian 1980). The instrument was replicated by the World Bank’s SAL. “Conditionality was justified on the grounds that donors should actively influence the policy and conduct of recipient countries through aid leverage” (Nissanke 2006: 2). To put it another way, conditionality further strengthened donor’s position and, as a result, escalated asymmetric aspects of the donor recipient relationship.

The second was the expansion of the coverage of conditionality from economic to noneconomic policy agenda, in particular democracy, human rights, and good governance. The turning point was the end of the cold war. In 1990, the OECD-DAC High-Level Meeting announced, “DAC members reaffirm their conviction that there is a vital connection between open, democratic and accountable political systems, individual rights and the effective and equitable operation of economic systems with substantial reductions in poverty” (OECD 1991: 43). Based on this conviction, the aid community aggressively began to link aid giving with political reform. This was the surge of *de facto* “political conditionality,” which further accelerated power inequality, as the recipients fully recognize that aid will not be provided if they do not follow the aid community’s political norms.

The third was the increasing emphasis on “harmonizing aid policies and operational procedures,” the purpose of which was to reduce transaction costs and enhance aid effectiveness (Koeberle et al 2006:22). More specifically, it was intended to prevent “fungibility,” or the use of the aid in ways contradictory to original goal. This movement reflects donors’ concerns that aid will be allocated to areas the donors want to support. The final outcome of this movement was the “Paris Declaration on Aid Effectiveness” that was adopted at the OECD-DAC High Level

² “Policy-based lending” provides resources based on a set of policies or institutional reforms. “Program aid” refers to coordinated donor support for a comprehensive program or a specific sector/thematic strategy (Koeberle, Stavreski, and Walliser 2006: 6).

Forum in 2005 in order to reaffirm the commitments to harmonize donors' actions (OECD 2005). Under aid harmonization, a shift from bilateral to collective bargaining occurred; while the former is an agreement between a single recipient and a single donor, the latter is one between a recipient and a group of concerted donors. The shift could reduce recipient's bargaining power, as aid coordination furnishes donors with more leverage. It should be admitted, under the above circumstance, the aid community have repeatedly stressed "ownership," or the principle that recipients "exercise effective leadership over their development policies, and strategies and co-ordinate development actions" while donors respect recipient leadership (OECD 2005). It was repeatedly stressed that a recipient is in the driver's seat. This could be desirable for preventing worsening power inequalities. However, we should keep in mind E. H. Carr's point that "Theories of international morality are ... the product of dominant nations" (Carr 2001: 74). His view leads to one fundamental question: is the emphasis of ownership rhetoric or reality? Although the answer might be different from one case to another, there is one simple test to examine which is true. If a recipient in the driver's seat can choose, without any penalty, a path that is not in accordance with the aid community's advice, then ownership is retained in the hands of the driver; otherwise, the driving path is controlled by somebody else from outside.

Although it is not easy for an aid recipient to overcome their unfavorable position, inequality could be reduced by introducing measures that balance the power of traditional donors. An aid recipient can leverage the role of emerging donors for this purpose. This is what occurred in Myanmar, where China played a pivotal role.

The case of Myanmar was chosen because of China's active role leveraging against the traditional donors. However, doubt can be raised about the choice, as Myanmar's military junta had been labelled "the most brutal regime in the world" (*International Herald Tribune* March 17, 2000), and China has been frequently called as a "rogue donor." Although we should pay due attention to moral and value judgement, it's important to note our objective is purely practical: to

draw lessons about what is useful in the real world. From such a realist perspective, the art of diplomacy of Metternich and Talleyrand have commanded professional as well as academic attention, because they are full of explicit and tacit wisdom, although their approach lacked credibility and integrity. Similarly, the case of Myanmar offers ample lessons, as public intellectual assets in the developing world, for many aid recipients who suffer from a power imbalance with traditional donors. The author wishes to stress that Myanmar, which used to be rejected by the international aid community, began to pursue the removal of sanctions after obtaining a large amount of aid from China, and at last attained it substantially.

2. Analytical Framework

2.1 The Nature of aid recipient's decision making

An aid recipient is supposed to choose a course of action from a set of alternatives in order to solve a problem. The primary purpose of this section is to provide an analytical framework to examine such decision making, based on the standard theories of rational choice approach. For each course of action, there is a specific outcome. The objective of an aid recipient's decision is to optimize the outcome, or the results of a chosen course of action. While every actor has preference over the set of outcomes, it is assumed that the aid recipient's preference is "to maximize the amount of financial inflows, in so far as the attached conditions are acceptable." It should be noted, however, that there are variables that an aid recipient cannot control: an uncontrollable variable. One important uncontrollable variable for an aid recipient is the aid community's development norms, or a set of the traditional donors' principles. The outcome of each course of action is influenced by how the course of action conforms to the prevailing development norm, as aid is assured if the recipient conforms to the norm. Private financial flows are also often influenced by the aid flows availability, as shown in the cases of Vietnam and Myanmar during the period of international sanctions. The development norm is usually

expressed as a set of aid conditions, both economic and political. This paper assumes a traditional donor gives aid unless a recipient is politically or economically unattractive, or if they do not conform with the development norm. This paper adopts the above simple concept of the traditional donors' preference, because it is not possible to know their real motives. The long history of the disputes over why is aid given shows that it is a controversial and elusive issue. Serving national interest inevitably lays behind the aid philosophy of humanitarian principle or commitment to the international public goods; the two types of motives work together, and are not separable (Lancaster 2007: 6). In the same way, the paper assumes that the emerging donors provide financial flows, as far as the recipient is regarded to be politically and/or economically worthy; they are usually indifferent to a recipient's conformity with the prevailing development norm.

The above explanation of the nature of aid recipient's decision making can be represented in the equation:

$$O = f(A, B) \quad (1)$$

where: O is the level of outcome, i.e. the total amount of financial inflows
A is the selected course of action
B is the degree of conformity to the development norm

2.2 Courses of action and the outcomes: the first stage

2.2.1

To start with, let us assume the simplest case of the relationship between an aid recipient and a single traditional donor or a single group of traditional donors. The recipient has two courses of actions: "to conform or not to conform to the development norm" of the aid community. If they conform, aid would be provided as usual, and other forms of financial flows such as foreign direct investment would be secured on the basis of business as usual. In this paper, as was stated

in the Introduction, the total amount of financial flows to developing countries is termed development cooperation.

The “outcome” is represented as the combination of “F”, i.e. the financial inflow and “d”, i.e. a recipient’s stance on the prevailing development norm:

The outcome: $[F_t, d_1]$

where: F_t is the traditional donors’ financial flows to the recipient
 d_1 means being in conformity with the development norm

However, if a recipient does not conform, aid would be suspended, and there would be no other financial inflows, as is illustrated in the experiences of Vietnam and Myanmar during the era of sanctions.

The outcome: $[F_t, d_0] = \text{zero}$

where: “ d_0 , zero” means being not in conformity with the development norm

In reality, however, there are other providers than the traditional donors, such as emerging donors, who are not members of the aid community. As the emerging donors seem to be basically indifferent to the development norm, their aid as well as other forms of financial flows will not be influenced by the recipients’ choices of action.

In other words, $[F_e, d_1] = [F_e, d_0]$

where: F_e is the financial flows from emerging donors

The resulting outcomes are shown in Figures 1 and 2. The four outcomes in the matrix of Figure 2 represent different amounts of financial inflows. The largest number ($[F_t, d_1] + F_e$) represents the flows from all the donors, traditional as well as emerging. The second largest one $[F_t, d_1]$ represents the flow from the traditional donors alone, the third ($[F_t, d_0] + F_e$) represents emerging donors’ alone, and the last one ($[F_t, d_0]$) under the condition that any emerging donors do not provide financial flows (“without emerging donors’ financial flows”) is nil. Theoretically, all of these four outcomes are ordered as follows:

$$([F_t, d_1] + Fe) > [F_t, d_1] > ([F_t, d_0] + Fe) > [F_t, d_0] \quad (2)$$

or

$$([F_t, d_1] + Fe) > [F_t, d_1] > (Fe) > 0 \quad (2')$$

where: F_t is traditional donors' financial flows

d_1 is being in conformity with the development norm

d_0 is being not in conformity with the development norm

Fe is emerging donors' financial flows, and $[Fe, d_1] = [Fe, d_0]$

If an aid recipient is not willing to conform to the development norm as a matter of principle, only one outcome, $[F_t, d_0]$ is available; there is no financial flows to the recipient. However, the outcome would be improved to $([F_t, d_0] + Fe)$ under the condition of “with emerging donors' financial flows”; there would be financial flows in the amount of Fe . The emerging donors' contribution to the outcomes' improvement can be expressed as: $([F_t, d_0] + Fe) - [F_t, d_0] = Fe$. The larger the emerging donors' financial flows to the recipient, the larger their contribution to the improvement.

2.2.2

This was what occurred in Myanmar around 1990, as is shown in section 3.1. Myanmar's available courses of action were to either conform or not to the development norm. Conforming would not cause any changes in the traditional donor recipient relationship. In contrast, not conforming was expected to provoke the refusal of aid or the application of economic sanction; this put Myanmar in a difficult position. Being faced with donors' decision not to provide aid, Myanmar might choose to suffer from sanctions without any major financial inflows. The more preferable alternative was to secure emerging donors' finance, in particular China's foreign aid. The outcome is labeled Fe .

2.3 Courses of action and the outcomes: the second stage

2.3.1

The initial condition for an aid recipient at the beginning of the second stage is equal to the first stage outcome: F_e . In this second stage, the recipient's task is to explore any chance of improvement. With financial flows from the emerging donors secured, the next step is to acquire financial flows from traditional donors. Since the aid community requires adherence to the development norm there are two options logically for a recipient. One is to change their mind so as to conform to the norm completely; the outcome is $([F_t, d_1] + F_e)$. From purely financial viewpoint, the outcome $([F_t, d_1] + F_e)$ is larger than the other including the initial condition (F_e). From a political standpoint, however, this is not considered an acceptable option for the recipient.

The other choice is to explore mutual concessions; the expected result is that the aid community lowers the hurdle for resuming their aid at least partially, and the recipient conforms to "a part of" the norm.

The outcome of this decision, if realized, is represented: $([F_{tx}, dx] + F_e)$
where: dx ($0 < x < 1$) means the acceptance of a part of the development norm

The outcome is also preferable to the initial condition, as $([F_{tx}, dx] + F_e) > F_e$; the larger x , the larger $[F_{tx}, dx]$. Are mutual concessions worth considering for the traditional donors? In view of the traditional donors, the initial condition of the second stage is emerging donors' domination of financial flows to the recipient. To put it another way, emerging donors are in the monopoly position and fully enjoy the sole access to the recipient's market and natural resources, as trade activities are usually accompanied by financial flows. There seems to be a good reason for the traditional donors to be concerned about their lack of access, particularly if the market is promising and natural resources are rich. The traditional donors' fear of the emerging donors' dominant status could finally lead traditional donors to reconsider their strategy and make a

concession. Mutual concessions could provide them a certain degree of access to the market and natural resources.

As the size of financial flows indicates the size of providers' economic activities in the recipient's market, and the available share in that market, the following equation (3) is drawn:

$$M_{te} ([F_t, d_1] + F_e) > M_e ([F_t, d_0] + F_e) \quad (3)$$

where: M_{te} and M_e indicate the traditional donors' market shares under the conditions of [with the financial flows of traditional and emerging donors] and [without the traditional donors' financial flows]

It should be noted that the two variables in the equation (3) are the proxy variables of the traditional donors' economic activities in the recipient's market. The traditional donors' concern comes from the gap between M_{te} and M_e , i.e. no financial outflows from them and, as a result, no market access for them. They may recognize that the financial flows $M_x ([F_{tx}, d_x] + F_e)$ under the mutual concessions will lead to better market access for them and improve their position. Certainly, the expected size of market $M_x ([F_{tx}, d_x] + F_e)$ will be bigger than $M_e ([F_t, d_0] + F_e)$ in the initial condition.

The new opportunity for mutual concession is considered to be a contribution of or gift from the emerging donors, as the temptation to think about concessions results from the emerging donors' dominant position in the recipient's territory.

2.3.2

The recipient has two options at the beginning of the second stage. The first choice to conform to the development norm leads to the largest outcome of financial flows $([F_t, d_1] + F_e)$ for the recipient, and in addition, the largest market size M_{te} for the traditional donors. The second option of proposing mutual concessions, could, if accepted, improve the positions of both actors, compared to the initial condition, realizing the financial inflows $([F_{tx}, d_x] + F_e)$ and the traditional donors' market size M_x . If the proposal is rejected, the outcome will be equal to the

initial condition of the second stage. It should be noted that in both cases there is no deterioration in the recipient's position, as the initial level of financial flows are secured. The recipient's bargaining power had been enhanced in comparison with the beginning of the first stage, or at the time of the start of sanction.

The recipient's decision to either conform or not conform or to propose or not propose concession is inevitably influenced by domestic politics. The analysis of domestic politics should be introduced, particularly in the case studies. Unfortunately, it is often impossible for us to acquire a sufficient amount of reliable information about power relations among the political leaders in the developing countries, particular in the authoritarian ones such as Myanmar.

2.4 Summary

The above study of the two stages show how emerging donors can improve the recipient's bargaining power *vis-a-vis* traditional donors of the aid community. In the first stage, they can provide a financial safety net. In the second stage, a recipient can explore mutual concessions, taking advantage of the traditional donors' concern about the emerging donors' dominant position in the recipient market.

We will move to the detailed case study of Myanmar in the period between the late 1980s and the late 2000s. It will reveal that the above analytical framework can explain effectively what occurred in Myanmar.

3. Case Study of Myanmar

3.1 First Stage: Economic sanctions and China's path to a dominant position

In the late 1980s, the “Burmese way to socialism” had almost collapsed after a quarter century stagnation. A series of public demonstrations against the Ne Win regime denounced the deterioration of living conditions particularly due to high inflation³ and the shortage of rice. Being concerned at the political turmoil, a group of army officers established the State Law and Order Restoration Council (SLORC) and took power in a coup in September 1988 (World Bank 1995: 1-2; Myat Thein 2004: 5-6). The SLORC regime announced an extensive economic reform program called the “Open-Door” program in late 1988. The reform endeavor was highly evaluated by the aid community and foreign investors, as it emphasized (a) improving production incentives, (b) liberalizing investment policy, (c) promoting the private sector, (d) reforming the state enterprise sector, and (e) liberalizing exchange rate and trade policies (World Bank 1995: 1-4; IMF 1997: 5-6).

In the meantime, the military junta crushed anti-military rule demonstrations and repressed the opposition party, the National League for Democracy (NLD), dismissing the NLD's landslide victory in the 1990 election, in which the NLD gained over 60 percent of the vote under the leadership of Aung San Suu Kyi (Taylor 2004: 172). Moreover, the SLORC broke their repeated pledge that power would be transferred to an elected government once the new constitution is established (Wingfield 2000: 203-205).

Expressing concern over the unstable political conditions and military coup, the Japanese government, by far the largest donor for Myanmar in the 1980s, suspended aid in principle (MOFA 1992: 32). Japan's ODA commitment to Myanmar suddenly dropped as a result from

³ The annual average rate of inflation in the period of 1986-1988 was 17.4 percent (Myat Thein, 2004: 66).

290.0 million to 3.8 million US dollars between 1987 and 1989; the OECD-DAC members' total ODA commitment also decreased from 399.6 to 17.2 million US dollars between 1987 and 1989 (OECD 1992: 201, see Table 1). Although the amount of ODA commitment from the aid community slightly recovered in the following years, the ODA was limited to a small amount of UNDP grants and debt relief from Japan (World Bank 1995: 12). In the absence of substantial new ODA flows, Myanmar began to increasingly depend on foreign direct investment and suppliers' credit from neighboring countries (World Bank 1995: 12, IMF 1997: 34). In this most critical period, the financial flows from China began to fill the vacuum.

Although it is difficult to have a reliable time series data of China's foreign aid to Myanmar, we can estimate the trend through the analysis of the changes in Myanmar's imports from China, as most of Myanmar's imports had been financed by foreign sources. According to Toshihiro Kudo, around 60 percent of Myanmar's imports in 1988 had been from four major donors: Japan, UK, Germany, and US. However, the picture was drastically changed by 1990. China suddenly appeared as the largest exporter to Myanmar; in contrast, the share of Japan, by far the largest exporter to Myanmar in 1988, was reduced by half (Kudo 2012: 90). The fact that China jumped to the largest exporter replacing Japan is accompanied by the sudden increase of China's financial flows to Myanmar.

Meanwhile, China began to construct various infrastructure projects and industrial estates in Myanmar, following traditional donors' sanctions. In November 1989, Myanmar and China signed an economic and technical cooperation agreement in which China agreed to offer an interest free loan of RMB 50 million (15 million US dollar) for the Rangoon-Thanhyin rail and road bridge construction project. (Poon 2002). Although Myanmar had to suffer from international isolation, China began to acquire a dominant position in Myanmar and effectively absorbed the shock of economic sanctions.

China's contribution is shown as the difference between $([F_t, d_0] + F_e)$ and $[F_t, d_0]$ in the equation (2), where F_e is emerging donors' financial flows, F_t is traditional donors' financial

flows, and d0 is being not in conformity with the development norm. Statistics show that the net long-term capital inflow, or [Ft, d0] had been persistently negative in the 1990s Myanmar (IMF 1997: 99). Therefore, China's role, represented by Fe, was vital.

3.2 Intermezzo: Longstanding stalemate

During the 1990s and early 2000s, there was no notable progress on the talks between the army leadership and the NLD. The junta placed Aung San Suu Kyi under house arrest in 1988, released her in 1995, and arrested again in 2000 after her attempt to make trips outside Yangon to meet NLD supporters. Again in 2003, she was placed under her third house arrest, after her release in 2002, a political see-saw game.

Meanwhile, there were various international attempts to end the deadlock between the military junta and the NLD. It is said Japan played a crucial behind-the-scenes role in negotiating the release of Aung San Suu Kyi from house arrest in 1995 (Wingfield 2000: 211). Although Japanese foreign policy in Myanmar had been basically low-key, as usual, after the start of sanctions, William Burnes, an experienced "Burma watcher," pointed out that "Japan's sentimental attachment to Burma dating back to the second world war" could explain why Japan advised the military regime "to ease its iron grip on the country sufficiently to permit Japan to helping it" (*Financial Times*, December 15, 1999). Japan's "sentimental attachment" seemingly motivated a series of "under the surface" support to Myanmar and contributed to the gradual shift to the second stage. Some ASEAN members who were oriented towards regional solidarity also behaved same way. In November 1999, Prime Minister Keizo Obuchi held talks with Than Shwe, the military junta leader, during the ASEAN summit in Manila, and Ryutaro Hashimoto, Obuchi's predecessor, made a four-day unofficial visit to Myanmar and reportedly criticized the hard-liner stance of the United States and Europe (Wingfield 2000: 211). In 1999, the United Nations special envoy, Alvaro de Soto, met with Prime Minister Khin Nyunt and Aung San Suu

Kyi (Wingfield 2000: 210). Although there was no significant progress as a result of these attempts, Ismail Razali, de Soto's successor and a Malaysian diplomat, achieved the release of Aung San Suu Kyi in May 2002, after a series of patient negotiation, in cooperation with Prime Minister Mahathir bin Mohamad of Malaysia. Mahathir himself also visited Myanmar being accompanied by the mission of three hundred businessmen and urged Than Shwe to accelerate the transition to democracy (*International Herald Tribune*, May 6, 2002; *Nihon Keizai Shinbun*, August 19, 2002). All in all, international initiatives that aimed to end the stalemate did not lead to significant fruits (Wingfield 2000: 203).

“Western governments, led by the United States, have been fit progressively to increase the levels of economic sanction based on the belief that this will result in economic collapse, and eventual fall of the regime” (Taylor 2004: 171). But the expectations were not realized. In response to the third house arrest of Aung San Suu Kyi, the U.S. government together with the European Union (EU) introduced draconian sanctions, with a complete ban on trade, new investment, and all commercial transactions since the end of July 2003. However, “there seemed little more the Western governments can do to force political change in Myanmar” (Taylor 2004: 171, 179). Also, another side of reality was pointed out: “Although the American government has prohibited new investment in Myanmar since 1997, the United States remains one of Myanmar's five major trade partners,” as Myanmar's exports to the US are “primarily textiles made in Asian-owned factories outside Yangon.” (Kurlantzick 2002).

Myanmar under siege could rely on the following two lifelines. First, China, together with other neighbors of Myanmar, such as India, Malaysia, and Thailand, pursued a contrary policy. Chinese leaders regularly visited Myanmar with the fresh commitment of financial support, as they fully recognized Myanmar's strategic importance as a westbound “land bridge” to the Indian Ocean and the West (Poon 2002); from China's security view point, maintaining a

dominant position in Myanmar was invaluable. In response, Than Shwe made a state visit to China in 2003 (Taylor 2004: 179). Second, foreign investors were attracted by Myanmar's remarkable business opportunities that resulted from the extensive economic reform program under the military junta. The statistics show the fact that Myanmar's capital account had been basically in surplus during the 1990s, except in the post-Asian financial crisis era, owing to the foreign direct investment flows, which effectively made up for the reduction in long-term aid flows (IMF 1997: 99). The five largest investors have been three neighboring countries, Malaysia, Singapore, and Thailand, and two in Europe, France and UK (IMF 1997: 110; Myat Thein 2004: 165, 252).

3.3 Second Stage

In spite of economic sanctions, Myanmar achieved 7 percent of annual GDP growth rate during the 1990s⁴ (World Bank 2010: 226), a much higher rate than the average of low- and middle-income countries in the world. However, there was apparently a lot of room for improvement. Taking into account the fact that the aid flows to Myanmar from the OECD-DAC member countries had been limited to small amount of grant aid (Table 3), the macroeconomic performance and level of welfare could be much improved if ODA loans had been available. Thinking in accordance with the equation (2), the envisaged improvement is the shift from $([F_t, d_0] + Fe)$ to $([F_t, d_1] + Fe)$, where F_t is traditional donors' financial flows, Fe is emerging donors' financial flows, d_0 indicates not conforming with the development norm, and d_1 indicates being in conformity with the development norm.

As a matter of fact, this shift was what occurred in Vietnam in the 1990s. In contrast to Myanmar, Vietnam had enjoyed sizable aid flows during that period (Table 3). The experience of Vietnam was a good reference case for Myanmar in the 2000s, as both countries had been

⁴ On the other hand, the annual rate of growth of per capita consumption was only 0.9 percent (Myat Than 2004: 127). Myanmar could not realize shared growth.

similarly ousted from the mainstream foreign aid flows around 1990⁵. The Myanmar strongmen could easily recognize the fact that, unlike Vietnam, Myanmar did not take advantage of its proximity to the dynamic production network in the Indochina peninsula. The recovery of a normal relationship with the international aid community will also pave the way to the full integration into the regional value chain.

Certainly, following the path of Vietnam was a highly sensitive issue for Myanmar's leaders, as this would require their acceptance of the international development norm, which they persistently dismissed. Worse, the relationship with the international aid community further deteriorated after 2007 because of the bloody suppression of large-scale protests led by Buddhist monks (MOFA 2010: 95). However, concessions, or the acceptance of a part of the requirements of the international aid community, could not be unthinkable. The outcome of this alternative, represented with $([F_{tx}, dx] + Fe)$, where dx ($0 < x < 1$), means being in partial conformity with the development norm. Apparently, the newly available outcome was an attractive option, as $([F_{tx}, dx] + Fe) > ([F_t, d_0] + Fe)$.

In the meantime, the traditional donors were also in search of new policy direction, as it had been recognized that the sustained economic sanctions deprived them of access to one of the most promising markets and furnished China with a dominant position there. China's aggressive penetration into Myanmar is illustrated in the list of China's projects (Table 2). The lost opportunity for other donors was remarkable, taking into consideration Myanmar's large population of 50 million, rich natural resources including oil and natural gas, and its strategic location as the gate to the Indian Ocean, shortcutting the clumsy shipping route of Malacca strait. As shown in the equation (3) of 2.3.1, M_{te} that is the size of market under $([F_t, dx] + Fe)$ is desirable from the viewpoint of traditional donors too, because their position during the era of intermezzo is "zero access." Even the idea of mutual concessions could lead to a bigger payoff

⁵ The aid for Vietnam had been banned since the Cambodia invasion in 1978.

than the status quo for traditional donors, as the expected size of market M_x , where dx ($0 < x < 1$), under the condition of $([F_{tx}, dx] + Fe)$ is bigger than Me under the status quo. However, the traditional donors' path of concessions needs to be carefully designed so as not to enhance the legitimacy of the military junta. Under these circumstances, a small step toward political reform by Myanmar's leaders could be regarded by the international community as a suitable reason to begin the talk of concessions.

As we have reviewed, both Myanmar and the traditional donors were tempted to compromise in the late 2000s. As a result, scene changes occurred slowly but persistently. Just after the violent crackdown of the monk-led uprising, Aung San Suu Kyi reportedly stated that she was "ready and willing to engage" with the generals "in a meaningful dialogue in the country's future" (*Financial Times*, November 9, 2007), and her spokesman confirmed that she "felt the ruling generals had changed their attitude towards political reform" (*Financial Times*, November 11, 2007). In the west, the shift from sanctions to engagement was explored for the two reasons. First, it was recognized that a decade of sanctions and regime-isolation had not worked and pushed Myanmar "into the less scrupulous arms of China" (*Financial Times*, November 9, 2009). Second, it was pointed out that the sanctions did not affect military leaders; instead, their far more serious impact was on the population (*Financial Times*, November 10, 2009). Arguably based on such consideration, Hillary Clinton, U.S. Secretary of State, said on September 24, 2009 that Washington would begin "engaging directly" with the military leaders (*Nippon Keizai Shinbun*, September 27, 2009; *Time*, October 19, 2009). Reflecting the change of tide, it was reported that the World Bank and the Asian Development Bank were considering "possible future analytical work that could have a positive development impact for the people" (*Financial Times*, January 29, 2010). Finally, Aung San Suu Kyi was released from house arrest on November 13, 2010, and the long-delayed election finally took place in the same month.

In March 2011, there was a change in the political leader in Myanmar from the hard-liner Than Shwe to the new president Thein Sein, a former SPDC, State Peace and Development Council core member (MOFA 2011: 89). This was the turning point of the donor-recipient relationship in Myanmar. Although he had been regarded as Than Shwe's "lieutenant" or a "hard-line loyalist" (*TIME*, October 19, 2009), Thein Sein unexpectedly began to signal a departure from the past. The release of more than six thousand political prisoners in January 2012 was regarded as one of the gestures of democratization. In response, the Obama administration appointed Derek Mitchell as special envoy to Myanmar. After visiting Myanmar, Mitchell stated, "If they take steps, we will take steps to demonstrate that we are supportive of the path to reform" (*The New York Times*, October 6, 2011). Following the Obama administration's shift to encouraging "startling political changes" in Myanmar, political leaders of the OECD-DAC members, including Hillary Clinton, US Secretary of State; Koichiro Genba, Japanese Foreign Minister; Alain Juppe, French Foreign Minister; and David Cameron, British Prime Minister visited Myanmar one after another between November 2011 and April 2012. The epoch-making events were the two visits of President Obama in November 2012 and November 2014, in spite of divided opinions in the United States (*The New York Times*, November 10, 2014, *Financial Times*, November 11, 2014). Japan, once Myanmar's largest donor, announced reopening of aid in April 2012, and Prime Minister Shinzo Abe committed to a new aid package in the amount of 91 billion yen (more than 800 million US dollars), at the time of his visit (MOFA 2013: 82). Japan's action was the departure point to full-scale aid by the international aid community. The attitude of traditional donors was drastically changed although the democratization in Myanmar was still quite limited; they attached importance to the direction of movement.

This section has analyzed how Myanmar achieved mutual concessions, taking advantage of the traditional donors' fear of China's monopoly position.

There is an alternative explanation: the learning process. As early as 2007, Gideon Rachman, a notable international affairs expert, claimed the sanctions against Myanmar “would probably achieve nothing, and be actively damaging in the long term” (*Financial Times*, October 2, 2001), reflecting the “sanction fatigue” in the international community. Two years later, Hillary Clinton told at the United Nation General Assembly, “years of sanction had not worked” and hinted at a shift to engagement (*Financial Times*, October 8, 2009). Apparently, traditional donors had drawn lessons from their experiences over time and did not flatly reject Myanmar’s proposal.

Domestic politics in Myanmar might effectively explain their movement of mutual concessions. Unfortunately, there is not enough reliable information on the power relations among the generals. Without tangible evidence, we can only guess at the role of domestic politics in these shifts.

3.4 Beginning of the third stage?

Meanwhile, Myanmar’s leaders gradually started to lessen their dependence on China. In September 2011, Thein Sein suddenly and unexpectedly halted the construction of the Mytson dam in the northern Myanmar; the 3.6 billion US dollar dam was strongly backed by China and regarded as a symbol of the Sino-Myanmar relationship (*The New York Times*, October 6, 2011; *Asahi Shinbun*, August 20, 2014). The decision, which was made despite China’s strongly negative response, was highly appreciated by the US government (Chen 2014). Myanmar’s new movement could be interpreted as an attempt to leverage the international aid community against China to reduce dependence on the latter. Myanmar’s leaders’ new attitude toward China might look for further transformation of the donor recipient relationship, by their new attitude towards China.

There is, however, uncertainty as a result of the *de facto* head of government Aung San Suu Kyi's loss of influence following her disappointing record of political and economic reform, and, more importantly, the Rohingya crisis, which has significantly eroded her reputation in the international community. As Aung San Suu Kyi's leadership is based, to a large extent, on her international fame, the recent change may reduce her bargaining power vis a vis donors, and in particular China. Recent developments in Myanmar's diplomatic policy suggest that Aung San Suu Kyi may be beginning to move closer to China.⁶ For example, she was invited by Chinese Chairman Xi Jinping to make a keynote speech in the second Belt and Road Forum in 2019. This certainly shows Aung San Suu Kyi's new engagement with China's Belt and Road Initiative (BRI) (*The Global New Light of Myanmar*, February 19, 2019). While it is not yet certain whether the Third Stage has been halted, and it is too early to have a clear prospect, we should carefully watch the progress of recent changes.

4. Some policy implications

Developing countries have suffered from power inequality, over the long-term, in their donor-recipient relationships. This paper examined, through a rational choice approach and the detailed case study of Myanmar, how aid recipients can overcome power inequalities by leveraging emerging donors. It should be stressed that their attempt could ultimately reduce the influences of both traditional and emerging donors, as is hinted in the potential third stage in the case study. In other words, the role of emerging donors could reduce the recipient's dependence on not only the traditional but also emerging donors. This could be a path to recipient's stronger ownership.

⁶ The author would like to express gratitude to the reviewer's valuable suggestion on the following points.

Developing countries should take a lesson from the case of Myanmar and try to replicate the experience, carefully taking into account their specific contexts in order to overcome asymmetric donor-recipient relationships.

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Asahi Shinbun

Financial Times

International Herald Tribune

Nihon Keizai Shinbun

The New York Times

TIME

(Figure 1) Courses of action and the outcomes without emerging donors' financial flows

		financial flows from traditional donors
Courses of action (attitude to the development norm)	in conformity	Ft, d1
	not in conformity	Ft, d0

(Note) Ft ,d0 = 0

prepared by the author

(Figure 2) Courses of action and the outcomes with emerging donors

		financial flows from	
		traditional donors	emerging donors
Courses of action (attitude to the development norm)	in conformity	Ft, d1	Fe, d1
	not in conformity	Ft, d0	Fe, d0

(Note) Ft, d0 = 0
Fe, d1 = Fe, d0
prepared by the author

(Table 1) ODA commitment to Myanmar by the OECD-DAC members

(million US dollars)

	Japan	Germany	U.S.	DAC total
1985	204.0	15.9	16.8	275.5
1986	280.4	14.7	16.2	364.6
1987	290.0	74.2	16.5	399.6
1988	69.5	4.4	10.7	117.0
1989	3.8	1.3	0.1	17.2
1990	27.4	1.1	nil	32.5
1991	27.4	0.3	nil	29.4
1992	36.8	0.5	nil	42.8

(Source) OECD various issues

(Table 2) China-funded major projects

Sector	Project	Estimated cost (billion US dollars)	Institute in charge	Notes
Railway	Kunming-Kyaukpyu railway			
Port	Kyaukpyu	7.3	CITIC Group Cor.	
Industrial estate	Kyaukpyu Special Economic Zone	2.7	CITIC Group Corp.	
Energy	Oil & natural gas onshore	1.5	CNPC	
	ditto offshore		ditto	
	Kyaukpyu-Yunnan oil pipeline		China Development Bank	
	Oil & natral fgas onshore		NPCC	
Mining	Tagaung Taung nickel	0.8	China Nonferrous Metal Mining Co.	22 thousand tons
Dam and hydro power	Paung Laung	0.2	Sinohydro	280MW Sittang River
	Depandsai		ditto	
	Tarpein 1		ditto	240MW Tarpein River
	Tarpein 2		ditto	168MW ditto
	Yeywa		China EXIM Bank Central China Power Grid Co. CITC	790MW Dokhatawady River
	Lembro		Department of Hydropower Planning	

Saing Pin		ditto		
Hutgyi	1	Sinohydro	1360MW	Salween River
Mytsone	3.6	SPIC (State Power Investment Corp)	6000MW	Ayeyarwady River
Bu-ywa		Guanong New Technology Import & Eport	60MW	
Shwell River	0.15	Yunnan Joint Development Corp.	1420MW	
Veywa			790MW	

(Source) Prepared by the author based on Mizuno 2012, McDonald, Bosshard, Brewer 2008, and other sources

(Table 3) Net ODA flows to Myanmar and Vietnam

(annual amount in average, million US dollars)

	Myanmar			Vietnam		
	Bilateral: OECD-DAC	Multilateral	Total	Bilateral: OECD-DAC	Multilateral	Total
1980-84	201.3	96.2	297.5	106.2	55.1	161.3
1985-89	244.8	110.0	354.8	70.9	53.7	124.6
1990-94	98.4	47.3	145.7	305.4	128.1	433.5
1995-99	53.5	18.0	71.5	667.0	396.8	1063.8

(Source) OECD, various issues

Abstract (in Japanese)

要約

援助を受け入れる途上国は、長年の間、不平等な交渉力を余儀なくされる伝統的ドナー・レシピエント関係（援助の出し手と受け手の関係）に苦しんできた。本稿は、非伝統的な支援国である新興ドナーの力を利用することによって、援助受入国がこの不平等状態から脱却できる可能性を追及するものである。伝統的なドナー・レシピエント関係の変革が2段階で発生することを、標準的な合理的選択理論と詳細な事例分析によって示したい。

資金流入の規模をできるだけ大きくすることは、援助受入国にとっての一つの目標である。援助受入国が国際社会で支配的な開発規範を受容する限り、資金流入とくに援助資金流入は保証される。なお開発規範は、通常、OECD-DAC加盟国による援助の経済的・政治的条件（コンディショナリティ）として提示される。援助受入国には二通りの行動選択肢がある。国際社会の開発規範を受容するか受容しないかの二つである。もし援助受入国が、彼らの原則に合致しないとして開発規範を受容しない場合には、援助が停止される可能性があり、海外直接投資（FDI）など援助以外の資金フローも、経済制裁のために流入しなくなる可能性がある。しかしながらその場合でも、援助受入国は新興ドナーからの資金フローを確保することが可能であろう。新興ドナーは通常、国際開発規範に関心を持たないからである。

新興ドナーからの資金フローが確保されれば、援助受入国にとっての次の課題は、何らかの方法によって伝統的な援助国からの資金フローを確保し、資金流入量を増加させて自らのおかれた状況を改善することである。そこで考えられる一つの解決策は、伝統的な援助国との間での「相互の妥協」である。いいかえれば、双方がそれぞれの原則を可能な範囲で貫きながらも、受入国側は国際開発規範を部分的に受入れ、伝統的な援助国の側は資金フローを部分的に再開することである。伝統的な援助国にとって援助受入国の市場や資源が魅力的であれば、この方法が実現する可能性がある。伝統的な援助国は、新興ドナーが受入国の市場や資源を独占している現状に懸念を持つであろうし、彼ら自身も市場や資源にアクセスしたいと意欲を持つであろうから。伝統的な援助国と援助受入国は、相互の妥協によって、つまり相手方の原則を部分的に認めることによって、それぞれの置かれた状況を改善することができる。

このようなプロセスは、まさにミャンマーで発生したことであり、その過程で中国が決定的な役割をはたした。ミャンマーで起きたことの詳細な事例分析は、一般の援助受入国が新興ドナーを「テコ」として利用することによって、どのように「交渉力の非対称」を克服できるかを明らかにする。他の途上国がミャンマーの経験からヒントを引き出すことによって、非対称的なドナー・レシピエント関係の下でも、交渉力

を強化することが望まれる。

キーワード: ドナー・レシピエント関係（援助の出し手と受け手の関係）、選択肢（選択可能な行動）、選択の結果としての効用、交渉力を強める「テコ」の作用、新興ドナー



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