

Video Transcript for “Japan’s Foreign Aid Policy”

Online at <https://spice.fsi.stanford.edu/multimedia/japans-foreign-aid-policy>

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When we think about foreign aid, we usually think about the humanitarian motive and this has to do with helping people or countries that are least advantaged. It’s very similar to the motive for individual charity and the welfare state, and so when countries talk about foreign aid, this is generally the way they talk about why they engage in foreign aid.

And if you look at the distribution of foreign aid cross-nationally, countries that have large welfare states—Nordic countries for example—also tend to be the largest foreign aid donors and so there is some support for the idea that the humanitarian motive matters a lot in foreign aid but as political scientists we also think of several other motivations for foreign aid giving and so one important one is the geopolitical motive. And this is using foreign aid essentially to shore up allies against adversaries in the international system. So you can point to things like US Cold War aid, the Marshall Plan that gave large amounts of aid to Western Europe, there was also quite a bit of aid given to Japan, and more recently U.S. military aid given to Israel and Egypt, which take the form of foreign aid but are essentially also helpful for the geopolitical motivations of the United States.

There is also an economic motive that countries care about when they think about foreign aid policy, so foreign aid can also benefit a country’s own economic interests. One example of this is tied aid, where a country would create aid projects like schools or dams but they would require the construction be done by their own country’s firms and workers and so this benefits the country where the aid is given but also benefits the economic interests of the donor state.

But more broadly speaking, if you facilitate economic development in another country, that can expand your export markets, it might reduce regional instability, if you’re worried about many migrants or refugees, if you can develop the country that is causing those outflows you might be able to benefit your own country economically—and in that case, both countries really benefit.

And lastly, there’s also a potential diplomatic motive and this has to do with what we call quid pro quo aid and this is basically giving a country foreign aid in return for some other diplomatic objectives. So, for example, one typically cited version of this is vote

buying in the United Nations. If a country wants support in the United Nations Security Council, for example, they might promise generous foreign aid in return.

This is a graph of foreign aid from 1993 to 2012, and what we see is that Japan for many years was the top international aid donor. And this is remarkable, because Japan has never been the largest economy in the world. For the entirety of this period the United States was the largest economy, but Japan was in fact the largest donor of foreign aid right up until 2001. And since then, because of the War on Terror, the United States has dramatically increased its foreign aid, but Japan has very consistently ranked as one of the top aid donors internationally.

Japanese foreign aid, which is called official development assistance (ODA), is a major component of Japanese foreign economic policy. In fact Japan, is currently the number two international donor on a gross basis, number five on a net basis. The net basis number basically takes out repayments of things like concessional loans, so if a country pays back loans that were given to it as part of a foreign aid package, that would be subtracted on a net calculation.

If we look at Japan's history in the immediate time period after World War II, Japan was in fact an aid recipient because its country and economy had been devastated by the war but Japan during this period also paid out quite a bit of money in the form of war reparations. Since the 1970s, there has been a sharp increase in Japanese ODA, and by 1989 Japan had become the top donor internationally and this reflected Japan's rapid economic growth and its ability to provide foreign aid.

Since roughly 1997, so the mid-1990s, Japan has seen a decline in its ODA budget. This was driven really by economic stagnation, which in turn contributed to a rise in government debt so there's been a lot of pressure on Japan's ability to provide foreign aid to other countries. So now Japan's aid budget has declined about roughly half of its peak level.

This is a table of the top recipients of Japanese ODA by decade, so we see that throughout this time period, Japan has really focused on countries in East, Southeast and South Asia so countries like the Philippines, Indonesia, China, Vietnam and so forth. There has been some change in the top recipients over time. Some of this reflects countries "graduating" from aid, so South Korea is no longer a major recipient of aid because now it is economically developed. China was a major recipient in the 90s and early 2000s, but Japan is no longer providing new aid to China based on the fact that China's economy as a whole is now actually bigger than that of Japan.

So moving on to the aid characteristics of Japanese aid, Japan focuses regionally on Asia as we just saw, but in recent years there's been a greater shift to the Middle East and African countries. This in some part reflects Japan's economic interests, which are very

closely tied to the Asian region, as well as its expertise: it knows much more about the economic dynamics of its neighboring countries than it might about distant countries.

Japan distributes a relatively higher proportion of its aid in the form of loans as opposed to grants and this reflects the philosophy that aid donor should encourage responsibility and self-sustainable development by requiring that loans be paid back. So the Japanese aid philosophy is one that says if you give aid in the form of grants, then countries might not have as strong of an incentive to use that money wisely. And by giving countries loans that are given at very advantageous interest rates, countries will make sure that they invest in projects that will have a positive return and that would enable them to pay back the loans later.

Japan gives a relatively high proportion of aid to economic infrastructure projects in areas like transport, communications and electricity, so relatively speaking, less to human development projects like training people, teachers, and so forth.

If we think of foreign aid outcomes, this is actually a very tricky subject for academics. If you look at studies of foreign aid in general, we find very little support for the idea that foreign aid contributes to economic development. So a lot of different economists and political scientists have looked at this question: Does foreign aid actually help with economic development? And the answer is very, very ambiguous. Often times, the answer is no.

And this probably reflects several factors. One of them is, as we discussed earlier, the fact that aid is given for many reasons that are really not related to economic development. So the United States, for example, gives a lot of aid to Egypt but not really to economically develop Egypt; it's really about geopolitical motivations and therefore this aid really is not used to develop Egypt's economy. And so because a lot of aid is given for these non-economic reasons, it might not necessarily contribute to economic growth.

It might also be the case that aid is simply too small. Aid flows, generally speaking, are very small in comparison to the size of entire economies and so that makes it a little bit challenging for academics to identify how much aid contributes to economic growth because economic growth is determined by so many factors.

Moving on to Japanese aid, if you look at the major recipients of Japanese aid over time, they have often done better economically compared to major recipients of Western aid. So many Japanese aid recipients are East Asian growth states often described as "miracle growth states," like South Korea, Singapore, and Southeast Asia states like Indonesia, the Philippines, and so forth. And these are countries that have performed economically relatively well in international comparison, if you average them as a group. And so

many Japanese government officials would say Japanese aid has been very helpful in contributing to the economic growth of these countries.

However some people in the West would criticize Japanese aid for essentially focusing on “easy cases.” So the criticism here is that Japanese aid focuses on things like infrastructure projects in Southeast and East Asia where the fundamentals were already strong—very high literacy rates, very motivated citizens, lots of focus on economic growth anyway—and so the idea here is that it’s not entirely clear whether Japanese aid was necessary in producing the economic growth in these countries.

So Japanese policymakers have recognized this criticism and also because of the graduation of some recipients of Japanese aid, Japan has increasingly allocated a greater share of its ODA to less advantaged countries in the Middle East and Africa and the variety of projects has increased from infrastructure to a range of other types of projects as well. So Japan is responding to this criticism, but I think Japanese policymakers would maintain that its aid has played an important role in the growth of many of its East Asian and Southeast Asian neighbors.

So to conclude, although the Japanese ODA budget has been declining due to economic stagnation, foreign aid remains an important component of Japanese foreign policy and Japanese aid has played an important role in international development, particularly by building economic infrastructure in Asian countries. And finally, Japanese aid increasingly targets a greater range of countries and projects.