

SPECIAL RELATIONSHIP

THE RAINMAKER:  
Hideo Watanabe, 78,  
was the main Japanese  
backer of a package  
of aid and investment  
for Myanmar's reform-  
minded government.  
REUTERS/YURIKO NAKAO



How a Japanese power broker quietly wrangled an \$18 billion deal that puts Tokyo in pole position in Asia's last emerging market.

# Japan Inc steals a march in Myanmar

BY ANTONI SLODKOWSKI

YANGON/TOKYO, OCTOBER 3, 2012

Japan Inc is charging into Myanmar. The rush began one night last October, when Myanmar's new president rolled out a map after dinner to show an aging Japanese power broker a prize that could be Tokyo's to develop - a swathe of land nearly as big as Macau.

Thein Sein, 67, a former general, had been president of Myanmar's civilian government for just six months. He had won cautious praise for reconciling with democracy icon Aung San Suu Kyi and opening Myanmar's economy after five decades of brutal junta rule. Now he was seeking investors to develop Asia's second-poorest country.

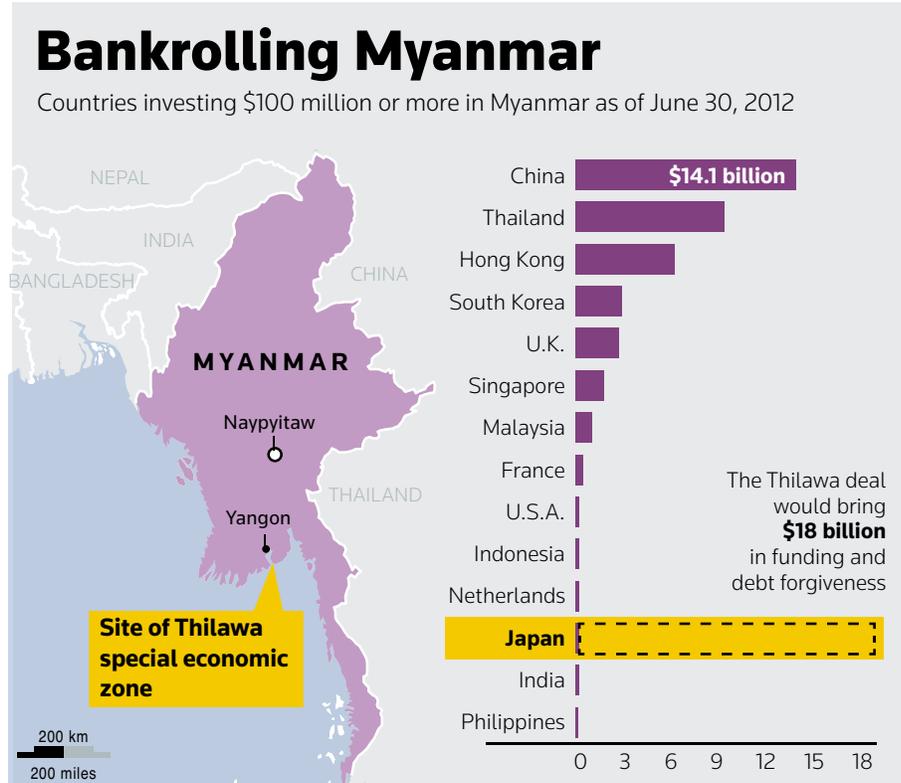
After a Chinese-style banquet at the presidential residence in the capital of Naypyitaw, Thein Sein turned to Hideo Watanabe, 78, a Japanese politician with an enduring interest in Myanmar. The new president offered a deal: Japan could develop a special economic zone at Thilawa, a spot near both Myanmar's largest city and a port on the Indian Ocean - if it came up with the money.

"I told him I would figure something out," recalled Watanabe, a former cabinet minister and top aide to ex-Japanese Prime Minister Yasuhiro Nakasone.

Watanabe was as good as his word. A fast-track deal negotiated in less than a year has paved the way for Japan to provide at least \$18 billion in aid, investment and debt forgiveness from government and private sources.

In addition to this deal, Reuters has learned that Japan will provide up to \$3.2 billion in new lending to build another special economic zone and deep-sea port in Dawei, in southern Myanmar, which would be developed into Southeast Asia's largest industrial complex.

The deals have made Japan a major player overnight in the opening of Myanmar. The part of the Thilawa package that includes debt forgiveness and refinancing adds up to nearly \$5 billion, dwarfing the \$76 million in



Note: U.K. figures include British Virgin Islands, Bermuda Islands and Cayman Islands.  
Source: Myanmar Central Statistical Organization.

aid from the United States in 2011 and 2012 and a two-year package of \$200 million the European Union has pledged.

In reconstructing how Japanese government and business leaders moved from cautious re-engagement with Myanmar to a gold-rush embrace over the past year, Reuters spoke to more than 50 officials, executives and politicians involved in the effort on both sides. They described how a small group of well-connected Japanese pushed Tokyo's bureaucracy and aid agencies to fast-track key decisions, even while Myanmar's laws on investments were still being debated in its nascent parliament.

At stake is influence in Asia's last frontier market. The Japanese pounced as Myanmar's leaders were looking for allies to blunt China's enormous influence in Myanmar. Japan's push back into Myanmar has vaulted it ahead of the United States

and the European Union, which have been more cautious in unwinding trade and investment restrictions put in place in the 1990s. One likely result is a big leg up for Japanese trading houses, banks, contractors and engineering firms.

"We are lucky because the U.S. was kind enough to introduce economic sanctions - that's why Western financial firms have so far no presence in Myanmar," said Shigeto Inami, who manages Myanmar operations for Daiwa Institute of Research. The think tank runs Myanmar's tiny stock exchange and has plans to transform it into a thriving bourse by 2015.

U.S. and European diplomats said they don't necessarily see the Japanese win as disadvantageous to Western multinationals. Washington has been urging allies, including Tokyo, to enter Myanmar to buttress the economy and thereby the re-

formist wing of the military-backed government, a senior State Department official told Reuters.

A handful of U.S. giants – including GE and Coca-Cola – already have returned. In Thilawa, Western power firms such as GE and Siemens and construction giants such as Bechtel and Balfour Beatty could win subcontracts from the Japanese, business analysts say.

“Many of our competitors have been in that market for many years, so we’re already late to the game,” said John Goyer, senior director of Southeast Asia for the U.S. Chamber of Commerce. But “there’s clear interest and desire on Myanmar’s part to have U.S. companies there.”

### THE MYANMAR LOBBY

Japan’s rush carries risks. The deals call for Japanese companies to do business with a tycoon blacklisted by the United States, exposing them to potential reputational damage.

And Japan has pledged to develop the 2,400-hectare (5,930-acre) special economic zone in Thilawa before ownership questions surrounding the land have been resolved. So far, Thilawa is most notable for its emptiness. Rice paddies fill land earmarked for factories. Workers collect clay in baskets as trucks haul gravel to drop into the soggy ground.

“Welcome to our new El Dorado,” said Myint U, a former government official who now connects foreign investors to Burmese ministries, as he drove a visitor through the emerald plain.

Japanese executives believe the risks are big and the upside even bigger. “If I started writing down a list of problems, I could write a checklist with 50 or 60 lines,” said Yasuhiro Morimoto, manager of strategy in Asia and Oceania at project investor Marubeni Corp. Still, he added, the potential benefits outweigh the perils for the trading house.

Myanmar has long been seen as a prize. A land mass as large as Britain and France combined, it shares borders with 40 percent



REASSURANCE: Japan’s Foreign Minister Koichiro Gamba met Aung San Suu Kyi during a visit to Myanmar last December. His trip helped bolster confidence in the Thilawa project. **REUTERS/SOE ZEYA TUN**

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Manager of Myanmar operations for  
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of the world’s population in India, China, Bangladesh and Thailand. Its ports on the Indian Ocean and Andaman Sea sit just north of the Malacca Strait, one of the world’s busiest shipping lanes.

China remains Myanmar’s biggest patron. Led by investments in energy, China and its companies pledged more than \$14 billion for Myanmar in the fiscal year ended March 2011, nearly 70 percent of total foreign investment. Japanese companies invested just \$212 million in Myanmar between 1988 and 2011.

Yet Tokyo has an ace up its sleeve: Japan’s ties with Myanmar have been unusually warm, despite the brutal Japanese occupation of the country during World War Two.

Myanmar was the first Southeast Asian country to settle reparation claims against Japan after the war. Independence leader Aung San (Suu Kyi’s father) and former dictator Ne Win were members of the “Thirty Comrades” movement against British rule, which was educated and trained by Japanese army officers. Myanmar has eschewed the sort of sharp attacks on Tokyo over the past that are routine in China and the Koreas, endearing it to many conservative Japanese politicians.

Unlike the West, Japan never imposed trade and financial sanctions against Myanmar. As a result, Japan Inc already has a significant presence in the country. Major banks such as Mitsubishi UFJ, Sumitomo Mitsui Financial and Mizuho Financial Group have branches in the commercial hub of Yangon. The time has come to “monetize” strong Japan-Myanmar relations, a top bank executive told Reuters.

Watanabe’s emergence as Tokyo’s man on Myanmar represents a second act in a career marked by an ability to cultivate influential friends across the political spectrum.

Watanabe was 11 when World War Two ended. His older brother was one of the last

“kamikaze” pilots to die in the battle for Okinawa, a memory he sometimes shares in public speeches.

He embarked on a long career as a conservative politician and in the 1990s was head of Japan's Posts and Telecommunications Ministry. His first involvement with Myanmar came in 1987, when he hosted junta generals in Tokyo as deputy chief cabinet secretary to Nakasone. Even after the generals cracked down on student protesters and put Aung San Suu Kyi under house arrest two years later, Nakasone urged Watanabe to develop and deepen Japan's unofficial ties to Myanmar.

Watanabe's support for the junta never wavered, though the crackdown had made the regime a pariah. “Myanmar had no choice but to introduce a military regime to preserve internal law and order,” he wrote this year on the website of the Japan-Myanmar Association, a group he launched to rally support for the wave of investment.

He met Thein Sein in 1996 during a trip to carry medical equipment to Myanmar in Shan State, where the Burmese general was regional military commander. Afterward, the general invited him to play a round of golf.

“That was the only fun we had,” Watanabe recalled in an interview with Reuters. “He was pretty good at golf. And back in the day, with the army uniform on, he was awe-inspiring.”

It's not the usual description of Thein Sein, who was born to humble rice farmers and held mostly bureaucratic jobs in a four-decade military career that culminated in his 2007 appointment as interim prime minister. The bookish-looking general became the first civilian president in 49 years, after overseeing a new constitution in 2010 that guarantees the military a place in government.

Watanabe's personal diplomacy has sometimes left Japan's foreign ministry scrambling to keep up.

Last Oct. 21, Japanese Foreign Minister Koichiro Gemba hosted a dinner in Tokyo for Myanmar's foreign minister. It was

the first meeting between the two nations' top diplomats in 16 years. Gemba pledged new investment from Japan - provided that Myanmar show “substantial progress” in democratic reforms.

That same night, Watanabe was poring over a map in Myanmar's capital with President Thein Sein. But the senior Japanese power broker sent a very different signal about the pace of rapprochement.

The new president told Watanabe an attempt to build the Dawei economic zone with Thailand was floundering. Thein Sein had also just stopped a Chinese-funded hydroelectric project, after protests by people in the area whose livelihoods it threatened. That opened the door for Japan.

“Thein Sein said, ‘Watanabe-san, I have something for you.’ He sent his secretary out to come back with the documents. And that's how we came to Thilawa,” said Watanabe.

The Myanmar embassy in Tokyo and the president's office in Naypyitaw did not respond to requests for Thein Sein's account of the meeting with Watanabe.

When he returned to Tokyo after the October 2011 meeting, Watanabe said, he got in touch with Foreign Minister Gemba.

“I told Gemba: ‘You have to go to Myanmar on an official visit before year-end to tell them we are looking into the Thilawa deal closely.’ If he didn't do that, it wouldn't have become an official government initiative, right?” said Watanabe.

To pressure Gemba to act, Watanabe says he persuaded Japan's trade minister, Yukio Edano, together with Yoshito Sengoku, an influential politician in the ruling Democratic Party of Japan, to go to Myanmar as soon as possible.

“Then I went back to the foreign ministry and told them about Edano's promise to visit Myanmar,” Watanabe said. “If the trade minister went to Myanmar before the foreign minister, Gemba would lose face. That's why he went there in December.”

The Japanese foreign ministry and the Ministry of Economy, Trade and Industry



## Tokyo bets on Burma

The centerpiece of Japan's investment in Myanmar is a 2,400-hectare (5,900-acre) special economic zone in Thilawa, strategically located on the edge of the commercial capital, Yangon, and the Indian Ocean coast.

Japan would provide an estimated \$12.6 billion in aid to build infrastructure around Thilawa, three officials with direct knowledge told Reuters.

Mitsubishi Corp, Marubeni Corp and Sumitomo Corp. will form the Japanese side of the joint venture in Thilawa with a 49 percent share. They would work with a consortium of Myanmar businessmen who are expected to include longtime cronies of the military-backed government.

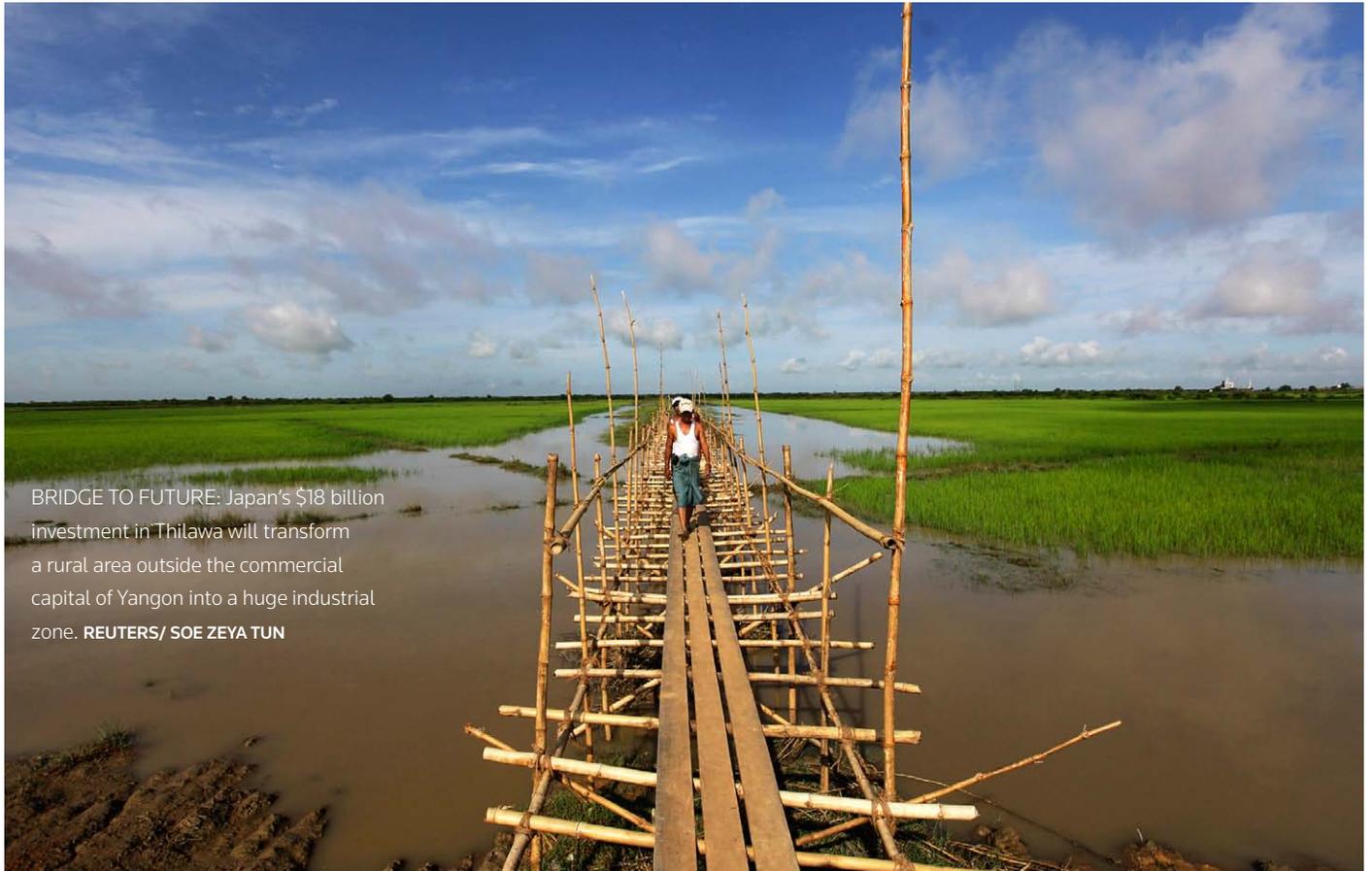
The plan is to build the first 450 hectares (1,111 acres) of the industrial park by 2015 and start luring Japanese and global manufacturers.

Myanmar's parliament is working on a new foreign investment law, and is revising legislation governing economic zones.

A key part of the plan would address Myanmar's dire shortage of electricity. Only a quarter of the population has access to power. Around \$900 million is planned for a 500-megawatt power plant that would supply electricity to Thilawa and Yangon, the crumbling city of six million a half-hour's drive from the industrial park, Marubeni says.

Japan is also investing in an economic zone in Dawei on the southern peninsula, where the largest industrial complex in Southeast Asia is on the drawing board.

*Reporting by Antoni Slodkowski;  
editing by Bill Tarrant*



BRIDGE TO FUTURE: Japan's \$18 billion investment in Thilawa will transform a rural area outside the commercial capital of Yangon into a huge industrial zone. REUTERS/ SOE ZEYA TUN

declined to comment on Watanabe's account of the meetings.

In March, Watanabe launched the Japan-Myanmar Association. Founding members included Nakasone and former Prime Minister Taro Aso, known for his forceful line toward China. The association also includes retired government bureaucrats and executives from trading houses Marubeni and Mitsubishi Corp. It provided the impetus for a government study group to coordinate an aid package that would take shape over the summer.

Watanabe also went to work lobbying for debt forgiveness, using connections in the Ministry of Finance. On April 21, six months after his dinner in Naypyitaw, the finance ministry announced a deal to waive more than 60 percent of Myanmar's debt to Japan. Watanabe said he had pushed for a

full waiver but was told that was impossible because of resistance from the Paris Club of creditor nations.

People involved in arranging the package say Tokyo has agreed to waive \$3.7 billion of debt and is putting together a \$900 million bridge loan to cover Myanmar's arrears to the World Bank and the Asia Development Bank, through a consortium of Japanese banks led by Bank of Tokyo-Mitsubishi UFJ.

**\$5 billion**

The amount of money Japan has committed in debt forgiveness and refinancing.

Officials at the International Monetary Fund "were very surprised at the speed of Japan's waiver," said a Japanese government official directly involved in the talks. "They said they've never seen anything like that before."

Japan has since struggled to persuade other donors that its approach on a debt waiver is the best way to encourage reforms in Myanmar, and has invited other parties to discuss the issue next week in Tokyo, the official said.

In March, Tokyo politicians also got a first-hand look at one of Japan Inc's new business partners in Myanmar: Win Aung, a businessman blacklisted by the United States.

The Burmese tycoon visited Japan to speak at the opening of Watanabe's Japan-Myanmar Association, where he rubbed shoulders with Edano, Sengoku and Nakasone.

"Industrialization is essential for the de-

SPECIAL RELATIONSHIP JAPAN INC STEALS A MARCH IN MYANMAR



NEW FRONTIER: The Thilawu special economic zone now is mainly occupied by fishermen and farmers. But soon Japanese industry will be moving in. **REUTERS/SOE ZEYA TUN**



velopment of Myanmar,” Win Aung said in his speech. “That’s why I’m extremely happy that Minister Edano has shown his support” for Thilawa.

Win Aung runs construction firm Dagon International Ltd and heads Myanmar’s chamber of commerce. His firm was one of eight that won contracts to build the new capital of Naypyitaw. He allegedly exported timber to China from protected areas after winning contracts because of his military ties, according to confidential U.S. diplomatic cables published by Wikileaks.

Win Aung did not respond to an email seeking comment. He remains on the U.S. Treasury’s “blocked persons” list, meaning Americans are prohibited from doing business with him.

It is Win Aung who will determine who forms the Myanmar side of the consortium to develop Thilawa.

According to one person involved in the talks, the roster is expected to include Zaw Zaw, an industrialist with close ties to the regime whose businesses range from timber to rubber plantations and construction. He, too, is on the U.S. Treasury blacklist. Zaw Zaw built his fortune exporting used cars from Japan to Myanmar, and his Max Myanmar-brand trucks and banners are already visible in Thilawa.

Among those who aided Watanabe in the Myanmar opening is Yohei Sasakawa, who runs the Nippon Foundation, a major philanthropic organization. The foundation was founded by Sasakawa’s wealthy father, a powerful figure in postwar Japan who championed far-right political causes.

Sasakawa, who also has a longtime interest in Myanmar, joined Watanabe and Sengoku during another round of negotiations on Thilawa with Thein Sein in July in Naypyitaw. There, Sasakawa offered to conduct charitable activities in ethnic-minority areas that had long been in conflict with the junta. He said it is essential the minorities



**JAPANOPHILE:** Zaw Zaw, a businessman with close ties to the former junta, got his start importing used Japanese cars. He is expected to be one of Japan’s partners in the Thilawa project.

REUTERS/SOE ZEYA TUN

understand that the new administration has peaceful intentions. Myanmar’s conflict zones did not take part in the 2010 elections.

The broad agreement between the two countries was signed in August. The Myanmar side is now working on the details of the industrial consortium to be led by Win Aung, while Japan is drafting infrastructure plans.

Suu Kyi’s National League for Democracy said it isn’t concerned about whether the proposed investment would pay political dividends for the military-backed government. Suu Kyi has thrown her support behind a bill on foreign investment now before parliament and is calling on the West to further ease sanctions.

“We are not worried about it at all,” said Han Tha Myint, a member of the party’s central executive committee. “What matters most for us is whether these investments and aids are beneficial for the people or not.”

The Japanese trade ministry wouldn’t comment on the reputational risk Japanese companies may face in partnering with former junta cronies in the Thilawa project.

“The Thilawa development project start-

ed from a request from the government of Myanmar, and the two governments are considering it,” ministry spokeswoman Asagi Sakai said. “No concrete decisions have been reached on the shape of Japan-Myanmar cooperation in Thilawa.”

Back in his Tokyo office, Watanabe shrugged when asked about the risks of being an early investor in Myanmar. “If there are any companies that are worried about such things, they might as well stay in Japan,” he said. “It’s their choice.”

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