

Reconfiguring Japan's ODA

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What position should Japan adopt on the war against terrorism the United States has launched? There is validity in the American claim that terrorism is the enemy of peace and democracy and must be resolutely quashed through global-scale action. Some thus might assert that Japan should support the United States in any way it can within the constraints of its laws. But it is also clear that “eye for eye” retaliatory strikes breed animosity without providing a true solution, which means that efforts must simultaneously be made to deal with the poverty from which terrorism is bred. Here we find a role for economic cooperation to play. We should also reflect on the recent tendency to hold the model of American society as the ideal and to impose it on countries with other cultural backgrounds. A true long-term answer to terrorism must surely address these points.

Having said this much, however, we in Japan find ourselves at a loss as to what to do next. Our country simply has not developed sufficient conceptual abilities and communication channels to present alternative intellectual propositions to the rest of the world. At this crucial time of worldwide anger and fear, Japan finds itself incapable of acting as an effective voice for these reasonable points.

Japan is in a unique position as the only major industrial country in Asia, and as such it has a duty to offer initiatives to the rest of the world. We cannot expect the global trends that emerge from the West to be perfectly correct all of the time. There will be a greater chance of building a more balanced world if Japan gives voice to a vision from its Asian vantage point.

As a country with strict constraints on what it can do militarily, Japan naturally finds economic cooperation to be an exceedingly important tool in foreign policy. And yet in the disbursement of official development assistance, it has taken the hardly commendable approach of following the crowd. Confronting this reality squarely, I will endeavor in this essay to propose a way to improve our performance.

Mounting Japanese Dissatisfaction

The Japanese government is now under pressure to reassess its program of official development assistance because of the severe pinch in the budget. In conducting this reassessment, we need to examine the contribution ODA makes to Japan's foreign policy. The course of the flows of development assistance is largely determined by others --specifically,

by the World Bank (and in part by the United Nations Development Program) at the international level and, at the level of individual countries, by members of the Anglo-Saxon camp, with the United States and Britain in the lead, and the Nordic group of countries. Every few years they come out with new assistance strategies, which in many cases do not match the sensibilities of the Japanese. We have left the controls to other nations, and Japan's role is no more than that of a timid copilot at best.

The policy dialogue between Japan and the World Bank has made great progress in recent years. The deepening of our mutual understanding, however, appears not to be narrowing the gap in views but rather to be making the differences more conspicuous. The approach Western countries and international organizations are taking to aid for developing countries features farsighted frameworks, convergence toward a single system, and emphasis on macroeconomic financial issues. Japan, by contrast, makes past experience its starting point, perceives value in diversity, and emphasizes issues of the real economy involving the fostering of industry. It is not easy to fuse two development philosophies when they are based on fundamentally different assumptions. Japan's aid administrators cooperate with and contribute to plans drawn up elsewhere, but they can be heard muttering that it does not feel right, that something seems to be missing.

Let me give some examples. When the International Monetary Fund and the World Bank gave aid to a number of Latin American and other countries facing debt crises in the 1980s, they made their support conditional on severe fiscal and monetary austerity and radical liberalization and privatization. And when they reached out to help the countries in transition in the former Soviet bloc in the 1990s, they prescribed an even stiffer dose of basically the same medicine. Japan cited the dangers of a prescription that imposed a uniform regime of belt tightening regardless of the history and national character of each country, and it argued repeatedly that in places lacking experience with the market economy, markets would not come to life simply by destroying old systems and introducing new policies. But such protests have produced little change.

At the 1999 Group of Seven summit in Cologne, the major industrialized countries approved a debt moratorium for an expanded group of heavily indebted poor countries in Africa, and again a reform program of the same type was made a precondition. Because Japan is one of the major aid donors to Africa, this means it will not be getting back a considerable portion of the yen loans it has made to the region. Without doubt it is important to offer a second chance to countries groaning under a massive load of debts. But are the governing institutions and industrial strategies of these countries really sufficiently sound? Might we not discover that merely canceling debts does nothing toward improving the prospects of the poorest countries and only tends to make them permanently dependent on foreign aid? Japan has been asking such questions, but with little effect, and now moves are afoot to draw it into a common-basket approach to aid for Africa, with all donors pooling money in baskets for

joint use.

The latest aid strategy devised by the World Bank, which pushes poverty reduction to center stage in development aid for poor countries, is clearly based on lofty ideals, but is it really the best strategy in the light of the realities of developing countries? As I see it, the strategy lacks the perspective of how to enable industries in the concerned countries to catch up in an age of globalization. If industries cannot be successfully fostered, poverty reduction will come to nothing. We must also ask whether it is possible or desirable to have all countries converge to the norms of the West.

The Asian financial crisis of 1997 fueled the dissatisfaction in Japan with the existing international approach to aid. The response to the crisis, which involved the collapse of a series of Asian economies with which Japan has close trade and investment ties, was mapped out by the IMF. Japan's own proposal --that an Asian Monetary Fund be established-- was quickly brushed aside. On seeing the crisis grow worse because of the conditions the IMF laid down for assistance --which included high interest rates, fiscal austerity, and hasty bank closures-- officials in the Japanese government stepped up their criticism of the IMF and began looking for countermeasures without Washington's help. What they came up with was the "New Miyazawa Initiative," named after Miyazawa Kiichi, the former prime minister then serving as finance minister. Japan's proposal featured large additional infusions of grants and loans to the affected countries, and it served as the basis for the Chiang Mai Initiative, the currency-swap scheme advanced by Miyazawa at the annual meeting of the Asian Development Bank in 2000.

It is a sorry state of affairs for the country that is putting up the biggest share of the money to have to defer to other countries on how that money is to be spent, particularly when the international organizations directing the overall effort seem to lack balance. Subsequent to the Asian crisis, attempts to remedy this situation have gained momentum in Japan. As part of these efforts, below I will outline a proposal for Japan's ODA program. My suggestion is to reconfigure the program on the basis of a twin set of principles: those deriving from Japan's Asian identity and those arising from its global position.

Torn Between Two Identities

Ever since Japan opened its doors to the world in the second half of the nineteenth century, its foreign policy has been pulled back and forth between the country's identity as an Asian country on the one hand and as a member of the Western community of advanced industrialized countries on the other. Perplexed by its dual identity, the country has sometimes selected the wrong options. Today, a century and a half after U.S. Commodore Matthew Perry's fleet forced a reluctant Japan to open up and just over half a century after its defeat in World War II, our country is still torn between Asia and the West and unable to reach maturity.

It remains confused about what attitude to take toward both sides as an industrially developed Asian country. When it seeks to force the two vectors into one without a firm set of guiding principles, it ends up producing unnatural strains, which cause it to veer to an extreme of either arrogance or servility. The proof of its immaturity is found in its tendency to swing toward one side or the other instead of accepting both identities. And in the field of ODA, Japan cannot manifest its true character as long as it perceives only two passive options to pick between --toeing the line of the World Bank's strategy or complaining about that line.

The dual national identity engraved on Japan by its history will not go away with the passing years. It is about time we recognized that it lies at the root of our national character and cannot be eradicated. We should stop turning our back on it and trying to settle on just one of the two alternatives. Would it not be far more preferable to affirm this duality as a historical endowment and make constructive use of it in our diplomacy? There are times and occasions when a skillful combination of the two identities can provide an original character to Japan's foreign relations, adding breadth and depth to them and offering the flexibility needed for dealing with complicated issues. For a non-Western country, this is probably the key to the successful handling of the dominant systems introduced from abroad without loss of the country's autonomy or continuity.

A dual approach meets a need in all aspects of external relations, and it can be especially helpful in the provision of development assistance. It can enable Japan to perceive areas where its own development strategy will be effective, and it can allow our country to serve as a model for international integration to developing countries with a strong desire to advance in the world. But even more important is that it can help the Japanese themselves regain confidence and pride in the activities they are undertaking.

Contributing to Asian Dynamism

Here we need to consider a course guided by the clear recognition that Japan is an industrial country whose forte is in *monozukuri* --"making things," or in other words, skilled manufacturing-- and that it is the chief architect of the Asian production network. The first of our ODA principles should thus be that ODA is to be used as a tool for sustaining and developing Asian dynamism.

Drives to promote regional integration have recently been gaining momentum in a number of places around the world. But in Asia, strong linkages have already been formed among the industries of countries at different stages of development. These linkages, mediated by trade and investment, have provided the motive power of the "East Asian miracle" over the past few decades. Asia has established a position as the factory of the world, especially in the case of electronic products. The structure of production is not one of simple, vertical relationships between advanced and developing countries; instead it is a multitiered

configuration of production bases with Japan as the point of origin, and it has led to a complex intraregional division of labor and brisk intraregional trade and investment. There is no other such configuration in the world. As Asia's sole economic superpower, Japan bears considerable responsibility for the region's development, and its industries depend for their own vitality on the trends in the production networks extending across the region. When we confront this reality, we can see the need for a vision that brings prosperity in the rest of Asia and prosperity in Japan into matching focus.

Some will suggest that it is anachronistic for Japan to try to implement an Asiawide industrial policy at a time when it is moving away from its own past reliance on excessive government intervention. This perceived inconsistency is what University of Tokyo Professor Suehiro Akira has in mind when he speaks of "the double standard of Japan's Asian involvement." But I believe that such concerns are overstated. There are three points that need to be made in this connection: First, what we are considering here is not bureaucratic direction or the creation of planned economies but merely complementary public measures for market economies led by private enterprise. Second, it is only natural for there to be differences in the role the government plays depending on the stage of an economy's development and the degree of the market's maturity. Third, there is obviously considerable room for policy coordination if we consider Asia as a dynamic production network containing countries at all stages from the rich and advanced to the least developed.

Already in Asia today many common issues are being addressed through bilateral assistance and in multilateral groups, such as the Asia-Pacific Economic Cooperation forum and the Association of Southeast Asian Nations (along with the "ASEAN plus Three" grouping, in which China, Japan, and South Korea also participate). These issues include infrastructure, institutional consolidation, human resources, trade and investment policies, and the intraregional division of labor. Steps are also needed to promote technology transfer, academic and student exchange, and South-South cooperation, and responses are required in such areas as environmental destruction, trade friction, financial crises, the gap between rich and poor, and the ongoing slump in the information-technology sector, along with excessive level of investment.

What is important here is not the selection and evaluation of specific ODA projects in the light of narrowly defined assistance objectives but rather the repositioning of the ODA program as an element playing a key role within the broad design of Japan's foreign policy. Enhancing Asian dynamism entails coordinated marshaling of policy measures in all the concerned countries. Trade and investment policies, financial and currency policies, and macroeconomic policies must all be implemented coherently, along with social policies and immigration policies, and ODA should be used where appropriate in connection with these issues. In a low-income country, for instance, foreign aid is of relevance in the construction of an industrial foundation, the fostering of small businesses, the provision of public assistance,

and the cultivation of human resources. ODA may also be used to improve the environment and to provide relief for the weak at times of crisis.

Since Japan obviously cannot determine Asia's destiny unilaterally, making Asian dynamism one of the central objectives of our foreign policy means developing and strengthening the channels of constructive dialogue with our Asian neighbors. Asia is truly a diverse continent, but on some topics, such as development strategy and crisis countermeasures, there can emerge an Asian view that differs from the global current. It is naturally part of Japan's job as Asia's leading industrialized country to synthesize the region's views and make them heard in appropriate forums, such as the World Bank, the IMF, the World Trade Organization, and the G-7 summits.

We need to define what Asia means not geographically but functionally, based on its dynamism as a supply region for the world. At its core are the countries already linked together in a chain of structural transition: Japan, the newly industrialized economies (Hong Kong, Singapore, South Korea, and Taiwan), the "ASEAN Four" (Indonesia, Malaysia, Philippines, and Thailand), China, and Vietnam. Outside this core lie a number of countries able and willing to participate in the production network, notably Cambodia, Laos, Myanmar (Burma), and North Korea. Beyond them lie other developing countries and countries in transition that while unable to participate directly in this Asian production network because of their distance from it are nonetheless keenly interested in the Asian-style development strategy it presents. It behooves Japan to be generous in cooperation with this group as well.

A Vision of Asia

At this start of a new century, what should our vision of Asian dynamism look like? A number of points need to be considered in coming up with an answer. The first involves China. Over the past couple of years it has achieved great prominence as a base for assembly-type manufacturing of products for export (though to some extent people's perceptions have outstripped the reality). With its abundant labor supply and low wages, China is capable of producing low-priced goods, and recently the quality of its products has improved considerably. China's competitive power has become a force to be reckoned with in Japan, North America, Europe, and elsewhere. But China is still struggling with knotty problems in areas including reform of state enterprises, inequalities among regions, environmental destruction, and natural resources. Thought must be given to how long China's advance is likely to continue and how its dynamism can be tied in with the rest of Asia's.

From the Japanese vantage point, the countries of Southeast Asia can be considered primarily as overseas production bases, but China needs to be considered from a broader range of perspectives; the aspects it presents include those of a target of investment, a competitive rival, and a political adversary. We need to have a multifaceted, grand design

going beyond economic concerns to encompass national security and joint leadership. Might it be possible for us to restrain China by bolstering the productive power of Southeast Asian nations? Or should we instead focus on developing mutual interdependence between the Chinese and Japanese economies as the true path to Asian stability? On the long-range agenda, we need to debate whether we should aim for Asian integration of the type found in the European Union, with its single currency and free trade among countries, or whether it would be better to continue along the present course of an open regionalism, which neither discriminates against other regions nor involves the creation of an overall regional institution.

Such considerations may seem rather grandiose, but the point is that if we wish to use ODA to good advantage, we cannot base our decisions only on the internal profitability and ex post facto assessment of each individual project. The separate elements of Japan's external policy will become organically linked only if the policy is underpinned by this sort of all-inclusive vision.

One more point we must not overlook is the coherence between external economic policy and domestic structural reform. We will not be able to revitalize Japanese industry only by promoting deregulation, reforming the bureaucratic machinery and structure of government finance, and supporting new businesses and industries. We must also allow international competition to provide an orientation for corporate efforts and to weed out inefficient industries. The mandarins and politicians in Tokyo alone cannot supply the design for Japan's industrial structure in the twenty-first century; in the final analysis, it is the world market that will shape it. The government can play no more than an ancillary role in this context, seeking to reduce the degree of uncertainty and offering support where needed. The reform strategy the authorities are now pursuing seems too domestically oriented. It is plainly contradictory for the government to be seeking to invoke safeguards against imports even as it sings the praises of intensified competition at home. Any vision for Asian dynamism needs to have sufficient substance to provide for constructive pronouncements on how to coordinate external and internal interests.

Contributing to the World

Our second principle should be that ODA is to be used as a tool for contributing to joint solutions to global problems. This applies to a wide variety of themes, including actions on humanitarian concerns and issues affecting the planet as a whole.

A number of points must be borne in mind. First, we should not aim our international contributions at each and every issue, for that would lead to broad but shallow participation. We should rather identify areas where Japan enjoys a comparative advantage and concentrate our efforts on demonstrating leadership in them. For instance, compared with Western donors, Japan has a relative abundance of funds and scarcity of human resources it can channel into

aid, and so it should select projects where funding is of greater importance. Also, Japan has some superlative environmental technologies, and it should make use of ODA to spread them widely around the world. And in view of the constraints on the military cooperation Japan can extend, I personally feel it should aim at becoming the world's top provider of aid for disaster relief.

The second point is a corollary of the first. There can be no denying that Japan's aid organizations lag behind their counterparts elsewhere in a variety of respects. International organizations and other donor countries have assembled a wealth of human talent, knowledge, and systems, and we should give thought to how we can effectively employ these resources. In specific terms, Japan could entrust parts of its own initiatives to specialized outside agencies and make use of personnel exchanges for the training of young Japanese staff members. And where appropriate, it should adopt superior systems and arrangements devised by international organizations.

Third and most important, Japan should try to exercise influence on the policies of international organizations instead of always responding passively to them. Particularly in the case of the World Bank, there is a tendency for each new president to hammer out a new initiative and for all the employees then to fall into line behind it. Given Japan's adeptness at maintaining policy consistency, one potential way for it to make a considerable contribution is by acting to counter fashionable currents in global opinion and return the attention of international organizations and summit meetings to the fundamental issues of development. And even as it seeks to play this role, it should strive to synthesize the views of Asia and express them to the rest of the world, as I have already noted.

Refining the Japanese Touch

The idea of providing the ODA program with a dualistic design may come across as a radical proposal, but in fact it is a common-sense suggestion. It is a call not for altering the thrust of Japan's economic cooperation but for condensing, elucidating, and amplifying the orientation it has had all along. The main uses to which Japanese ODA has been put in the Asian region include installing infrastructure, promoting small companies, cultivating human resources, accepting foreign students, and responding to crises. And the main axis of Japan's foreign relations --where making contributions to international causes is becoming increasingly crucial-- will continue to be cooperation with the United States and other industrialized countries.

It is important to sense the pride that comes with the application of a coherent design. My point is that there is nothing inconvenient or otherwise amiss in having a dual identity; on the contrary, it should be turned into an advantage peculiar to Japan. Furthermore, the Japanese public will surely become uncomfortable sooner or later with the current

international-consensus approach to ODA, in which the focus is limited to reducing poverty and resolving environmental problems. People will not be able to sustain their support for the provision of aid unless it is possible at the same time to protect and develop our own tradition of skilled manufacturing.

Critics have been clamoring for the provision of aid with a Japanese face, but ultimately this cannot be accomplished just by attaching Japanese government logos to the goods we supply or flying the Japanese flag over our aid facilities in the developing world. If we can manage to provide the policies and projects we formulate with a Japanese touch, the recipients will come to appreciate our efforts, and some among them will call for domestic development strategies drawing on the strengths of the Japanese approach. The way to transform our country's aid into something truly Japanese lies in adding such depth and appeal to the content of what we provide.

Translated from "Teigen: ODA nibunron," in Ronza, December 2001, pp. 54-63; abridged by about one third. (Courtesy of *Asahi Shimbun*)