

# **JAPAN'S FOREIGN AID TO CHINA CONUNDRUM**

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## **INTRODUCTION**

The Official Development Assistance (ODA) programme has been a relatively overlooked area of concern for the Japanese Ministry of Foreign Affairs (MOFA). Today, in light of Japan's decade long period of economic stagnation and recession, the ODA programmes are under review. This is especially true for the ODA programmes to China.

Having been the world's top ODA donor since 1991, Japan is currently considering cutting back on its ODA budget. The reason is primarily due to Japan's decade long economic

recession. Koizumi Junichiro, Japan's Prime Minister, announced that there will be a 10 percent cut in the ODA budget for fiscal year 2002. This reduction is causing many countries to fight for their share of the funds. In response to this, a United Nations official has cautioned Japan that the budget cut will cause further economic damage to the region (Japan Times 24/8/01).

ODA Aid to China is being debated by many in Japan. Many Japanese believe that the amount of aid given to China is too high since China is thriving economically. It has achieved the status of the 'world's fastest

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growing economy' and the World Bank has forecasted that China will surpass the United States as the world's largest economy by the year 2020. Many Japanese have expressed concern over China's nuclear testing and its ever growing military. However, Japan also believes that it cannot afford to risk damaging its fragile relationship with China because they need China for economic and political reasons.

In this paper, reasons for cutting the ODA budget for China will be discussed. Despite the soundness of the reasons proffered by the Japanese for cutting the budget, this paper argues that Japan should not reduce its ODA to China. The political fall out may be too onerous and limit a long-standing cornerstone policy of maintaining a good and mutually beneficial relationship with China. Its aid programme, however, should shift more towards achieving humanitarian goals aimed at trying to expedite social development in China's poorer provinces.

## **BACKGROUND**

Japan's ODA programme is one of the most important features of Japanese foreign policy. The ODA provides the political leverage needed in carrying out its bilateral relationships. According to Zhao Quansheng, this is basically due to the fact that Japan's constitution restricts its military involvement on the world scene, thus leaving Japan with

few options by which to exert international influence. Through the use of international aid, Japan can portray itself as a responsible great power. The use of ODA is the primary economic tool used in carrying out its political agenda in the international security arena (Zhao 1996: 160). Also, according to Dennis Yasutomo, economic aid serves the main purpose of redeeming Japan from its wartime transgressions by contributing positively to the international community. Yasutomo summarises that "ODA [is] Japan's first genuine step toward accepting the kind of international responsibilities required of greatness." (Yasutomo 1995: 4)

Japan first began giving aid as a prerequisite for its being allowed to rejoin the international community after its defeat in World War II. The signing of the San Francisco peace treaty of 1951 demanded that Japan pay war reparations to 12 countries in east Asia and to compensate for damage inflicted on them (Fukushima 2000: 154-5). Aid to communist China began after Ohira Masayoshi, Japan's Prime Minister, visited China in 1979 and declared that Japan would cooperate with China on its modernisation efforts (Soderburg 1996: 214). With this political move, Japan became the first non-communist aid donor to China (Kawai and Takagi 2001: 15).

China quickly became the top recipient of Japanese aid. According to the Japanese MOFA's ODA annual

report of 1999, China remained one of the top two major aid recipient countries throughout the period of 1996 – 1998, with a net amount of bilateral ODA of approximately \$1.2 billion in 1998. The reasons for Japan's large contribution to China, according to Alan Rix, are many. They include: compensation for wartime damages, the lure of the huge Chinese market, Japanese intentions to provide aid, especially for constructions of infrastructure, and the wish to build and retain a friendly relationship with China in order to attempt to stabilise the fragile and unstable east Asian bloc (Rix 1993: 138-9).

While both sides undeniably benefit from aid, perceptions differ as to who gains the most. These differing perceptions sometimes lead to conflicts. To the outsider, it appears that Japan benefits as much as China from its ODA. Japanese aid programmes require “the compulsory use of Japanese companies in feasibility studies, the tying of aid commitments to use of Japanese firms as project contractors, and the sourcing of equipment imports from Japanese suppliers” (Austin and Harris 2001: 155-5). These strings attached to ODA have led to criticisms that indicate that Japanese ODA is economically self-serving. Nevertheless, benefits to China cannot be ignored. Perhaps, the most important fact is that Japanese aid to China has helped build international confidence in Chinese modernisation policies. This has paved the way for

other countries and multilateral institutions to start foreign aid programmes that led to the triggering of the explosion in economic growth and development of China (Fukushima 2000: 182-3).

Despite the obvious advantages associated with Japanese ODA, problems and criticisms still remain. Both sides seem wary of each other's motives and intentions. The enduring perception among Chinese leaders is that Japan ‘owes’ aid to China. To China, Japan must ‘repay’ for its wartime aggression. In addition, they believe that Japan, being a wealthy and developed country, is obligated to provide assistance to developing nations (Fukushima 2000: 175-6).

## Aid Debate

Recent developments within both China and Japan have led many scholars to reconsider ODA issues. Japan continues to suffer from its prolonged recession with an annual GDP growth rate hovering around 1.9 percent in year 2000 (World Bank 2001). In 2001 economic output declined by .5% and prices fell at a 1.4% rate (sources: Cabinet Office: Bank of Japan, Financial Services Agency – Ministry of Finance). Consequently, many Japanese leaders are beginning to rethink the ways ODA is allocated to China. The key question they face is whether the amount of ODA going to China is too large and, if

so, whether it should be reduced.

Although Japan has been China's top aid donor for years, Japan has demonstrated that it is willing to suspend aid to China should necessity call for so doing. After the Tiananmen Square incident, in response to international pressure, Japan reluctantly suspended aid. That said, Japan was also the first country to resume its aid and normalise relations with China. In the eyes of the Japanese, a more serious reason for aid suspension was China's nuclear testing. This action by China was in direct conflict with the Japanese ODA charter. One of its four principles states that "full attention should be paid to trends in recipient countries' military expenditures, their development and production of mass destruction weapons and missiles, their export and import of arms, etc., so as to maintain and strengthen international peace and stability" (Ministry of Foreign Affairs 2001). This concern is understandable since Japan has experienced the effects of nuclear weapons, is a non-nuclear state, and is situated in an unstable region.

From the Japanese perspective, it is unacceptable to provide assistance to a developing country that is rapidly increasing its spending on a military build-up and developing weapons of mass destruction. This is especially significant given China's geographical proximity to Japan (Fukushima 2000: 195). Fukushima Akiko claimed, "many felt that by providing ODA to China

while it continued its military programs, Japan was actually subsidising Chinese military posture" (Fukushima 2000: 192).

According to an editorial in the *Asahi Shimbun*, another reason why some believe that Japan should reduce its aid to China is that China's economy has already achieved "more developed country" status. Because of this newly acquired status, the International Development Association and the Asian Development Bank have de-listed China as a recipient for their special super-low interest rate loans (*Asahi Shimbun* 29/10/01). In other words, China should now start to become more self-reliant and use its own resources for its own development. Moreover, the MOFA claimed that China itself has allocated \$450 million in the year 2000 in economic assistance to 58 countries (*Asahi Shimbun* 29/10/01).

The underlying principle of ODA is what Japan uses to refute the criticism that Japanese aid is too self-serving, since most Japanese aid is given in the form of loans requiring recipients to repay. This principle is based on the assumption that a government would feel compelled to invest the loan wisely if it knows that it will have to pay the money back at a later time. The loan system allows recipients to invest the money provided, rather than relying on handouts (Austin and Harris 2001: 162). China, with its history of autarky, maintains a strong desire for self-reliance (Austin and

Harris 2001:160). If true, then perhaps one might reasonably argue that Japanese ODA has, in a way, helped China to become more self-reliant; hence, China should start using money from its own domestic savings and relying less on Japanese ODA.

### **Reduce aid to China?**

Few would suggest drastic cuts in the amount of aid given to China. Saori Katada, professor of International Relations at University of Southern California, is quoted as having said that aid is "one of very few political levers Japan has over its powerful and difficult neighbour" (Cohen, et al. 2001). ODA has become, and will remain, the one core element of Sino-Japanese relations (Zhao 1996: 176).

This writer argues that aid to China should not be reduced. To begin, even though many Japanese may believe that Japan has paid its dues to those who suffered under their hands during World War II and that China has become more self-reliant, the fact remains that about 50 million people in China's western interior provinces still live in poverty (Kreft 2001). Thus, China will still need to rely on ODA from Japan.

Furthermore, some scholars believe that although China is becoming more capable of relying on domestic savings for development, there are doubts about China's propensity to save and its

domestic savings may decline in the future (Fukushima 2000: 167-8). As the propensity to save declines, there is less money for investment, hence more need for financial assistance from elsewhere. As a result, if the propensity to save declines, Japanese aid will continue to remain important, if not essential, to maintain infrastructure investment levels (Fukushima 2000: 167-8). Simply put, as of now China cannot afford to be completely self-reliant.

In addition, Japan needs to give priority to political and strategic considerations. In this case, maintaining a long-term friendly relationship with China should take precedence over short-term economic or budget concerns. Japan has, on many occasions, previously shown that it places more importance on long-term political and strategic concerns. As an example, it chose sides with the West by suspending aid after the Tiananmen massacre (Austin and Harris 2001: 156). That said, Japan was swift in re-instituting aid to China thus making it clear that it realised that ODA is a much better political tool than sanctions in promoting human rights and democratisation (Yasutomo 1995: 12). Moreover, this relatively quick re-instituting of aid to China may, in fact, indicate that Japan sees its long-term strategic well being as more closely tied to China than to the West.

Japan should make an effort to see things from China's perspectives.

Although China's military expenditures may be rising, it still is relatively low compared to other major powers' military spending. According to Christopher Hellman, senior analyst at the Centre for Defence Information, China announced an ambitious plan to raise military spending by roughly 18 percent to approximately \$17 billion in March, 2001. He further said that, it is widely accepted that China's official defense budget significantly underestimates actual military spending -- some analysts estimate by 60 percent or more -- and that actual military spending is roughly \$45 billion. In this context, the announced eighteen percent increase is actually a six percent increase. (Hellman 2001)

As for the fact that China contributes aid money to other countries, it should be understood that this is merely an effort by China to restore its international image as a great power and from the humiliation it suffered during its 'century of shame'.

According to Fukushima Akiko, one of the political goals for Japan's ODA programme to China is "to support China's policy of opening up and reform launched in 1978" (Fukushima 2000: 184). This goal should be the main reason why Japan should continue and sustain its aid to China. Considering China's entry into the WTO, its high annual growth rates averaging 9.7 percent between 1979 and 1999, and speculation that China will become the world's greatest

economic power by 2020 (Kreft 2001), it will be to Japan's advantage to strive to be on good terms with China.

### **Shift not Reduce**

Instead of reducing aid to China, Japan should shift its aid programme to one with a more humanitarian aim and approach. Four areas recommended by a government advisory body according to Kawai and Takagi, in which Japan's ODA to China should emphasise are: "environmental protection; economic and social development in the western provinces including poverty reduction, education and health; human resources development and capacity building; and promotion of mutual understanding" (Kawai and Takagi 2001: 16). Times and conditions have changed and Japan needs to change with the times and circumstances. As indicated in Japan's fourth loan package to China, the loan did shift from infrastructure to environmental projects (Fukushima 2000: 177). This move is in line with the MOFA's first listed priority areas of ODA to China -- the environment (MOFA).

George Soros gives \$500 million a year in aid. It is aimed at social issues mainly in the areas of legal change, health care and education. Mr. Soros noted 5 problems associated with traditional foreign aid. Some of these problems include: "Programs are often imported rather than home-grown. Recipients rarely have 'ownership of

development projects”; “Lack of co-ordination between donors makes it easier for governments to divert aid”, and “Aid is administered by bureaucrats with little incentive to take the risks required for successful projects.” (Wall Street Journal, March 14, 2002)

It is the author's belief that the George Soros' approach or a more humanitarian approach in giving and administering ODA can be used and hopefully will prove to be more beneficial. Through continued aid Japan will continue to be able to maintain its close ties with China and thus help to maintain regional stability. The Japanese accusation that China does not make public the actual amount of ODA given for China's development and humanitarian aid will be lessened since Japan will become more involved at the local level with more face-to-face contacts. People will be able to see for themselves. Furthermore, Japan will still be able to retain its status in the international community as a responsible great power. In the end, by helping to improve social conditions and the quality of life of the people in the poorer provinces of China, the overall economy will improve.

A more personal aid programme that results in meaningful improvement in the lives of the average Chinese citizen cannot help but foster improved citizen-to-citizen, and hence, nation-to-nation relationships that should promote the prosperity of both and the continuing of important bilateral

relationships. A potential problem is associated with the fact that according to Soros “Most foreign aid is intergovernmental, allowing recipient governments to divert funds for their own purposes.” (WSJ op cit) A more personal hands-on ODA programme would make diverting money most difficult therefore the Japanese may need to give some outright monetary grants without requiring total repayment of loans given for various programmes.

## CONCLUSION

Japan's ODA programme currently finds itself in the midst of a national debate as the Japanese government announced its plan to slash ODA budget by 10 percent for the 2002 fiscal year. Aid to China is a more sensitive issue with scholars arguing both for and against the cuts. This paper has discussed the reasons for making cuts and has attempted to refute those reasons. Japan should not reduce its aid to China because over the long run, Japan will need China as much as, if not more than, China will need Japan. However, instead of giving loans for industrial infrastructure investments, this paper suggests that Japan should shift its emphasis and become more involved in aid for humanitarian purposes and social infrastructure development. This may require some outright grants that do not require repayment. Through this realignment of aid emphasis, Japan should be able to

maintain and hopefully increase its close ties with China. The long-term benefit from this sort of an ODA approach will be an advanced economy for both China and Japan. Aid programmes that bring people-to-people interchanges and contacts are one of the best ways to foster and insure mutual trust and understanding. These trust relationships and understandings can lead to meaningful long range nation-to-nation international and economic ties that can stand the test of time.

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