

Japan's Official Development Assistance (ODA): Altruism or Mercantilism?

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Introduction

No country has offered a greater amount of the Official Development Assistance (ODA) to developing countries than Japan. Typically, ODA takes four different forms: 1) bilateral grants, 2) bilateral loans, 3) technical assistance, and 4) multilateral aid (Furuoka 4). Japan's ODA provision started in 1954 as the war reparation to Asian countries, and even after the termination of the reparation, the amount continuously increased (Inada 13). In 1991, Japan became the largest ODA donor country in the world. Because ODA has been one of the few ways Japan can show its presence in the international community due to the constitutional limitation on deployment of the Japanese Defense Forces (JDF) (Sunaga 1), Japan's ODA "remains the cornerstone of Japanese foreign policy" (Thernstrom 1).

In the 1970s and 1980s, because of its self-serving features including a high proportion of loans and tied aid rather than grants and untied aid, a greater focus on economic infrastructure development than social and human resources development, and a much larger share of bilateral assistance to Asian countries than non-Asian countries and multilateral aid, Japan's ODA was severely criticized (Otopalik 2). Responding to the criticisms, the Japanese government issued the ODA Charter in 1992, pledging to make its ODA less self-serving and effective for recipient countries. In 2003, the Charter was revised to further increase efficiency and transparency of Japan's ODA, although evidence suggests that the government is still greatly pursuing national interests through its ODA. The questions this paper attempts to answer are: is Japan's ODA altruist or mercantilist? How can international political economy theories explain Japan's ODA policy over time? The paper argues that although altruism has increasingly gained an explanatory power for Japan's ODA, mainly because of significant budget increase in post-conflict peacebuilding, mercantilism remains in its ODA policy for the sake of national interests.

Mercantilism

Classical mercantilism connotes states, in order to protect themselves from external economic and military threats, to increase their own wealth and security by promoting export and limiting import (Balaam and Dillman 57). As states became more interdependent due to globalization, to accurately capture today's complex international political economy, neomercantilism replaced classical mercantilism. Neomercantilists argue that to protect and pursue their national interests, states should use various strategic, economic measures. They also suggest that states pursue economic liberal objectives only when "those objectives coincide with state national interest" (Balaam and Dillman 57). Additionally, because they believe that the "cutoff" from such resources will greatly weaken economies of industrial countries, neomercantilists argue that industrial countries worry about their access to strategic resources such as raw materials (75).

ODA in Reality

Empirical evidence suggests that during the Cold War, mercantilism shaped foreign aid policies of developed countries. Competition for power with the Soviet communist bloc in the Third World influenced allocation of foreign aid by the US and Western European countries (Chan 6). In addition, Western states sought to expand foreign trade

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through providing aid to potential trading partners. Donor countries' foreign aid policies were thus largely shaped by their strategic considerations (5).

Until the first ODA Charter was issued in 1992 to reform the existing ODA scheme, Japan was not an exception of pursuing mercantilist policy on ODA and has been criticized on three different grounds. First, the proportion of loans was much higher than grants and technical assistance (Hotta 478). Professor Mera at the University of Southern California stated, "To reduce monetary costs to the country, Japan has continued to provide mainly loans instead of grants" (Japanese Institute of Global Communication 2001). According to the Ministry of Foreign Affairs (MOFA), in 1986, 38 percent of Japan's ODA was loans, 19.6 percent of it was grants, and 10.6 percent was technical assistance (quoted in Hotta 479). The proportion of loans was the highest among ten major donor countries, whereas the proportion of grants was the second smallest among them, which shows that Japan was seeking subsequent return from recipient countries. For the recipient countries, Japan functioned more as a "creator of serious external debt than as a promoter of economic development" (Hotta 478). Thus, mercantilism can well explain the nature of Japan's self-serving ODA at the expense of recipient countries.

Additionally, Japan's high proportion of tied aid—"a preference for loans, debt-servicing and development projects that ultimately benefit Japanese corporations and Japanese national interest" was criticized (Otopalik 6). In 1972, 65.7 percent of Japan's ODA, which is approximately twice as much as the average of Development Assistance Committee (DAC) countries, was tied to purchase of domestic goods or services (Katada 6). The Federation of Economic Organizations asserted that Japan's foreign aid should be provided to increase benefits of Japanese corporate (Otopalik 6). In the 1980s, the proportion of tied aid dropped significantly, while the proportion of untied aid and grants increased (Hotta 478). Still, the proportion of grants was 81.7 percent in 1986, which was the second smallest among major donor countries. Despite some improvements, Japan attempted to seek its national interests through ODA.

Second, Japan's exclusive focus on economic infrastructure development was criticized as self-serving. In the 1980s, Japan's ODA provided for economic infrastructure development, including land and marine transportation and electrical power sector, which accounted for about 40 percent of its ODA, twice as much as DAC average (Nielsen 33). On the one hand, Japan's ODA that developed economic infrastructure "has managed to provide a solid economic base for many developing countries," greatly contributing to economic growth and poverty reduction in recipient countries (Katada 6). On the other hand, for Japan as a resource-poor country, import of natural resources and raw materials is crucial for its own economic growth (Yonezawa 12). Therefore, Japan's ODA was designed to focus on "developing and expanding potential export markets and securing safe supplies of raw materials to the resource-hungry Japanese industry" (Nielsen 33).

Clearly, the reason why Japan provided a large amount of tied aid is that by making recipient countries purchase their products and technology, Japanese corporate specializing in infrastructure building was able to make profits (Otopalik 6). However, the processes of infrastructure building sometimes caused serious damage on natural environment (Hotta 478). Moreover, implementation of development projects in poor rural areas where Japanese corporate cannot expect much profit was hardly discussed (480). Thus, by focusing on infrastructure building, Japan's ODA contributed to recipient countries' economic growth, which enhanced Japan's image of altruism. Yet, its genuine motivation came from the desire of Japanese corporate to make profits, which would bring enormous wealth to Japan at the expense of recipient countries.

Third, exclusive focus of Japan's ODA to Asian countries was criticized. In the post-World War II period, Japan provided war reparation to Asian countries including Burma, Indonesia, and the Philippines occupied by Japan during WWII (Chan 8). Additionally, since Japanese Prime Minister Ohira announced the will of the government to provide aid to China in 1978, China has received various forms of ODA including grants, loans, and technical cooperation (Masuda 2). However, Japan's focus on Asia has not been changed over time. Between 1986 and 1995, Asia received roughly 53 percent of Japan's ODA, while Sub-Saharan Africa received 12 percent, and Latin America only received 10 percent (Nielsen 33). Chan analyzes the reason of Japan's exclusive emphasis on Asia:

The stability and prosperity of countries such as China, South Korea, Indonesia, and the Philippines are a matter of

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concern because of their obvious importance as suppliers of natural resources, markets of Japanese exports, and sites for Japanese investment. These countries are also important for the maintenance of regional military balance and political order and the defense of crucial seaways connecting Japan to its trading partners (14).

Muldavin asserts that Japan's exclusive provision of aid to Asia would be a diplomatic tool "to influence regional policy debates and the chosen development pathways of nearby nation-states" (928). Thus, mercantilism can explain how Japan's strategic emphasis on Asia has direct impact on its national interests, including security and economic concerns.

Creation of the ODA Charter (1992)

Responding to the criticisms of Japan's mercantilist ODA policy and to the growing emphasis on human rights in the post-Cold War period, the Japanese government issued the ODA Charter in 1992, incorporating more altruistic aspects to its existing ODA scheme (Inada 13). The Charter identified several principles including environment protection, reconsideration of ODA to countries whose military expenditures increased, promotion of democratic governance, human rights, and human resources development (Sunaga 26).

To realize those principles and to meet the criticisms, the Japanese government embarked on several ODA reforms. First, since the mid-1990s, Japan's bilateral loans decreased from \$14.93 billion in 1996 to \$8.11 billion in 1998 (MOFA 1999). In addition, the proportion of untied aid increased from 60 percent of total ODA in the 1980s to 96.4 percent in 1999 (Sunaga 7), which was the highest among major donor countries (Kawai and Takagi 10). However, because of the increase of untied aid and unprofitability, Japanese firms lost their interests and engaged in fewer ODA projects (Sunaga 7). Thus, although the Japanese government attempted to meet the criticisms by cutting loans and increasing untied aid, the decrease of ODA projects revealed that Japan remained taking mercantilist approaches to ODA. Moreover, Japan also increased the budget for multilateral aid provided for the World Bank, the Asian Development Bank (ADB), and the African Development Bank (AfDB) (Furuoka 12). However, Japan's intention of increasing multilateral aid is mixed because it reflected Japan's desire to gain more power on decision-making in those international development banks.

Second, according to the MOFA, the proportion of ODA provided for economic infrastructure development decreased from 68 percent in 1997 to 62.5 percent in 1998, whereas the share of social development increased from 12.9 percent in 1997 to 19 percent in 1998 (MOFA 1999). Although the increase of social development assistance was significant, much greater focus remained on economic infrastructure development, which apparently reflected interests of Japanese corporate.

Third, regions to respond to criticisms of extensive amount of aid disbursed to Asian countries, the Japanese government increased its ODA allocation to non-Asian. Yet, in 1995, more than half of Japan's ODA still provided to Asian countries regions (Nielsen 36), and a much smaller proportion was provided to regions, such as Africa and Latin America, where Japan does not have much strategic interest. The uneven allocation of aid to Asia suggests that by promoting regional prosperity and stability, Japan was seeking its own economic expansion and security.

The biased selection of regions was also observed regarding the acceptance of trainees for job training program, Japan's one of many attempts to promote human development (Furuoka 8). The Japan International Cooperation Agency (JICA) has offered training courses and held various seminars on development-related topics (9). However, in 1998, the proportion of trainees from Asia accounted for 68 percent, whereas Latin America accounted for 12 percent, Africa for 9 percent, and Middle East only for 5 percent (MOFA 1999). The biased recruitment reveals Japan's emphasis on development of Asian countries, which would potentially lead to prosperity of the region and Japan. Thus, the mercantilist aspect in the training program seeking potential benefit to Japan confirmed that Japan still failed to provide an altruistic ODA.

Although Japan maintained high proportion of ODA provision to Asian countries after the ODA Charter was issued, it was not the case for China, who increased military expenditures. One of the principles in the Charter states, "Full attention should be paid to trends in recipient countries' military expenditures . . ." (MOFA 1992). Many Japanese

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citizens claimed that “the ODA has enabled China to reinforce its military power and this may violate the principles of the ODA Charter . . .” (Masuda 4). To fulfill the Charter’s principle and respond to domestic protest, Japan’s ODA to China decreased from 214.4 billion yen in 2000 to 121.2 billion yen in 2002 (Sunaga 24). The decrease of ODA to China again revealed Japan’s neomercantilist approach, which is to use economic measure to protect national security interest.

The recession in Japan after the collapse of the bubble economy in late 1990s made it highly difficult to gain as much public support for ODA as the Japanese government used to gain (Kawai and Takagi 13). Kawai and Takagi further argue, “Given the large fiscal deficits and mounting public debt, the Japanese government no longer enjoys public support to maintain the current level of ODA, which has made Japan by far the world’s largest donor country during the past decade” (17). In fact, the Japanese government decided a small budget cut for ODA in 2001 and embarked on further cut in 2003 (Sunaga 4). Moreover, considering the stagnating economy, Japanese private sector firmly claimed that ODA should be redesigned to achieve Japan’s economic interests (Takagai and Kawai 17). Cutting ODA budget to protect state wealth and claims of Japanese corporate again can be explained by mercantilism.

Revision of the ODA Charter (2002)

In 2002, to respond to further criticisms, the ODA Charter was, for the first time, revised. The revision significantly moved Japan’s cooperation in humanitarian affairs forward. For instance, the Charter states that Japan recognizes the importance of poverty reduction to achieve development and that it will increase the assistance to “education, health, water, sanitation, and agriculture” (Sunaga 22). Additionally, the Charter declares that Japan will continue to assist developing countries in strengthening socioeconomic infrastructure, institution, and human resources. Moreover, the Charter stipulates Japan’s support for peacebuilding including provision of “humanitarian assistance to victims and refugees, as well as assistance for such urgent needs as rehabilitation of water supply, power supply, and hospitals, with a view to alleviating the plight of the people affected by the conflict and to facilitating the peace process” (Sunaga 23).

As a result, ODA providing for peacebuilding in 2002 was ten times greater than that of 1999. It clearly shows that Japan’s increasing emphasis on peacebuilding came into practice. Because mercantilism cannot explain the substantial focus on humanitarian affairs, it shows that the new ODA scheme focusing on recipient countries’ urgent needs is regarded as altruism. Furthermore, the decrease of the share of economic infrastructure from 2002 to 2006 and the increase of the share of human development, governance, and humanitarian aid and the significant reduction of proportion of loans supports the change to altruistic approaches (Otopolik 15)

However, the emphasis on pursuance of national interests remained in the revised Charter. It states, “The objectives of Japan’s ODA are to contribute to the peace and development of the international community, and thereby to help ensure Japan’s own security and prosperity” (MOFA 2003). This clearly shows that Japan still takes into account the achievement of national interests through ODA. Because the regional stability will directly impact Japan’s prosperity and security, the Charter also reemphasizes that Asia should remain as Japan’s priority in providing the ODA. However, nongovernmental organizations (NGOs), claiming that Japan “places too much weight on Japan’s ‘national interest’ at the expense of distributing ODA for humanitarian purposes, such as poverty reduction,” criticized the revision (Takahara 2003). In response to the criticisms, Foreign Minister Yoriko Kawaguchi stated that considering Japan’s economic recession, ODA should be strategically used to enhance Japan’s national interests (Takahara 2003). Although the revised Charter made Japan’s ODA policy more altruistic, it seems that mercantilism will also continue to be a driving force that shapes Japan’s ODA policy.

Conclusion

By creating the ODA Charter in 1992 and revising it in 2002, all in order to better assist the development of recipient countries with less motivation to pursue its own interests, the Japanese government successfully reformed the ODA scheme. However, some critics argue that “the new policy orientation has taken place primarily in rhetoric as a means of appeasing foreign critics, and the underlying objectives of Japanese ODA is still mainly to serve Japan’s own economic and strategic ends” (Nielsen 36). Considering Japan’s strong intention to pursue national interests,

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the recent ODA budget cut, and the extensive support of development of Asia, the criticism is not terribly wrong. Unfortunately, because of a recent severe fiscal situation, consideration of national interests through ODA to some extent might be inevitable. Therefore, both mercantilism and altruism will most likely continue to shape Japan's ODA policy.

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