

# Poverty Reduction and Social Development

—New Directions in Japan's Official Development Assistance—

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Japan made the biggest contribution to the rise in ODA in 1999. Its total net ODA disbursements reached USD 15.3 billion — the largest annual figure ever recorded by a single donor. It included continuing generous help to the countries most affected by the Asian financial crisis, especially a USD 3 billion contribution to the Asian Development Bank and substantial rises in bilateral aid, particularly to Indonesia, Thailand and Viet Nam (OECD/DAC, *Development Co-operation 2000 Report*, p. 95).

Japan began its supply of ODA to China following that country's shift to a route of reform and liberalization from the end of the 1970s. Behind this decision was the judgment that prosperity for China and its assimilation into the international community would lead to stability in Asia, and contribute to Japan's own national interests as well.....The Japanese government has reacted to its current fiscal pinch with the decision to slash next fiscal year's ODA budget by 10 per cent. To make effective use of the pared-down funds, the priority ranking of recipients must be reviewed. For China, factors to be considered include the importance of Sino-Japanese relations, China's relinquishing of demands for wartime reparations in the normalization of diplomatic ties and other realities. Taking such elements to heart, lowering the value of ODA to China, (as a more developed country at its coastal areas), is the natural course of evolution. The Foreign Ministry says that last year China itself channeled \$450 million (54 billion yen) in assistance to 58 countries. Japan has received no

explanation from the Chinese with regard to such aid, an issue that has the potential of undermining the relations of mutual trust between the two nations. Likewise, the Chinese government has yet to suitably explain to its people the nature of the ODA coming from Japan (“The realities have changed, so must Japan’s ODA to China,” *Asahi Shimbun*, October 28, 2001).

## I. Introduction: Going beyond Top Donor

In terms of total ODA disbursed, Japan has been the world’s largest donor among 22 DAC member countries for nine consecutive years. Since the mid-1990s Japan has been undertaking to obtain in the international community a position commensurate to the volume of aid it provides. That is, Japan has been trying to transform its role from that of the “Top Donor” to “Leading Donor” in which it provides guidance in the formulation of basic philosophy and strategy in development co-operation. This move is in part a response to previous characterization of Japan’s ODA policy as “*Faceless Japan*”, “*International ATM*”, and “*Checkbook Diplomacy*”.

## II. The Preliminary Step towards Leading Donor: ODA Charter in 1992

On June 30, 1992, after the end of Gulf War, the Japanese Cabinet adopted *Japan’s Official Development Assistance Charter* (ODA Charter). It was a landmark event in the evolution of Japan’s ODA policy. Since its beginning in the mid-1950s, Japan has continued to take a very cautious stance towards intervention in the domestic affairs of recipient developing countries, and Japan has deliberately avoided insisting on economic and political conditionality in its aid program. For Japan, political and diplomatic use of ODA has been *taboo* for a long time, and the Japanese government has repeatedly stressed the non-political nature of Japan’s development co-operation. Traditionally the Japanese government has been reluctant to state basic principles and philosophy in its development co-operation policy at all. The adoption

of the ODA Charter in 1992 drastically changed the official Japanese thinking on ODA. In the Charter, the following four key elements are identified under basic philosophy: (1) humanitarian considerations—many people are still suffering from famine and poverty in developing countries; (2) recognition of global interdependence—the world is now striving to build a society where freedom, human rights, democracy and other values are ensured in peace and prosperity; (3) environmental conservation—a task for all humankind, which all countries must work together to tackle; (4) the importance of self-help efforts—Japan will implement its ODA to help ensure the efficient and fair distribution of resources and good governance in developing countries.

Under these principles, Japan commits itself to the following four points: (1) environmental conservation and development should be pursued in tandem; (2) use of ODA for military purposes or for aggravation of international conflicts should be avoided; (3) full attention should be paid to trends in recipient countries' military expenditures, their development and production of weapons of mass destruction and missiles, and the export and import of arms; (4) full attention should be paid to efforts for promoting democratization and the introduction of a market-oriented economy, and the situation regarding the securing of basic human rights and freedoms.

Thus, the basic philosophy and principles of Japan's ODA Charter reflect the dominant development paradigm of the late-1980s which stressed, in addition to economic reform, the importance of political and social reform in developing countries. The ODA Charter was not necessarily a national statement based upon Japan's distinctive practices and experiences in the field of development co-operation. However, the new political element marked the departure towards new development thinking in Japan's ODA .

### **III. Launching the Initiatives: from Silent Partner to Active Participant**

Since the establishment of the ODA Charter, Japan has moved to become an

active participant in the formulation of fundamental development strategy in the global development arena. For almost four decades, Japan has been a reluctant partner. Now Japan has paved the way for pro-active approach in proposing basic development co-operation strategy.

In May 1996, OECD/DAC issued its New International Development Strategy, formally entitled *Shaping the 21<sup>st</sup> Century: The Contribution of Development Co-operation*. This New International Development Strategy identifies (1) economic well-being (a reduction by one-half in the proportion of people living in extreme poverty by 2015) and (2) social development (universal primary education, gender equality and the empowerment of women, a reduction in the mortality rate and access through the primary health-care system to reproductive health services) as the main objectives of development co-operation. In the Strategy's formulation, Japan assumed a leading role from the preparation stage.

In the second half of 1997, many countries of Asia (Thailand, Indonesia, Malaysia and the Republic of Korea, for example), faced serious currency and financial crises. In response to the Asian Economic Crisis of 1997-98, Japan provided various types of assistance, and support for Social Safety Nets was one of the top priorities of Japanese assistance to Asia. That is, in addition to assistance for economic structural reforms, Japan extended aid to socially vulnerable people through the development and improvement of medical services and health care systems. Additionally, assistance for human resource development and special measures for foreign students were other priority items.

In October 1998, Japan hosted the *Second Tokyo International Conference on African Development (TICAD II)*. The Conference reached an agreement on the following three priority areas: (1) social development and poverty reduction: education, health, population and other measures to assist the poor; (2) economic development: private sector development, industrial development, agricultural development and external debt; (3) basic foundations for development: good governance, conflict prevention and post-conflict development.

In August 1999, the Japanese Government published *Japan's Medium-Term Policy on Official Development Assistance* to articulate a clear path for Japanese ODA over the next five years in terms of basic direction and priority issues and sectors. In the Introduction, it articulates the fundamental position of Japan's ODA as follows:

As the world's second largest economy and the largest donor of official development assistance (ODA), Japan shoulders the important responsibility of contributing to sustainable social and economic development in developing countries. This is a role through which Japan can win the confidence and appreciation of the international community. Furthermore, as a nation whose prosperity is closely linked to the world peace and stability and that is highly dependent on the importation of resources, energy, food and other basic materials, ODA plays a very significant role in ensuring Japan's own stability and prosperity. As such, economic assistance promotes Japan's best interests, including the maintenance of peace.

In Section I, Basic Approaches, the document expresses Japan's new approach to place even greater emphasis on poverty alleviation and social development as follows:

Economic growth is a necessary measure for the improvement of welfare, and "human-centered" development is indispensable to the realization of sustainable development. Consequently, Japan will provide assistance for balanced economic growth and social development. Based on this human-centered approach, special attention will be given to the needs of the least developed countries. Due attention will also be focused on "human security" and the protection of individuals and communities.

In Section II, Priority Issues and Sectors, the following factors are cited for their

special importance in the fight against poverty:

equitable distribution of the benefits of economic development, implementation of economic cooperation projects directly aimed at assisting the poor, and the sharing of Japan's own experiences of economic growth and poverty eradication with developing countries.

Thus, Japan's Medium-Term Policy on Official Development Assistance is a strategic statement which declares that Japan will undertake the fight against poverty in pursuit of social and economic development.

#### **IV. Challenges Ahead**

In the past decade, Japan's ODA policy has taken a new direction. In line with the New International Development Strategy, Japan shifted its priority area from the development of economic infrastructure to poverty alleviation, social development and political and institutional reform. On the occasion of the KYUSHU-OKINAWA SUMMIT 2000, Japan, as a host, played a key role in the publication of report entitled *Poverty Reduction and Economic Development*, which stresses the importance of poverty reduction and the social dimension of development as follows:

While growth is crucial in the fight against poverty, greater attention must be paid to a more equitable distribution of the benefits of growth. To this end, the right social policies are essential, including institution building, education and skills development, and the improvement of health including the fight against infectious disease. These are the foundations for poverty alleviation and greater social equity. Social investment secures high returns over the longer term.

Thus, as a would-be leading donor, Japan has been actively involved in the

development policy dialogue and programming in the global donor community. Japan's ODA faces formidable challenges today, however. Faced with serious low economic growth rate and tight fiscal realities, the domestic environment surrounding Japan's ODA is not favorable. The Japanese people are questioning the need for continuing massive amounts of aid to foreign countries when corporate collapses and restructuring are forcing unemployment at home. Public support for ODA is not what it was in the 1980s. According to an opinion poll conducted by the Prime Minister's Office in October 2000, 41.4 per cent of respondents felt that Japan should maintain its efforts in economic assistance "at current levels"; 23.0 per cent were of the opinion that it should be stepped up; 22.3 per cent, that it should be reduced as much as possible; and 3.5 per cent, that it should be stopped entirely. In other words, those that expressed support for the status quo or for expanded aid together amounted for 64.4 per cent of the total (compared to 78.7, 75.5, and 70.0 per cent in the 1996, 1997, and 1998 opinion polls). According to another opinion poll conducted by *Yomiuri Shimbun* in October 2001, 48.1 per cent of respondents felt that Japan should maintain its efforts in economic assistance "at current levels"; 4.2 per cent were of the opinion that it should be stepped up; 39.3 per cent, that it should be reduced as much as possible; and 4.2 per cent, that it should be stopped entirely. Thus, more than 40 per cent of respondents were concerned about the utility of Japan's ODA.

Responding to growing negative feeling toward Japan's development co-operation among the Japanese people, and also as part of the Koizumi government's fiscal rehabilitation initiative, the Japanese government declared that ODA is no longer a *sacred cow*, and decided to slash next fiscal year's ODA budget by 10 per cent.

## **V. From Vision to Implementation: A New Area for Japan-EU Co-Operation**

The European Community (Commission) provided USD 4.9 billion of net ODA,

approximately 10% of the total ODA from DAC member countries in 1999. Japan provided 27% of the total ODA in the same year. Together, the European Community and Japan provided around 40% of the total international Official Development Assistance in 1999. This fact tells us that both the European Community and Japan, as the most influential aid donors (Civilian Powers), are expected to play a vital part in the *Fight against Poverty*, and in the promotion of *Social Development*.

In this regard, the European Community has demonstrated its strong political will to continue to take the leadership role in the North-South development dialogue. The European Community and 77 ACP countries signed the Cotonou Partnership Agreement in June 2000. It was the first tangible expression of the European Community's new development approach to the 21<sup>st</sup> century.

In May 2001, the European Community hosted the 3<sup>rd</sup> *UN Conference on LDCs* in Brussels. It was intended to give a strong political signal about the significance it attaches to the problems of marginalized least developed countries in the era of globalization. Furthermore, *The European Community's Development Policy — Statement by the Council and the Commission*, adopted in October 2000, articulates the importance of development co-operation as follows:

the European Union is a major player in the development sphere. It is the source of approximately half of the public aid effort worldwide and is the main trading partner for many developing countries. This declaration expresses the Council's and Commission's intent to reaffirm the Community's solidarity with those countries, in the framework of a partnership which respects human rights, democratic principles, the rule of law and the sound management of public affairs, and to begin the process of renewing its development policy based on the search for increased effectiveness in liaison with other players in the development sphere, and on the involvement of its own citizens.

Now the question is: *What is the most promising area for development*

*co-operation within the total framework of Japan-EU Co-operation?* As influential members in the global donor community, Japan and the European Community share fundamental development thinking and strategy. The most difficult issues facing them are: *How to translate vision into action. How to ensure implementation. How aid should be delivered on the ground.* The answer is to launch the Japan-EC Poverty Reduction and Social Development Initiative, which follows the role model of the UNDP-EC Poverty and Environment Initiative, and aims at *identifying concrete policy recommendations and practical measures.*

※ This is a revised version of my paper originally presented at the conference, *A DECADE OF JAPAN-EU CO-OPERATION*, 26–27 November 2001, in the European Parliament (Brussels).

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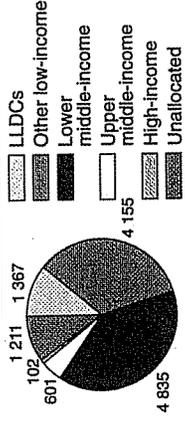
Appendix Overview of ODA: Japan and EC

Gross bilateral ODA, 1998-99 average, unless otherwise shown

**JAPAN**

Net ODA	1998	1999	Change 1998/99
Current (US\$ m)	10 640	15 323	44.0%
Constant (1998 US\$ m)	10 640	13 451	26.4%
In Yen (billion)	1 393	1 745	25.3%
ODA/GNP	0.28%	0.35%	
Bilateral share	80%	68%	
<b>Net Official Aid (OA)</b>			
Current (US\$ m)	132	67	-49.2%

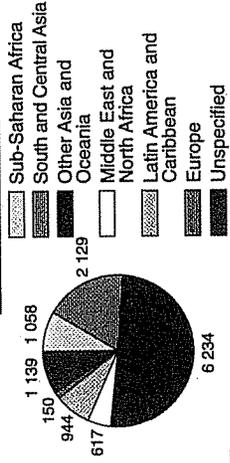
**By income group (US\$ m)**



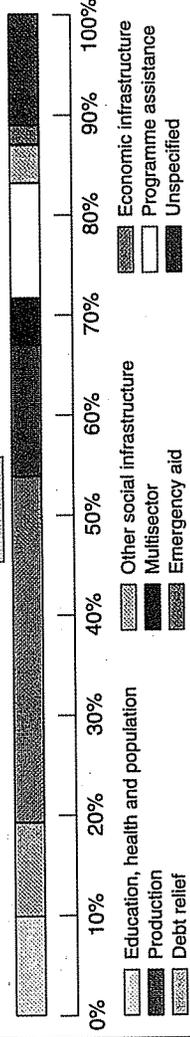
**Top ten recipients (US\$ m)**

1 Indonesia	1 749
2 China	1 510
3 Thailand	953
4 India	814
5 Philippines	690
6 Viet Nam	541
7 Pakistan	365
8 Bangladesh	318
9 Sri Lanka	238
10 Malaysia	235

**By region (US\$ m)**



**By sector**



Source: OECD.

