

A Proposal for Two-Track ODA^{*}

For East Asia and for the World

What position should Japan adopt in 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 critically review 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 this issue.

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 ideas 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 based on common sense.

Regrettably, Japanese diplomacy in the postwar era has been characterized by the lack of principles that can be projected to the world and the passivity to external stimuli. While a country that selfishly pushes its agenda is a nuisance to the global community, a country like Japan that continues to mull over how to contribute to whatever the problem the world considers important at any moment attracts no respect. However large amounts of money and human resources such a country may provide, it will forever remain a free rider and never a leader in the world system from the intellectual point of view.

Contribution to global issues is certainly important. But at the same time, as the only major industrial country in Asia, Japan has a duty to offer fresh perspectives 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, even in the disbursement of official development assistance (ODA), 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.

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Mounting Japanese Dissatisfaction

The Japanese government is now under pressure to reassess its ODA programs 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. ODA is no longer a sacred expenditure item as the government aims to cut it by 10% in the next year's budget. It is natural and even desirable to rethink how to use the limited amount of ODA more effectively. But that requires not just reviewing the investment returns and environmental friendliness of individual projects. To review ODA fundamentally, we need to question its effectiveness in achieving Japanese diplomatic objectives.

During the last decade, Japan has occupied the status of the largest ODA donor in the world. But this quantitative contribution has not been accompanied by similarly impressive intellectual leadership. The global debate on 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 co-pilot at best.

The policy dialogue between Japan and the World Bank has significantly deepened in recent years. The greater mutual understanding, however, appears not to be narrowing the gap in views but rather to be making the differences even more conspicuous. The development approach taken by Western countries and international organizations features predetermined frameworks, convergence toward a single system, and great attention on macroeconomic and financial issues. Japan, by contrast, starts from concrete experiences, perceives value in diversity, and emphasizes issues of the real economy for the purpose of promoting key industries. It is not easy to fuse two development philosophies when they are based on fundamentally different concerns. Japan's aid administrators are willing to cooperate with and contribute to plans drawn up elsewhere, but they continue to mutter 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 financially supported 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 uniform imposition of liberalization and belt tightening regardless of the history and social character of each country, and it argued repeatedly that in societies lacking experience with the market economy, markets would not come to life simply by destroying old systems and introducing new policies. The World Bank, in its *East Asian Miracle* report (1993) and *World Development Report* (1997), seemed to come closer to the Japanese position on the need to promote industries. But in the end, these small agreements were hardly sufficient to close the huge gap between the development philosophies of the two parties.

At the 1999 Group of Seven summit in Cologne, the major industrialized countries approved a debt forgiveness scheme for a group of heavily indebted poor countries (the enhanced HIPC initiative), 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 official 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 raised such questions, but no other donor countries seriously listened. Now moves are afoot to create common baskets for African development,

with all donors including Japan pooling money for joint use.

The latest aid strategy of the World Bank (the comprehensive development framework and the poverty reduction strategy paper) pushes poverty reduction to center stage and proclaims that all aid programs must directly contribute to it. The Bank additionally preaches as follows: the governments of all developing countries must achieve transparency, accountability, good governance and civil society through institutional reforms. Countries without “good policies” should be given advice, not money. Partnership among the government, the private sector, NGOs, donors, and international organizations must be enhanced in each country to greatly improve aid effectiveness.

Certainly a lofty idea. But is this the best strategy in the light of the realities of developing countries? As I see it, the World Bank strategy lacks the perspective of how to enable industries in latecomer countries to catch up in an age of globalization. If industries do not develop, poverty reduction strategies 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. Here again, the Japanese aid officials are heard murmuring against the World Bank, while contributing money and personnel.

The Asian financial crisis of 1997 greatly accelerated the dissatisfaction in Japan with the existing international approach to aid. As many East Asian economies with which Japan had close trade and investment ties collapsed, the response to the crisis was mapped out by the IMF. Japan’s own proposal that an Asian Monetary Fund be established was quickly brushed aside. As the crisis worsened because of the conditions the IMF laid down for assistance which included high interest rates, fiscal austerity, and hasty bank closures Japanese officials 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” for assisting the crisis countries quickly and with much less conditionalities, the “Chiang Mai Initiative” that permitted central banks in the region to help each other in emergencies, and additional infusions of grants and loans to the affected countries.

How pitiful that the country with the largest financial contribution has to defer to other countries on how that money is to be spent, particularly when the policies of the international organizations guiding this effort seem to lack balance. Continuation of this state of affairs will have an ill effect on the psychology of the Japanese government and people. Surely, there have been many attempts to break away from this trap and produce an aid strategy that Japan can be proud of. After the Asian crisis, such moves further accelerated. As part of these efforts, below I will outline a proposal regarding the fundamental principles of Japan’s ODA program. My suggestion is to reconfigure it on the basis of a twin set of principles: those deriving from Japan’s Asian identity and those arising from its global position.

Reaffirming Japan’s Dual Identity

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 national identity is still torn between Asia and the West and unable to reach maturity. We remain confused about what attitude to take toward both sides as an industrially developed Asian country. Forcing two seemingly incompatible vectors into one without a firm set of guiding principles ends up producing strains, which make us veer to an extreme of either arrogance or servility. Our policies swing toward one side or the other instead of accepting both identities.

In the field of ODA, Japan cannot manifest its true character as long as it is forced to choose

from two passive options—toeing the line of the World Bank’s strategy or complaining about that line. In his famous lecture in 1911, Soseki Natsume, the popular novelist in the Meiji period, warned us: “Western tides dominate our social development. Since we are not Westerners, every time a new wave arrives from the West we feel uneasy like a person living in someone else’s house.” This lamentable situation is a reality in today’s ODA. What have we all been doing in the last century?

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 or trying to settle on just one of the two alternatives. Would it not be far more preferable to affirm this duality as a historical gift and make constructive use of it in our diplomacy? 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 any non-Western country, this is 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 enables Japan to secure areas where its development strategy will be effective, and present a model for developing countries with strong aspirations to catch up under international integration. But even more important, it can help the Japanese themselves regain pride and confidence in the activities they are undertaking.

Contributing to Asian Dynamism

To concretize our dual identity in the ODA program, we would like to begin with the clear recognition of what we are in the world economy. Japan is an industrial country whose forte is in *monozukuri*—literally “making things,” or skilled manufacturing—and 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 one of the tools for sustaining and developing Asian dynamism.

Regional integration has recently been gaining momentum in a number of places around the world. But in East Asia, strong industrial linkages have already been formed among countries at different stages of development. These linkages, mediated by trade and investment, have sustained the “East Asian miracle” over the past few decades. East Asia has become 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 dynamic and multi-tiered configuration of production bases with Japan as the point of origin. East Asia now has a complex intra-regional division of labor and brisk intra-regional trade and investment. There is no other developing region that boasts such a configuration. As East Asia’s economic superpower, Japan bears considerable responsibility for the region’s development. At the same time, the vitality of Japanese industries depends on the trends of the production networks extending across the region. Confronted with this reality, we can clearly see the need for a vision that unites Japanese prosperity with the prosperity of the rest of East Asia.

Some may argue that it is anachronistic for Japan to try to implement an Asia-wide industrial policy at a time when it is moving away from its own past reliance on excessive government intervention. Professor Suehiro Akira of Tokyo University terms this perceived inconsistency “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 complementary policies to support the private sector. Second, it is only natural

that the government plays different roles depending on the stage of economic development and the degree of the market's maturity. Rejection of certain industrial policies today does not necessarily negate their effectiveness in the 1960s, when Japan was catching up rapidly. Third, there is obviously considerable room for regional policy cooperation in East Asia, where a dynamic production network operates among countries at all stages from the rich and advanced to the least developed.

It is self-evident that the East Asian economies must be built on the market mechanism. But this does not mean that markets must always operate in a pure, unhindered form. I suspect that it has now become common sense to accept that unrestrained markets have serious defects in preserving stability, equity, environment and cultural diversity. Forceful introduction of market institutions and Western standards in latecomer countries with little experience with the market mechanism often leads to failure and rejection. In addition, the volatility of the world economy at present calls for joint action against adverse contingencies.

Already in East Asia today many issues are being addressed through bilateral schemes as well as in multilateral groups, such as the Asia-Pacific Economic Cooperation (APEC), the Association of Southeast Asian Nations (ASEAN), and the "ASEAN plus Three" in which China, Japan, and South Korea also participate). These issues include infrastructure, institution building, human resource development, trade and investment policies, and visions for invigorating the regional production network. Steps are also taken to promote technology transfer, academic and student exchange, and South-South cooperation. Responses are required in such areas as environmental destruction, trade friction, financial crises, the gap between rich and poor, the ongoing slump in the information-technology sector, and overcapacity generated by excessive investment.

What is important here is not to select and evaluate individual ODA projects in the light of narrowly defined evaluation criteria but rather to reposition the entire ODA program as a key instrument of Japan's foreign policy, broadly defined. Enhancing Asian dynamism requires coordinated marshaling of various policy measures by all the concerned countries, including trade, investment, social program, immigration, financial policy, exchange rates, macroeconomic policy and other areas. Our advice is to use ODA when and where appropriate along with other measures. For instance, foreign aid is of particular relevance in low-income countries in building industrial infrastructure, supporting small businesses, offering policy advice, and improving human resources. ODA may also be used to protect the environment and to provide relief for the vulnerable in times of crisis.

Since Japan obviously cannot determine East Asia's destiny unilaterally, making Asian dynamism one of the central objectives of our foreign policy means creating and strengthening the channels of constructive dialogue with our East Asian neighbors. This challenge is highly welcome and should be met squarely. Japanese diplomacy in East Asia is currently mired in unproductive battles over the Yasukuni Shrine problem, the textbook problem, and the like. To elevate it to a higher level, it will be a good first step for Japan to propose new visions, which must first be thoroughly discussed domestically, to the rest of East Asia for their consideration and constructive criticism.

Furthermore, Japan can convey regional opinions to the rest of the world. East Asia is truly diverse, but on some topics, such as development strategy and currency crisis response, there can emerge a regional view that differs from the global current. It is naturally part of Japan's job as East Asia's leading country to summarize 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 East Asia not geographically but functionally, based on its

dynamism as a production base for the world. At its core are the countries already linked together in a chain of structural transformation: 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 or willing to participate in the production network in the future, notably Cambodia, Laos, Myanmar, and North Korea. Beyond them lie other developing countries and countries in transition that, while unable to participate directly in this production network because of geographical distance, are nonetheless keenly interested in the East Asian-style development strategy. It behooves Japan to be generous in cooperation with this group as well.

Elements of Asia’s New Vision

At the start of a new century, what should our vision of Asian dynamism be, more specifically? To answer this question, a number of points need to be seriously debated.

The first involves China. Over the past couple of years it has achieved great prominence as an export base for assembly-type manufacturing (though to some extent people’s perception of China as a super factory has 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 also improved considerably. China’s competitive power has been felt in Japan, North America, and Europe, not to speak of the ASEAN countries. But simultaneously, China is still struggling with knotty problems from the past, including state enterprise reform, regional inequalities, environmental destruction, and shortage of water and energy. 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.

The second and related point is the weakening of economic vigor and centripetal force within ASEAN. The ASEAN members are being battered by several problems. In addition to the China shock mentioned above, they face political instability, bad debt, IT slump, the conflict between promoters and gradualists of the ASEAN Free Trade Area (AFTA), and Singapore’s keen interest in enhancing bilateral trade relations with developed countries ahead of regional cooperation. From the Japanese vantage point, the relationship with the ASEAN is primarily economic as they provide Japan’s overseas production bases, but diplomacy with China calls for a broader range of perspectives. China is simultaneously a large recipient of foreign investment, a formidable rival in manufacturing, and a potential political adversary. To cope with China, we need a diplomatic vision encompassing not only business but also national security and shared regional leadership. How does the ASEAN play in this grand scheme? Can Japan restrain China by bolstering the productive capacity of Southeast Asian nations? Or should we instead focus on deepening interdependence between the Chinese and Japanese economies as the superior path to East Asian stability?

Thirdly, on the long-range agenda, we need to debate whether East Asia should aim for EU type integration with a single currency and free trade and investment among members, or whether it would be better to continue along the present course of open regionalism, without further institutionalization or discrimination against countries outside the region. Such considerations may seem rather grandiose, but the point is that if we wish to use ODA to good advantage, we cannot rely only on the internal rate of return or routine evaluation of each individual project. Various policy instruments (including ODA) of Japan’s external policy will be integrated and become mutually consistent only if this sort of all-inclusive vision is established.

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 by internal measures alone, such as deregulation, administrative and fiscal reforms, supporting venture businesses, etc. We must also allow international competition to guide corporate efforts and to weed out inefficient

industries. The mandarins in *Kasumigaseki* and the politicians in *Nagatacho* alone cannot design 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 current government is now pursuing seems too domestically oriented. It is plainly contradictory for the government to introduce safeguards against imports even as it seeks to strengthen the competitiveness of domestic industries. Any vision for Asian dynamism, to be effective, must include a workable principle for resolving the old problem of how to combine foreign competition for industrial dynamism and legitimate temporary protection of domestic industries.

Contributing to Global Issues

Our second principle should be that ODA is to be used as a tool for contributing to the solutions of common issues. This applies to a wide variety of themes with humanitarian and global implications such as poverty reduction, environment, social development, health and nutrition, dispute settlement, refugee and disaster relief, and the preservation of cultural heritages. As an advanced country, Japan bears a natural responsibility to actively contribute to these causes through knowledge, human resources, and finances in cooperation with other donors, institutions, NGOs and the private sector.

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 them. This can lead to an efficient use of ODA as well as reduce the "transaction cost" of aid giving. For instance, compared with Western donors, Japan has a relative abundance of funds and scarcity of human resources, so its aid should continue to reflect this feature. Also, Japan has some superlative environmental technologies, which should be spread 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 contract out some of its aid initiatives to specialized outside agencies and promote 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. Each of the elevated objectives of the World Bank—be it structural adjustment, institutional reform or poverty reduction—is a legitimate development concern, but a dogmatic pursuit of just one of them is hardly a balanced approach. Given Japan's adeptness at maintaining policy continuity, it can make a considerable contribution 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. On the one hand, the main uses to which Japanese ODA has been put in the Asian region include installing infrastructure, promoting small companies, improving human resources, accepting foreign students, and responding to crises. On the other hand, the main axis of Japan's foreign relations will continue to be cooperation with the United States and other industrialized countries, where making contributions to international causes is becoming increasingly crucial.

While in substance my proposal suggests no radical change from past practice, it makes an enormous difference in our psychology and policy impact to positively recognize and affirm this duality. We should 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. When that is achieved, we can—and should—direct most of our attention to perfecting the way the two apparently inconsistent principles are blended, according to each individual circumstance.

In the recent debate over ODA, some people are in favor of basing Japanese aid entirely on the second principle (global contribution) only. But an attempt to swallow foreign values whole generates dissatisfaction in any country, because the ethnic temperament engrained in the base society is not very easy to replace. 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. The unique characteristics embodied in Japanese ODA will be lost if such aid is detached from the tradition of skilled manufacturing we cherish so much.

The aid officials want to provide 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 with a Japanese touch, the recipients will come to appreciate our efforts, and some among them will even call for development strategies drawing on the strengths of the Japanese approach. The way to transform our country's aid into something truly Japanese and not anyone else's lies in adding such depth and appeal to the content of what we provide. Surely, we have our unique development views and partly act on them, but we never clearly articulated them for outsiders. My humble suggestion is that it is time we spoke out.

Since the Japanese have so thoroughly accepted Western rational thinking ever since the Meiji Restoration, they have become intolerant with irrationality and reject things that cannot be analyzed cleanly by a single principle. But no matter what we think, there are always fundamental irrationalities in life. Trying to square them into a simple dualistic framework deprives humans of the ability to think deeply. Science and technology apart, thoughts and philosophies are not expected to progress linearly. While the superpower of the present world may pretend that the world can be divided into good and evil and rally everyone to fight for the good cause, such dualistic ideology is very remote from the traditional Japanese thinking. Can we not even say that intolerance of this kind is the last thing we need for the twenty-first century, in which a multitude of ethnic groups, each shining with its uniqueness, are supposed to live side by side, linked by information technology? What the world needs is not a final battle between grand visions, but the patience to forever live with the friction and tension generated by the coexistence of diverse life principles. Even better if we can relax and enjoy this lively action in play. The idea that affirms such an attitude and counterbalance the predominant dualistic thinking must come from the East.