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December 9, 2004

Japan's ODA at a Crossroads

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Even after ceding its much-vaunted status as the world's No.1 aid donor to the United States in 2001, Japan has managed to hold on to the less prestigious but yet comfortable No. 2 position. But now the clock seems to be ticking to the day when Japan falls down the hierarchy even further.

It seems even possible that the world's second-largest economy after the U.S. will slip into the ranks of second-tier aid donors in the not-too-distant future due to continued cuts in aid budget. This would significantly erode Japan's international clout. Official development assistance, or ODA, is the country's most effective, if not only, foreign policy tool. The government's contributions to the international community through military means are still strictly constrained by the post-war pacifist Constitution. Bilateral ODA to developing countries consists of yen loans, grants-in-aid and technical cooperation. Yen loans are soft loans with much lower-interest rates than what the free market would charge. They are repayable up to 40 years, including a 10-year-old grace period. A majority of Japan's bilateral ODA goes to the rest of Asia. Japan commemorated the 50th anniversary of its ODA provisions in the fall of 2004. In 2001, Japan was replaced by the U.S. as the world's biggest aid donor for the first time in 11 years, dealing a significant setback to Japan's influence in the international arena -- and to its national pride. But at that time some Japanese foreign policymakers believed, or at least wanted to believe, that Japan would still be able to stay in the No. 2 position for many years to come. That belief now seems to have been betrayed.

Since the September 2001 terrorist attacks on the World Trade Center and Pentagon, the U.S. and all other major industrialized countries except Japan have sharply increased ODA in hopes of reducing poverty in developing countries, which they see as a main factor inflaming Islamic fundamentalism and therefore as the hotbed of terrorism. This is a far cry from the 1990s when all major aid donors but Japan were suffering from so-called aid fatigue in the wake of the Cold War and either cut back on or failed to significantly increase aid.

In 2003, the latest year for which figures are available, the U.S. provided 15.8 billion U.S. dollars in ODA. Japan finished a distant second, at 8.9 billion dollars, followed by France, Germany

and Britain at 7.3 billion dollars, 6.7 billion dollars and 6.1 billion dollars respectively. The precise amounts of ODA funds disbursed by the major industrialized countries for the calendar year 2004 will not be made public until sometime in the spring of 2005. But Japan may have been overtaken by France as the No. 2 donor. It is even possible that Japan will slip into fifth position as early as 2005, falling behind Germany and Britain. Japan was mired in a prolonged economic slump following the burst of the late 1980s bubble economy, characterized by inflated prices for land and real estate. Despite an economic recovery in recent years -- albeit a far-from-solid and even fitful one -- Japan's fiscal conditions remain as severe as ever, with its accumulative government debt being the heaviest among major industrialized nations. Government coffers are becoming even scarcer due to increasing social security costs, resulting from the aging of society.

So, the austere budget that has been pursued by the government of Prime Minister Junichiro Koizumi since he took office in the spring of 2001 will very likely continue in the years ahead, making it almost impossible to reverse a contraction in the government ODA budget. Then what should be done with ODA? To be sure, more needs to be done to use ODA money more effectively while enhancing the transparency in its use regardless of its size. But that alone will not be enough. Strategic thinking is needed, especially regarding three things: Japan's bid for a permanent seat on the U.N. Security Council; the rising power of neighboring China; the looming prospects of the "East Asian Community" being created.

First, Japan should do its utmost to keep any further reduction in ODA to a minimum despite its snowballing budget deficits. It needs to maintain its international clout if it is to gain a much-coveted permanent seat on the U.N. Security Council. Debate on reform of the council will come to a head in the autumn of 2005 when the U.N. commemorates its 60th anniversary. The following year marks the 50th anniversary of Japan's admission to the world body. Of the 15 council members, five are permanent members with veto power -- the U.S., Russia, Britain, France and China. The remaining 10 seats are held by nonpermanent members and allotted regionally. Reform of the council has been discussed since 1993 by a special task force set up under the U.N. General Assembly. But there has been no significant progress to date. In lobbying for a permanent seat, Japan has strongly advocated the principle of "no taxation without representation." Japan is the second largest contributor to the U.N. budget after the U.S., shouldering nearly 20 percent, a percentage higher than that of the combined financial contributions of the other four permanent council members.

The High-Level Panel on Threats, Challenges and Change, an advisory panel to U.N. Secretary General Kofi Annan, released a report at the end of November, 2004, that contains two options for expanding the UNSC. One calls for increasing the number of permanent members to 11, from the current five, and also the number of nonpermanent seats to 13, from the current 10. Japan is not 100 percent happy with the proposal because it would not grant veto power to new permanent council

members. But it is better than the other proposal, which would only create eight new semi-permanent seats -- also with no veto power -- and increase the number of nonpermanent seats by one. The total number of council members would be the same, 24, under either proposal. The panel's report also points out that one of the key criteria for judging an industrialized country's contributions is whether the country has achieved the U.N. goal of boosting its ODA ratio to gross domestic product, or GDP, to 0.7 percent. Even when Japan retained the title of No. 1 aid donor in the 1990s, Japan's ODA was one of the lowest among major donor countries in terms of GDP ratio. That ratio has consistently been in the 0.2 percent level, less than one-third of the 0.7 percent U.N. goal set decades ago for donor countries. Any change in the makeup of the UNSC would require revisions to the U.N. Charter, a difficult process that can be realized only after getting the green light from a two-thirds majority of about 190 U.N. member countries. It would also have to get by the veto-wielding five permanent members. In fact, the council structure has so far been altered only once, in 1965, when the number of nonpermanent seats was raised from the original six to the current 10. Japan also wants the so-called enemy clauses in the U.N. Charter to be deleted.

Secondly, Japan should begin to gradually divert ODA for China, an increasingly ascendant economic as well as political and military juggernaut, to less developed countries, especially in Africa, where a huge number of people are still desperately struggling to survive poverty, hunger, conflicts and infectious diseases like AIDS. Increased or at least current-level of aid for Africa, where more than 50 countries are represented at the U.N., would give a lift to Japan's bid for permanent UNSC membership. Japan, along with Germany, is the most favored industrialized candidate for permanent membership. But China, one of the five permanent members, has objected to - or at least balked at expressing its support for - Japan's bid. This is apparently because of uneasy and often prickly ties between the two neighbors, which primarily stem from Japan's aggression in mainland China before and during the war, which ended in 1945.

Sino-Japanese relations are now said to be “hot in business but cool in politics.” With two-way trade booming, China has already replaced the U.S. as the largest exporter to Japan. Now it is just a matter of time -- probably several years -- before China supersedes the U.S. as the largest importer of Japanese goods. Japanese investment in China has also been on the increase, especially since the Communist party-ruled country of nearly 1.3 billion people acceded to the World Trade Organization at the end of 2001. But on the political front, bilateral relations remain frosty, with no sign of thaw on the horizon, even after Koizumi met separately with Chinese President Hu Jintao and Premier Wen Jiabao in November. Koizumi met with Hu on the sidelines of the Asia-Pacific Economic Cooperation summit in Santiago, Chile, and later met with Wen during a series of ASEAN-hosted meetings in Vientiane, Laos. Among other irritants in bilateral political ties is Koizumi's repeated visits to Tokyo's Yasukuni Shrine, where 14 World War II Class-A war criminals, including former Prime Minister Hideki Tojo, are enshrined along with the country's 2.5

million war dead. Another is a Chinese gas project in the disputed waters in the East China Sea near the so-called median line, which was drawn by Japan but has not been recognized by China. The line is meant to separate the two countries' exclusive economic zones, or EEZs. The disputed Senkaku Islands, or the Diaoyu Islands in Chinese, are located on the Japanese side of the median. The meetings between Koizumi and China's two top leaders were held only days after a Chinese submarine's incursion into Japan's territorial waters. The Yasukuni imbroglio has led to a suspension of mutual visits by top leaders to each other's capitals since the fall of 2001.

Japanese ODA money began flowing into China in the late 1970s, when the world's most populous country embarked on free-market reforms at the behest of then paramount leader Deng Xiaoping, who died in early 1997. Well over 3 trillion yen in Japanese ODA has since been provided, the huge bulk of which was in the form of yen loans. Yen loans to China had continued to swell until the Foreign Ministry conducted its first sweeping review of China-bound ODA as a whole in fiscal 2001. As a result, yen loans to China have steadily declined, from 214.3 billion yen that fiscal year to 96.6 billion yen in fiscal 2003, which ended in April, 2004. Japan is expected to make a further dent in yen loans to China for the current fiscal year ending on March 31, 2005 although the loan size will not be fixed until shortly before that date. Also in fiscal 2001, Japan began to extend yen loans to China on a single-year basis, instead of on a multiyear basis as it had done previously as exceptionally preferential treatment. At the same time, Tokyo shifted the focus of aid to environmental preservation and the development of the country's poorer rural areas. Previously, the biggest chunk of aid had gone to the development of infrastructure in the more affluent coastal areas. Calls for an end to China-bound ODA have been growing in recent years not only for budgetary reasons but also due to deepening concerns among Japanese that their government's hitherto generous aid might backfire, resulting only in an even greater threat being posed by China to Japan's security and economy. For many years, China has continued to ramp up its military spending at a double-digit pace. It has also stepped up naval and research activities in the waters around Japan.

Japanese business executives feel otherwise. They now realize that the Sino-Japanese relationship presents a win-win situation, with China being an engine of Japanese growth. Indeed, Japan has been heavily reliant on exports to the U.S. and China for growth in recent years. China is already the world's seventh-largest economy in terms of gross domestic product. It is the world's second biggest, next to the U.S., in terms of national economic size calculated on the basis of purchasing power parity, or PPP. In 2003, China became the third country, after the U.S. and Russia, to successfully launch a manned space ship. Backed by robust economic growth, China itself is now donating, and increasing, its own aid, estimated by some to be about 500 million dollars each year, to other developing countries, including Myanmar, a Southeast Asian country under sanctions by the U.S. and Europe for its continued harsh crackdown on prodemocracy forces.

Also, nationalistic sentiment is running high on both sides, with each side's bad feelings against the other growing at the public level, as exemplified by the outburst of anti-Japanese sentiment among Chinese citizens during the Asian Cup soccer tournament in China in the summer of 2004. Many Japanese experts blame the rising tide of such feelings against Japan and its people on an educational campaign launched by the Chinese Communist Party in the mid-1990s to fan patriotism as a means of holding together the vast country. The party had already lost much of its appeal to ordinary Chinese people by that time. As evidenced by Premier Wen's remarks reportedly made during talks with Koizumi in Vientiane, Communist Party leaders in Beijing still seem to regard Japanese ODA as a price Japan agreed to pay for in return for China renouncing its demand for war reparations when the two countries normalized diplomatic ties in 1972. Therefore, they have always reacted bitterly to any Japanese move to link ODA to bilateral tussles.

Koizumi and Foreign Minister Nobutaka Machimura have indicated Japan will stop China-bound ODA in the not-too-distant future, saying China should “graduate from Japanese ODA.” Both have stopped short of giving specific timing for the move. A nonpartisan panel of the Upper House also compiled a report in November calling for a further reduction in ODA as a whole for China while eyeing a complete halt to yen loans sometime in the future. South Korea and Singapore graduated from Japanese ODA in the early 1990s. Former Foreign Minister Masahiko Komura said in a recent lecture that Japan will probably be able to “say congratulations to China on its graduation (from Japanese ODA)” sometime between the Summer Olympics in Beijing in 2008 and the World Exposition in Shanghai in 2010, a view held by some in political and government circles. Japan revised its 1992 ODA Charter, the basic guidelines for its ODA policy, in the summer of 2003 and shifted the focus of aid away from humanitarian projects to those that serve to promote national interests. Any dogmatic interpretation and application of the document would not be wise, of course. A sudden announcement of a complete halt to China-bound ODA must be avoided to prevent bilateral relations from deteriorating to an irreparable point. Diplomatic finesse is needed to better handle difficult foreign-policy issues. But it is now time for Japan to ponder what action will be in its best interest in the long term.

Thirdly, more of Japanese ODA funds bound for the rest of Asia should be used as part of efforts to contribute to the future creation of an East Asian Community, whether it is a European Union-type community or a less institutionalized and looser grouping of member countries. The move toward forming this sort of community gained steam in late November 2004 when top leaders of the so-called ASEAN Plus Three agreed at an annual gathering in Vientiane to launch the first East Asia Summit, in Malaysia in late 2005. The scope of membership and the agenda for the new regional extravaganza were not decided at the time. ASEAN Plus Three is made up of the 10-member Association of Southeast Asian Nations plus Japan, China and South Korea. The focus of increased Japanese cooperation should be placed in at least three areas:

1) Assistance in the form of technical cooperation to help developing Asian countries build capacities needed to free up the flow of trade, investment and services, with a view to establishing a regionwide free-trade area, a main pillar of the community; 2) The setting aside of a certain percentage of ODA money for the utilization in Asia of the so-called Clean Development Mechanism, a scheme allowing industrialized countries to gain "credits" in return for assisting developing countries in curbing greenhouse gas emissions, widely blamed for global warming; 3) Assistance aimed at narrowing the huge wealth gap in East Asia. Countries in the region are not only diverse in political system, culture and religion but also at different levels of development. The continued existence of the rich and poor countries within the region would create a two-tier East Asian Community, making it impossible to achieve the ultimate goal of a truly harmonized, amicable and peaceful regionwide community.

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