

JAPAN'S ODA POLICY IN NORTHEAST ASIA

by
Marie Söderberg

Working Paper 158
October 2002

Postal address: P.O. Box 6501, S-113 83 Stockholm, Sweden. Office address: Sveavägen 65
Telephone: +46 8 736 93 60 Telefax: +46 8 31 30 17 E-mail: japan@hhs.se Internet: <http://www.hhs.se/eijs>

Japan's ODA¹ Policy in Northeast Asia

Associate Professor Marie Söderberg – The European Institute of Japanese Studies,
Stockholm School of Economics JAPMS@hhs.se

Abstract

The world's largest donor of ODA during the 1990s, Japan, is now making substantial cuts. ODA decreased by three per cent for the fiscal year ending March 2002 and for the coming year another ten percent cut will be made. This is an attempt to improve the situation of the Japanese state budget that after ten years of economic stagnation or recession is running with a huge deficit. Coupled with this we have the falling value of the yen, which further decreases what the recipients can expect to get from Japan.

Under present conditions conventional Japanese ODA is not likely to play a major role in the development in Northeast Asia, at least not in the short term perspective. There is considerable space, however, for a number of initiatives from local levels and Japanese NGO:s.

I will start by looking at what countries that have a chance of getting ODA. This will be followed by a general overview of Japanese ODA and what future trends will look like. Aid to Mongolia will be analysed and then aid to Japan's largest recipient, namely China, and on-going changes there in. Finally I will conclude with suggestions for small scale measures that might enhance Japan's image in the area.

JEL codes: O1, O2

Key words: Foreign Aid, Japanese ODA-policy, Japan-China relations, Mongolia, NGO, Japanese local initiatives

Japans ODA² Policy in Northeast Asia

Associate Professor Marie Söderberg – The European Institute of Japanese Studies,
Stockholm School of Economics JAPMS@hhs.se

The world's largest donor of ODA is Japan and most of its aid has gone to Asia. When it comes to aid to Northeast Asia, however, the situation is somewhat peculiar. First of all there are only two countries eligible for ODA, for reasons explained below, namely Mongolia and China and, in case of China, aid is not popular with Japanese domestic opinion and cuts are expected. Besides this, a general ODA cut of three per cent for the fiscal year ending March 2002 and a ten percent cut for the coming year will be made. This is an attempt to improve the situation of the Japanese state budget that after ten years of economic stagnation or recession is running with a huge deficit. Coupled with this we have the falling value of the yen, which further decreases what the recipients can expect to get from Japan.

Under present conditions conventional Japanese ODA is not likely to play a major role in the development in Northeast Asia, at least not in the short term perspective. There is considerable space, however, for a number of initiatives from local levels and Japanese NGO:s.

I will start by looking at what countries that have a chance of getting ODA. This will be followed by a general overview of Japanese ODA and what future trends will look like. Aid to Mongolia will be analysed and then aid to Japan's largest recipient, namely China, and on-going changes there in. Finally I will conclude with suggestions for small scale measures that might enhance Japan's image in the area.

The Countries in Northeast Asia

One of the key countries, South Korea moved from DAC:s list of recipients to become an aid donor itself in January 2000. Several years had actually past, however, since South Korea was considered to have "graduated" from the Japanese ODA program. Already in 1994

South Korean government officials were found at Japanese implementing agencies in Tokyo studying the processes of aid donation. At that time it had become obvious to them that a quick reunification between South and North Korea, like the one between East and West Germany, would be very costly for South Korea. They would therefore rather see a gradual process of reunification.

In the case of North Korea there are several reasons why Japan has not been willing to provide aid. First of all, there are no diplomatic relations between the two countries. Secondly, the North Korean shooting of Taepedong missiles over Japanese territory in 1998 made North Korea look more like a threat than anyone that Japan wanted to give aid to. Thirdly, Japan has its ODA Charter³ which says that full attention should, trends in recipient countries' military expenditure aside, be given to their development of weapons of mass destruction. North Korea's nuclear development experiments definitely disqualify them. A fourth strain in the relationship is the problem with alleged abduction of Japanese nationals⁴.

Neither have President George Bush's statements about North Korea as part of the "axis of evil" protecting terrorism improved the situation⁵. In fact, it made it nearly impossible, for Japan to give any kind of support to North Korea. Such aid is therefore not likely to be forthcoming in the near future. In a long-term perspective, there would need to be a change in the whole political and security situation in Northeast Asia before any Japanese ODA (besides emergency food aid) would be considered.

As for Russia it is not on the DAC list of countries that are eligible for ODA. Thus officially it does not get any either. Russia is, however, on another list, that is the one of countries and territories in transition. According to this it got US\$1564 million in OA (Official Aid) from the OECD countries in year 2000. Japan's part of this was US\$ 6.5 million⁶ a rather negligible figure.

This leaves Japan with only two recipients listed under Northeast Asia, namely Mongolia and China.

Characteristics of Japanese ODA

Since 1989, Japan has been the world's biggest donor of ODA in absolute terms. In terms of percentage of GNP, however, the figures are much less impressive. Japanese ODA in 1999 was 0.35 per cent of GNP⁷, which placed it as number seven among the 22 DAC countries. Still, Japanese ODA as a percentage of GNP has increased. In 1996 it was only 0.20 per cent of GNP, one of the lowest figures among the DAC countries. When it comes to the quality of aid (as measured in purely economic terms, by grant share and grant element), Japan has performed very poorly. This clearly demonstrates one of the peculiarities of Japanese aid: it is to a large extent based on loans and the recipients are expected to repay them although the loans come with a long grace period and a low interest rate.

Another characteristic of Japanese aid is its heavy emphasis on Asia. In 1999, 63.2 per cent of all bilateral aid went to Asia. Asian countries receive the main part of their aid in the form of loans, receiving a total of 81.7 per cent of all the loan-aid. The number one recipient on a cumulative basis is Indonesia. China has a much shorter history of receiving aid but is quickly catching up and was the largest recipient during much of the 1990s.

In comparison with other countries Japanese ODA clearly shows an emphasis on economic infrastructure development (32 per cent of total). Within the category of economic infrastructure, building roads and railways and other transportation facilities receives the largest amount of ODA. A total of 21 per cent of Japanese ODA is in this sector.

In its latest five-year medium-term policy document on ODA, announced in August 1999, the present approach and priority issues were outlined. The document signals substantial changes in Japanese ODA policy. Social development gets much more emphasis than before and specific goals are formulated. They include halving the proportion of people

living in extreme poverty, provision of universal primary education, and the elimination of gender disparity in education. The key to realizing these goals lies in self-help efforts as developing countries work towards economic take-off.

Greater emphasis is being placed on human resource development and Japanese ODA is to provide more knowledge assistance in improving policies and institutions as well as strengthening organizational capacity in developing countries. Environmental improvement is another priority area. The present five-year medium-term policy is the start for special "country assistance programs" formulated for major recipients. This is done through the co-ordination of the pertinent ministries and government agencies. The programs specify the significance of the assistance provided by Japan, its basic objectives, the priority issues and fields and the forms of assistance to be deployed. This is a considerable change from the earlier policy of approving ODA on a request basis and one of its purposes is to further strengthen the Japanese influence on how its aid money is used.

Now back to the two recipients in Northeast Asia, Mongolia and China, two countries that are quite different in character and in population size. The conditions for Japanese ODA are also quite different.

Mongolia

In Mongolia with 2.5 million inhabitants, population density is extremely low. The size of the country is four times that of Japan. It has a severe climate, with little precipitation and with its high altitude and inland location, it has a prolonged winter. Three quarters of the country's territory are grasslands, with the remaining area being deserts or mountain areas. In the early 1990:s. with the collapse of the Soviet Union, Mongolia changed from a communist system to a democratic system with a market economy. The economic disorder that arose was,

to some extent remedied by the economic stabilization policies of the Mongolian government, guidance from IMF and economic aid from various countries⁸.

Lack of funds has created difficulties in maintaining and managing a wide range of economic infrastructure. Japan's aid to Mongolia started in the early 1990s with emphasis placed on:

1. Upgrading of economic infrastructure for promotion of industry: Infrastructural upgrading in the fields of distribution, energy supply and communications.
2. Intellectual support and development of human resources for transfer to a market economy: Structural upgrading and human resources development to provide further support for the market economy system.
3. Promotion of cattle-breeding and agriculture: Cattle-breeding is being affected by problems such as excess grazing and qualitative decline in cattle. Human resources are being developed to enable a changeover from quantity to quality by strengthening quarantine systems and improving the quality of livestock products.
4. Support for basic fields of everyday life: Support for education, medical care, and urban infrastructure (water supply in the provinces).
5. Management of natural resources: Appropriate management and protection after ascertaining the current state of natural resources. Prevention of natural disasters and upgrading of emergency aid structures.

Most of the aid that Mongolia is receiving is in the form of grants and technical co-operation.

Japan's ODA Disbursements to Mongolia

(US\$ million)

Year	Grants	Technical Cooperation	Loan Aid	Total
1994	45.71 (64)	23.04 (33)	2.33 (3)	71.08 (100)
1995	54.95 (55)	30.18 (30)	14.80 (15)	99.93 (100)
1996	48.91 (47)	24.78 (24)	30.05 (29)	103.75 (100)
1997	46.10 (59)	19.18 (25)	12.70 (16)	77.98 (100)
1998	38.22 (40)	21.30 (23)	34.48 (37)	93.99 (100)
1999	36.40 (39)	24.43 (26)	33.18 (35)	94.02 (100)
Total	335.97 (48)	173.10 (25)	186.32 (27)	695.41 (100)

Source: Japan's Official Development Assistance Annual Report 2000, Ministry of Foreign Affairs of Japan 2001.

Amount of DAC Countries' ODA Disbursements to Mongolia

DAC Countries, ODA Net

(US\$ million)

Year	1	2	3	4	5	Total
1995	Japan 99.9	Germany 11.8	Denmark 5.7	Neth. 3.9	U.K. 1.5	126.9
1996	Japan 103.8	Germany 11.8	U.S.A. 6.0	Denmark 3.5	Norway 3.0	136.2
1997	Japan 78.0	Germany 14.0	U.S.A. 12.0	Denmark 6.6	Neth. 1.8	118.1

Source: Japan's Official Development Assistance Annual Report 1999, Ministry of Foreign Affairs of Japan 2000

Japan is Mongolia's largest donor on a bilateral level. Although sums might not seem so high in comparison to what Japan is giving to other countries they are of great importance to the Mongolian economy. An example of this is the cashmere factory that has been built by Japanese ODA money. It is now generating 35 per cent of Mongolia's foreign currency income⁹. Aid to Mongolia is not regarded as controversial in Japan. That is in contrast to aid to China.

China

Since China, with a population of 1.3 billion people, embarked on its program of reform and economic liberalisation at the end of the 1970:s, it's economy has experienced tremendous growth. It began with double digits growth of annual GDP every year and compared to it's neighbours the country was only mildly effected by the Asian economic crises in 1997.

Today China's GDP growth is seven per cent. Private capital inflow is tremendous and after the U.S., China is now the second largest recipient of foreign direct investment.

In spite of this, China has also been one of the main recipients of foreign aid in the world. Figures from OECD¹⁰ show that the Peoples Republic of China was the single largest recipient country of ODA in 1998. It received 2.4 billion US dollars, 6.7 per cent of all ODA. Although it is a huge sum it amounted to only 0.2 percent of Chinese GNP, which is rather low.

The largest contributor of all, in a class of its own, is Japan. An ODA program to China commenced in 1979. Since that time ODA has grown enormously. Between 1982 and 1986, China was the single largest recipient of ODA from Japan. The incident at Tiananmen Square in 1989 led to a temporary cessation of ODA, but aid was soon resumed, Japan being the first nation to restore friendly relations with China¹¹. In August 1989 it lifted the freeze on ongoing projects and in October that year the World Bank resumed its lending to China for humanitarian aid. After that, Japan extended grant aid and in July 1990 it announced that all aid would gradually be resumed. Soon after that other industrialised countries followed one after another. Since then China has remained as one of the major, if not the top, recipient of Japanese aid.

Amount of DAC Countries' ODA Disbursements to China

DAC Countries, ODA Net

(US\$ million)

Year	1		2		3		4		5	
1995	Japan	1,380	Germany	684	France	91	Austria	66	Spain	56
1996	Japan	862	Germany	461	France	97	U.K.	57	Canada	38
1997	Japan	577	Germany	382	France	50	U.K.	46	Australia	36
1998	Japan	1,158	Germany	321	U.K.	55	Canada	52	France	30

Source: Japan's Official Development Assistance Annual Report 2000, Ministry of Foreign Affairs of Japan 2001

Much of the Japanese aid to China has been in the form of financial support for economic infrastructure (such as roads, railways, ports etc.) This follows a general trend of Japanese ODA to Asian countries, where economic infrastructure has played a more important part than what it has for other donors. In the early days of aid to China, Japan maintained a policy of separating politics from economics (*seikei bunrei*) with recipients presenting projects that they requested aid for. In the case of China, that basically meant that Japanese ODA largely followed the Chinese five years economic plans.

In contrast with aid to Mongolia, most of the aid to China has been loan aid. This has generally been given in five-year packages matching the Chinese five years economic plans.

Japan's ODA Disbursements to China

(US\$ million)

Year	Grant Aid	Technical Assistance	Loan Aid	Total
1994	99.42 (7)	246.91 (17)	1,133.08 (77)	1,479.41 (100)
1995	83.12 (6)	304.75 (22)	992.28 (72)	1,380.15 (100)
1996	24.99 (3)	303.73 (35)	533.01 (62)	861.73 (100)
1997	15.42 (3)	251.77 (44)	309.66 (54)	576.86 (100)
1998	38.22 (3)	301.62 (26)	818.33 (71)	1,158.16 (100)
1999	65.68 (5)	348.79 (28)	811.50 (66)	1,225.97 (100)
Total	821.88 (6)	2944.91 (20)	9,900.48 (74)	14,478.69 (100)

Source: Japan's Official Development Assistance Annual Report 2000, Ministry of Foreign Affairs of Japan 2001

When the Japanese ODA charter was adopted in 1992, it meant that the Japanese aid became much more political and had a number of conditions. The Chinese nuclear testing in

1995, which was in direct violation of Article 3 of the ODA Charter, led to a temporary freeze of Japanese grant aid. This was partly due to a strong opposition in Japan against the testing. As grants are only around six per cent of the total aid, it did not effect the amount of aid to China in any major way. The freeze ended when the nuclear testing ended in 1997.

The withholding of aid while China was making nuclear tests created a lot of bad will in China. The Chinese saw this as a major change from the days when aid was given partly for geopolitical reasons such as a strong Japanese interest in Chinese natural resources and its market and partly as compensation for the war reparations that were never paid¹². It was also a deviation of the old Japanese policy of trying to separate politics from economics.

According to the latest mid-term policy plan for ODA, Japan is to formulate a 'country assistance program' for all the major recipients. MOFA (the Ministry of Foreign Affairs) is in charge of formulating such a program and it started to do so for China as well. This became a rather lengthy process with a number of interruptions due to severe criticism of the aid within the mass media. Articles like the one by Komori Yoshiki in *Chūō Kōron*¹³ has pointed out how it has been used to build luxurious subways that very few people use in Beijing whereas people in Tokyo have to put up with old and very crowded ones. He compares the Beijing airport and its 51 elevators with the much smaller crowded Narita airport in Tokyo, suggesting that the Japanese government should rather think of their own taxpayers than wasting money on China.

Another argument against ODA to China has been the Chinese military build up and increased Chinese naval vessel activities in Japans exclusive economic zone, which were perceived as a military threat.¹⁴ Aid experts have also predicted substantial changes in Japanese aid to China.¹⁵

Even within the governing LDP party where aid cuts in general have been proposed there has also been a political debate on the aid to China. This led to a review on Japan's ODA policy to China. In this the following was pointed out¹⁶:

- Japan itself is in a severe economic and fiscal situation and there is criticism in Japan against ODA to China (due to none compliance with the ODA Charter, China's aid to third countries, lack of publicity efforts on Japanese aid within China, etc.)
- China's own development agenda changed as a result of the Chinese economic development (new priorities are narrowing the gap between the coastal areas and the inland regions, poverty reduction, preparation for accession to WTO, global issues, etc.)

From now on Japanese aid to China will change in the following ways:

- Shift from multi-year pledging of yen loan to a single-year pledging system (selecting aid projects for each year)
- Ensuring that ODA can have understanding and support from Japanese nationals, and close examination for selection of each project based on national interest. (Priority areas: environmental protection and other global issues, transition to market economy, promoting mutual understanding, social development and welfare of inland regions, support for private-sector activities)
- China principally implementing economic infrastructure development in the coastal areas on its own
- Aid based on projects carefully selected and as far as the annual level of ODA is concerned, without making the previous level a prerequisite. A long list of candidate projects, which enhances transparency, shall be introduced for future yen loans.
- Making utmost efforts to ensure deeper understanding on the Chinese side of the principles of Japan's ODA Charter through any possible opportunity.

By this review of the ODA policy to China, Japan is trying to strengthen its own situation. Every project will be screened and evaluated according to its own merits and compliance with Japanese policy, without taking any notice of "expected" levels of ODA. This year (Japanese fiscal year 2001, ending 31st of March 2002) was the first year that a single-year pledging system was introduced¹⁷. No long list of candidate projects was presented before hand, however, and the loan agreement was not signed until the last day of the fiscal year, that is March 31 2002. Transparency has thus not been increased so far.

One reason for this might be that the whole issue of Japanese ODA to China is so sensitive that the Japanese government does not want too much open debate as this is likely to generate a number of anti-Chinese statements that will not improve relations.

In compliance with the new policy guidelines no loan aid was provided for economic infrastructure in the coastal area and 85 per cent of the total budget was allocated to projects in the inland region of China.

Taking Japanese public opinion on aid to China into consideration as well as the general cuts that are being made in the Japanese ODA budget, China is also likely to see substantial cuts in Japanese ODA. With a continued growth of the Chinese economy, ODA that already today plays only a minor role in the Chinese economy, is likely to be of even less importance in the future.

Suggestions for future economic co-operation in Northeast Asia

With the above situation in mind, one cannot expect any substantial increase of Japanese ODA to Northeast Asia, at least not in the short term perspective. This does not mean that there is nothing Japan can do to co-operate in the economic development in the area. There are a number of fields in which it can contribute as outlined in some of the other papers presented at this conference such as railway and other infrastructure development. Here I just want to point out two other ways in which Japan could contribute:

Firstly through local governments. Even if the government in Tokyo has been and is still somewhat luke warm in its support to various economic co-operation projects in Northeast Asia, there are other actors that are not. Many of the Japan Sea Coastal prefectures have, driven by a desire for their own development, been much more active than the central government. There is the Japan-sea economic co-operation process which

is a decentralized effort, chiefly organised by local authorities and business interests in the region surrounding the Japan sea, aiming to identify mutual beneficial economic co-operation projects¹⁸. There are already a number of exchanges going on at this level where contacts have been established and know-how in co-operation has been accumulated. These initiatives at the local level are one way of making up for the lack of interest from the central government and in the long run they are also likely to generate greater interests in Tokyo for this area.

The second suggestion relates to the role of the Korean community in Japan. Concerning the Korean question and the support of the sunshine policy of President Kim Dae Jung, as well as an eventual future opening up of North Korea, they could definitely play an important role. There is a substantial Korean community living in Japan. Estimates of its size is around 650 000 people, many of whom are second or third generation living in Japan and most often they are supportive of the North. They have their own schools, their own companies and even their own banks in Japan. There has always been exchanges of people, although officially illegal, going on between North Korea and the Korean community in Japan. Considerable amounts of foreign currency has been sent by the community in Japan to North Korea. Since the firing of Taepedong missiles over Japanese territory in 1998 there has been a number of clamp downs on the pro North Koreans in Japan to stop this financial flow, something which is actually said to have hurt the North Korea's economy substantially.

The Japanese government should try to encourage the Koreans community in Japan to play a more positive role in the development. They should be able to play a substantial role in helping North Korea in its opening up and integration into the world community. One could imagine a substantial increase in education and exchange between the Korean community in Japan and North Korea.

¹ ODA, Official Development Assistance, is defined by OECDs Development Assistance Committee as 1) resources provided by official agencies or by their executing agencies; 2) the main objective being the promotion of the economic development and welfare of the developing countries; 3) its concessional character is due to the effort to avoid placing a heavy burden on developing countries, and thus consists of a grant element of at least 25 per cent.

² ODA, Official Development Assistance, is defined by OECDs Development Assistance Committee as 1) resources provided by official agencies or by their executing agencies; 2) the main objective being the promotion of the economic development and welfare of the developing countries; 3) its concessional character is due to the effort to avoid placing a heavy burden on developing countries, and thus consists of a grant element of at least 25 per cent.

³ The ‘ODA Charter’, which was adopted in 1992, called for the consideration of the following principles in aid implementation

- Environmental conservation and development should be pursued in tandem.
- Any use of ODA for military purposes or for aggravation of international conflicts should be avoided.
- Full attention should be given to trends in recipient countries' military expenditure, their development and production of weapons of mass destruction and missiles, their export and import of arms.
- Full attention should be given to efforts for promoting democratisation and the introduction of a market oriented economy, and the situation regarding the securing of basic human rights and freedoms in the recipient country.

⁴ This question recently got renewed attention in Japan when new testimonies about the abduction of a Japanese female student from Denmark was done. When Japanese Prime Minister Koizumi met President Kim Dae Jung in Seoul on March 22 2002, he referred to the kidnappings and rejected providing even emergence food aid for North Korea, a blow to President Kim’s sunshine policy.

⁵ Bush, himself, did tone down this rhetoric during his trip (March 2002) to South Korea and there is not likely to be any action against North Korea but rather a toning down of the whole argument according to Ambassador Stephen Bosworth opinion at a luncheon talk at the Asiatic Society in Hong Kong, March 2 2002.

⁶ OECD:s yearbook 2002, Geographical Distribution of Financial Flows to Aid Recipients.

⁷ The following figures are from Foreign Ministry, *Waga Kuni no Seifu Kaihatsu Enjo 2000*.

⁸ JICA Annual report 2001.

⁹ Interview with officials at the Japanese Foreign Ministry, February 2002.

¹⁰ OECD, *The DAC Journal Development Co-operation 1999 Report*, Volume 1, No 1, 2000.

¹¹ For a detailed account of this see Quansheng Zhao, *Japanese Policymaking, The Politics Behind Politics- Informal Mechanisms and the Making of China Policy*, Oxford and New York, Oxford University Press, 1995 pp. 161-185.

¹² See for example Jin Xide, 'Chū nichi Seiji Masatsu no Koozu, Genin Oyobi sono Sū sei', in *Senshū Daigaku Shakaikagaku Kenkyūjo Geppō* No. 430, Tokyo 1999.

¹³ Komori Yoshihiki, 'Machigaidarage no Chūgoku Enjo', *Chūō Kōron*, March 2000 pp. 94-109.

¹⁴ The Daily Yomiuri Aug. 9, 2000.

¹⁵ See for example Miyamoto Yūji, 'Tai Chū Keizai Enjo Dō Suru ka', in *Gaiko Forum* 8, 2000 pp. 78-82.

¹⁶ The Economic Cooperation Program for China was drafted mainly based on the following recommendation published in December 2000:

- Recommendation by the "Advisory Group on Japan's Economic Cooperation to China in the 21st Century" (Chaired by Mr. Isamu Miyazaki, former Minister of State in charge of Economic Planning Agency)

¹⁷ See JBIC's web page

<http://www.jbic.go.jp/autocontents/english/news/2002/000019/index.htm>

¹⁸ David Arase, *Shifting Patterns in Japan's Economic Cooperation in East Asia*, in Marie Söderberg and Ian Reader (eds.), *Japanese Influences and Presences in Asia*, Curzon, Richmond 2000.