

# Reconsidering Official Development Assistance (ODA) in Light of the Koizumi Structural Reforms

By Keiichi Yonezawa  
Social Development Research Group

## 1. Introduction

Ever since the Koizumi Cabinet assumed power in April, the mass media has fixated on the call for sweeping reforms “without fear or favor.” Supposedly, critical reforms postponed or shelved since the early 1990s are to be carried out in what some have described as “Japan's second postwar reconstruction period.” More specifically, it refers to thoroughgoing institutional and organizational reforms to quickly dispose of the mountain of bad loans as well as to rein in the issuance of deficit financing bonds, while holding accountable the parties in both private and public sectors responsible for contributing to or impeding the resolution of these problems. This reform agenda has proved to be exceptionally popular, which explains Mr. Koizumi’s unprecedented approval rating of over 80 percent since assuming office. Meanwhile, his political enemies (most of whom seem to be fellow LDP members) realize they have nothing to gain from a direct confrontation.

However, the reform agenda will inevitably encounter problems once specific measures are addressed. Previous premiers have skirted around the bad loan problem in vaguely worded policy speeches, vowing to stake their political career on the issue but becoming evasive when pressed for a specific solution. As a result, even the tallying method for bad loans held by financial institutions has yet to be standardized, while disclosure by companies and the bureaucracy is completely inadequate in both quality and scope. The mass media has angrily denounced corrupt politicians, businessmen, and bureaucrats, saying that the public should take the matter into their own hands.

Understandably frustrated by this state of affairs, the general public has decided to back Mr. Koizumi’s sweeping reforms, and now waits in anticipation for Mr. Koizumi to deliver on his promises.

The reader may wonder how this description of recent political developments is relevant to official development assistance (ODA), the topic of this paper. Quite simply, it is because ODA is essentially a product of both political and policy-related considerations. With tax revenue flagging in the prolonged recession, and sustained public works spending yielding few results, spending priorities must be reviewed based on cost effectiveness. Ever since the collapse of the bubble economy, ODA appropriations have repeatedly been eyed as a target for cutting, including the 30 percent cut advocated prior to

the recent election for party president by Mr. Shizuka Kamei, former chairman of the LDP's Policy Research Committee.

However, questions arise as to whether ODA is actually cost ineffective, and what the desirable appropriation level should be. If ODA turns out to be producing results that meet or exceed expectations, spending cuts would be unwarranted. Below we discuss what value ODA has for Japan, and how to properly assess its value.

## **2. ODA and Its Usefulness**

In late September 2000, when President Kim Dae Jung of South Korea visited Japan, he was reported to have heard a right-wing militant truck addressing passersby in the Shibuya district of Tokyo as follows: With the economy struggling with bad loans and other problems, why was Japan giving away valuable taxpayers' money to developing countries? The speaker was apparently referring to the "parting gift" that leaders of developing countries routinely take home from Japan (while South Korea is an industrialized economy and respectable member of the OECD, its economy had struggled since the financial crisis of 1997).

Although nobody was stopping to listen, the militant speaker was attacking the Achilles heel of ODA. With its own economy clearly in trouble, Japan does not have the resources to help out others. ODA needs a convincing justification.

Simply put, that justification is that Japan cannot survive alone in the world. Japan is a resource-poor country that depends on exports; having no significant resources other than its population and technology, it must import food, energy, and other natural resources from abroad, and export processed goods. The idea of controlling the massive trade surplus through bilateral negotiations with the U.S. and other countries — a trade surplus earned by hard work and expertise — is based on a mutual understanding that Japan needs foreign markets as much as foreign markets need Japanese products.

Yet the major U.S. and European markets and Mideast oil producers are not Japan's only concern. The global market also includes market players who function as wholesalers and contractors. In addition, even if the industrialized economies had sufficient purchasing power to absorb all of Japan's exports, an economic crisis in some other area would most certainly impact the global economy sooner or later. For example, consider the possibility that China experiences drought conditions similar to North Korea. With a population of over one billion, even a minor famine could trigger a flood of refugees across the China Sea to Japan. As this shows, it is in Japan's own interest to ensure the health of markets globally to the extent possible. ODA is one way to pursue this objective.

Of course, in addition to Japan's economic gain, the rationale for ODA also involves humanitarian objectives. The Foreign Ministry has presented the following arguments in support of ODA (*Japan's Official Development Assistance Annual Report 1999*).

- In many developing countries, a large number of people are suffering from poverty and hunger, and the international community cannot idly stand by on humanitarian grounds.
- The environment, population, and food supply are global concerns shared by all humanity, and should be dealt with by both industrialized and developing countries. As an industrialized nation, Japan needs to do its share and play a leading role.
- Assistance to developing countries and efforts to resolve global issues will strengthen Japan's ties particularly with developing nations, enhance Japan's standing in the international community, and promote understanding, support and cooperation for Japan's stance both domestically and internationally. Moreover, these efforts are highly significant for Japan's own security and prosperity, and will further Japan's best interests including the maintenance of peace.
- Amid the deepening mutual dependence in the global economy through trade and investment, Japan is especially dependent on developing countries for resources, energy and food. Extending economic cooperation to these countries to promote economic development is thus economically beneficial to Japan.

The government thus argues for the necessity of ODA on humanitarian grounds, Japan's responsibility as an industrialized nation, and national interest. While somewhat pedantic, the above articulation of ODA policy represents a departure from the government's usually aloof stance, and shows that the government is beefing up its public relations activities to generate public support.

Although listing humanitarianism first may have been a smart public relations move, it also places inordinate emphasis on humanitarianism as the primary justification for ODA. Unfortunately, this emphasis tends to generate misconceptions and cause problems for ODA policy. Below we examine these problems in more detail.

### **3. Issues and Challenges for Japan's ODA**

#### **(1) Enhancing Public Understanding and Support**

The opinion that the ODA budget is not sacrosanct has been voiced often by the media in the past few years. Recently, these comments have intensified: "The Koizumi Cabinet has assistance that nothing

is immune from reform, and is calling for a review of the ODA budget,” (attributed to Seiken Sugiura, senior vice foreign minister, in the *Mainichi Shimbun*, May 23, 2001); “The view is growing that ODA is not sacrosanct,” (same, May 31); “The Koizumi Cabinet’s sweeping reforms start to take aim at ODA,” (*Asahi Shimbun*, May 21). Stated differently, these comments indicate that the ODA budget has been regarded as sacred thus far. The reason is not that ODA is considered important, so much as that it can elicit the public’s consent as the fulfillment of some moral duty. Thus the public is oblivious to the specifics of ODA, but still vaguely consents to what are seen as benevolent donations to countries in need.

This type of vague consent, characteristic of Japanese culture, occurs frequently in other areas as well. The problem is that having no clear understanding, the public is uncritically consenting to the government’s decision whether to carry out or postpone a major issue such as ODA.

As mentioned earlier, ODA is not simply an act of charity. It is a form of public works investment on an international scale, and as long as it is being funded by Japan’s taxpayers, the cost effectiveness of the investments need to be scrupulously monitored.

As shown in Figure 1, ODA is one of several forms of development assistance (or economic cooperation, to use the government’s words) extended to developing countries. For example, contributions by non-governmental organizations (NGOs) and individuals can be donations for purely humanitarian reasons, or even for personal gratification. However, an ODA budget in excess of one trillion yen (even if it is below 0.3 percent of GNP, and the lowest GNP ratio of any industrialized country)<sup>1</sup> must not be spent frivolously. We are not saying here that ODA cannot be used for humanitarian purposes. As mentioned earlier, humanitarian objectives are one of the main motives for implementing ODA. Moreover, many professionals engaged in international development assistance argue that ODA is a noblesse oblige — that people born in wealthy industrialized nations have a moral obligation to lend a hand to those born in less fortunate circumstances — and object vehemently to the notion of assistance as denigrating the recipient. However, this does not justify a social psychology that thoughtlessly consents to any type of ODA. It is still necessary to carefully evaluate whether the overall ODA budget, as well as individual assistance projects, are efficiently managed and fulfill their purpose. To make this evaluation, it is necessary to promote an accurate understanding of ODA among the general public, and to diligently supply information to this end.

**Figure 1 Classification of Development Assistance (Economic Cooperation)**

Type of economic cooperation	Example		
Official development aid (ODA)	Bilateral grant	→	Technical cooperation
	ODA loan		
	Aid through intl. organization		
Other official flows (OOF)	Export credit		Acceptance of trainees Dispatching of experts Youth volunteers Technical projects Development studies Supply of materials International emergency aid
	Direct investment financing		
	Loan to intl. organization		
Private flows (PF)	Bank loan		Grant aid
	Private export credit		
	Direct investment		
NGO, individual contributions	Bond & stock purchase		Cultural, fisheries, food, increased food production

Sources: Ministry of Economy, Trade and Industry, *Present Status and Problems of Economic Cooperation (Fiscal 2000)*; Economic Cooperation Bureau, Ministry of Foreign Affairs, *Japan's Official Development Assistance Annual Report 1999*.

At present, the public's understanding of ODA is not very good. ODA is seldom discussed, and when it is, serious misperceptions tend to emerge. For example, on a weekly televised sports program, sports commentators were debating whether criticism of Japan in the U.S. was justified — that Japanese fans misused the five million Major League Baseball All-Star ballots allocated to Japan because they voted heavily for the Seattle Mariners. One sports writer objected to the criticism by drawing an analogy with ODA: that a country extending ODA to a developing country has no right dictating how it should be used. This is a misunderstanding of ODA.

The type of ODA alluded to here is a bilateral grant (Figure 1). However, under no circumstances would such a grant, funded by tax revenue, be left to the recipient's discretion without any restrictions. While safeguards are not absolute,<sup>2</sup> strict inspections are made on the intended use of the grant, ability to carry out the intended use, and most importantly, whether the grant could be used for military objectives. Inspections and evaluations are also carried out for government-to-government loans (yen loans) and grants to international organizations (even such public institutions that contribute to the international good are not blindly trusted).

The fact that the sports writer — a person regarded as an intelligent, articulate, and knowledgeable — was misinformed about ODA suggests that the general public is probably even less informed. The Foreign Ministry and all other organizations involved in ODA have a grave responsibility to disseminate accurate information and better inform the public.

## (2) Increasing Human Resource Contributions

Despite Japan's contribution of 13.5 billion dollars to the Gulf War effort, what is most remembered

about Japan's role is the international criticism for contributing money but not people. The same can be said of Japan's ODA activity; although Japan became the world's largest aid donor in 1991 when it surpassed the one trillion yen mark, it remains under-represented in the number of on-site personnel dispatched by the government, NGOs, and international organizations. Ever since then, Japan has been looking for ways to contribute more human resources in various PKO related bills and studying the possibility of introducing peace-building support into ODA projects.

However, to contribute adequate human resources in the future, several limitations need to be cleared, particularly: (1) the high labor cost structure in Japan, and (2) Japanese attitudes toward international development assistance.

The high labor cost structure is caused, among other things, by the high education level, and by a steeply progressive tax system and extensive income redistribution system that are unusual for an industrialized country. Indeed, high labor costs largely explain why Japan ranks first in ODA spending — and surprisingly, second in defense spending.<sup>3</sup>

The Finance Ministry has been reforming the tax system with a growing emphasis on indirect taxation, which has served to de-emphasize the egalitarian redistribution of income. However, the ministry's policy is motivated by the limited prospects for tax revenue growth from direct taxation, not the desire to alter the nation's structure of wealth. Policy alternatives to reduce human resource costs are limited; for example, the present government is unlikely to even consider the idea of creating a relatively low income class, and adopting an industrial policy to take advantage of low wages. (As structural reforms are carried out in the future, it is possible that high unemployment levels will lead to a deflationary spiral, causing labor costs to decline. But this scenario is loathsome to the government and general public.)

Japanese attitudes on contributing to the international community cannot be changed overnight, since they involve deeply rooted cultural and historical sensitivities regarding the possible loss of human life. In Canada, where private persons participate actively in emergency and reconstruction assistance in conflict-ridden areas, the death of a volunteer does not receive much media coverage, nor spark a heated debate on whether volunteering should be allowed. More likely, all that would happen is a short story in the local newspaper. Obviously, this is not because Canadians are cold and emotionless; rather, they understand that volunteer work can be life endangering, that Canada has responsibilities in the international community, and that while helping people in distress is a worthwhile cause, it sometimes involves sacrifice.

In 1999, two Japanese members of the U.N. peacekeeping force monitoring Cambodia's first general election were killed in the line of duty. While public opinion was enraged by the loss of Japanese lives abroad, a mid-level official privately commented that for the Japanese government, the deaths, while

regrettable, were a calculated risk. Today, having seen many cases in which people sacrificed their own lives for a cause they believed in, the public appears more ready to accept that certain risks and sacrifices are inevitable when a country is exerting influence in the international political arena. Of course, not everyone necessarily accepts this view, and self-sacrifice must be done of the person's own free will (moreover, setting up a compensation system is vital). Even in Canada, some people believe that an individual's life outweighs the national interest, and that volunteers should be kept out of hostile areas. However, if Japan intends to assume a larger role in the international community, it must first gain international respect through its actions. This level of commitment, which requires that the public be willing to accept the necessary risks and sacrifices, can be achieved only through a serious, ongoing debate at the national level.

#### **4. Conclusion**

As a form of diplomacy, ODA is a powerful means of pursuing the national interest. Most of the nation's foreign policy establishment regards ODA as a pillar of foreign policy in view of the fact that Japan has no military. To enhance the role of ODA, it is imperative that the public become more informed about ODA, and that progress is made in defining overall concepts and policies on international assistance, as well as delineating specific measures on the system for dispatching personnel. Not only is this an essential condition for securing the national interest, but also for having the public play a role in shaping the nation's future and improving the quality of life. Quality of life is not attained simply by economic gain; it involves participation in society and politics both domestically as well as internationally. In the postwar period, Japan has focused too heavily on economic prosperity, with far less emphasis on participation in society and politics.

This tendency appears in Japan's international development assistance as well. For example, the Japanese government refers to development assistance as "economic cooperation," and the Foreign Ministry office in charge of ODA is called the Economic Cooperation Bureau. Under a longstanding policy, development assistance is limited to economic areas, and the government strictly refrains from officially endorsing any form of political implication. By contrast, in the U.S. and U.K., the concepts of political development and social development are also well established, and can sometimes take center stage in development assistance. The U.S. avidly practices human rights diplomacy, frequently making political demands that could be construed as interference in domestic affairs. This is not simply because of an urge to flex its diplomatic muscle, but is based on a strongly progressive view of history — that political ideas and systems can be developed, and that the ideal political form is a liberal democracy.

Recently, Japan has also adopted the concept of social development, and a large number of development assistance plans have been drawn up and implemented in this area. Still, the development assis-

tance office downplays this aspect and stubbornly retains the name of the Economic Cooperation Bureau.

The end of the Cold War marked a turning point in international development assistance because the East and West no longer needed to use assistance to lure developing countries into their respective camps. As exemplified by the U.S., assistance budgets were decreased due to domestic political pressure, causing total ODA spending to decline. Cost-effectiveness became the new slogan of foreign assistance. Against the backdrop of fiscal budget tightening, development assistance was scaled down even more quickly than military spending, which continued to enjoy strong support from powerful lobbies.

Though the world's largest assistance donor since 1991, Japan cannot maintain the same level of assistance spending as in the past due to the prolonged economic recession. It is not yet clear how much Japan should allocate to ODA spending in the future. But at the very least, we should encourage a broad-based public debate on the appropriate size of the ODA budget — a size that will serve Japan's national interest while recognizing fiscal realities. The ODA budget is different from the bad loan problem and deficit financing bonds. Thus Finance Minister Masajuro Shiokawa's explanation of ODA spending cuts is based on perverse logic: that while this fiscal year's ODA budget in the general account decreased by 3 percent to 1.152 trillion yen, it still exceeds one trillion yen (*Mainichi Shimbun*, May 31, 2001). Any revision of the ODA budget should be made after carefully weighing priorities with other spending items such as public works investment.

Toward this end, it is essential to encourage the public to participate in the policy making process and monitoring, and to enhance disclosure of relevant information.

There are important structural problems of ODA other than those discussed in this paper. For example, the evaluation of ODA is currently conducted by the Economic Cooperation Bureau of the Foreign Ministry — the same entity that drafts and implements aid policies. Clearly, a strong argument could be made for objective evaluation by a third party. However, this and other issues will be discussed at another time.

## Notes

1. With regard to ODA spending as a ratio of GNP, in fiscal 1998 Japan ranked no. 12 among 21 members of the OECD-DAC (Development Assistance Committee).
2. Insufficient budgeting and staffing has assumed crisis proportions. This should be treated as a separate problem.
3. The International Institute for Strategic Studies, *The Military Balance 2000/2001*.