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ARTICLES

Japan

Efforts in Development Aid

by Professor Tsutomu Nakamura, Nagoya *

Aid has two sides. On the one hand, developing countries can get the initial funds for "taking off" through aid. Their "take off" means also enlargement of both raw material and commodity markets for advanced countries. Furthermore, aid seems to make possible a wider scope of influence of either the free or the communist world.

Accumulation of Debts

But there is another aspect to the story: First, too much dependence on aid may weaken the independent spirit which is most important for "taking off". Japanese have achieved industrialisation for themselves with little aid. There is a proverb in Japan that there is nothing more expensive than something free of charge. Aid has often been used as an outlet for surplus goods of advanced countries—agricultural or, as in case of Japan, textile goods, hindering the industrialisation of developing countries. Second, while foreign private investments give technological experience and capital for industrialisation, the sectors which are beyond the full control of the governments of developing countries, grow as a result, and considerable parts of profits do not belong to them. Actually, in spite of the aid of $ 78 bn from 1960 to 1967, developing countries are suffering from accumulation of debts due to low economic performance, and the gap between advanced and developing countries has been enlarged. Thus "trade rather than aid" was the slogan of the first UNCTAD, though "both trade and aid" was advocated in the second UNCTAD, because of the still prevailing stagnancy since then.

Little Initiative Toward Aid

Japanese aid began with reparation. The amount of reparations and other supplies without compensation has been, in millions of dollars, 550 to the Philippines, 300 to Korea, 223 to Indonesia, 220 to Burma, 39 to South Vietnam, 5 to Cambodia, 2.8 to Laos. In 1954 Japan participated in the Colombo Plan. Then it became a member of the Creditors' Conference of India, Indonesia, and Pakistan in cooperation with American policy toward Asia. Since 1964 it has been participating in OECD. The country used to give development aid for a long while more or less to stay in company with the other aiding countries, seeing how the wind was blowing. But Japan had not any independent and persistent long-range vision and idea. The amount average of aid was only $ 15 mn a year between 1950-55, which is 0.1 p.c. of the national income.

Why was Japan so passive toward aid? First, it could not afford to aid other countries for a long time after the war because of its distress, having lost almost all accumulated capital and its colonies. Japan's only task was the reconstruction of the economy which was barely over by about 1955. Second, Japan was still a semi-advanced country. Some of its backward industries competing with those of developing countries, like agriculture and small industries, were important from the economic and political point of view. The share of employees of small manufacturing industries with less than 300 employees constituted 69 p.c. of the industrial labour force in 1963. Small industries had a decisive role in the Japanese economy, for they could manufacture very cheap goods in labour intensive sectors due to much cheaper wages than those of the big firms, and those cheaper goods became components of big firms' products and were also directly supplied to domestic or foreign markets. 5.8 mn farmers had to be protected from a political point of view, because they were an important source of votes for politicians.

* Nanzan University, Nagoya, Japan.

However, such a passive attitude has been gradually changing since the participation of Japan in OECD from 1964 on. As table 1 shows, the scale of Japanese aid has been rapidly increasing since 1964, and the ratio to national income has also risen. Now, Japan ranks fifth, next to England, among the aiding countries.

Table 1
The Scale of Development Aid

Year	Total aid ($ mn)			Ratio to national income (p.c.)		
	Japan	USA	Germany	Japan	USA	Germany
1960	246	3,818	625	0.71	0.92	1.14
1964	361	4,771	707	0.59	0.91	0.89
1965	601	5,520	727	0.88	0.97	0.84
1966	669	4,983	738	0.86	0.80	0.81
1967	855	5,567	1,140	0.93	0.85	1.26

Source: MITI, The Status and Problems of Economic Cooperation, 1968.

Why has Japan increased its development aid? As the participation in OECD shows, Japan has become a member among the developed countries as the result of its high economic growth. It can afford, to some extent, more foreign investment, owing to its larger capital accumulation. The key role of small industries in the Japanese economy is decreasing due to the reduction of the wage gaps between large and small-scale firms, caused by the labour shortage since 1960, which in turn is a result of economic growth [1]. As to agriculture, rice price maintenance policy has not been successful. The results are large quantities of surplus rice which have been stored up in government warehouses. Government officials seem to opine that the inefficient sectors of small business and agriculture should be shrinking in accordance with the vigorous development of industrial structure. They are going to change the protective policy toward them, exposing them to heavy competition from other countries; but this tendency is now only at the beginning stage.

Characteristics of Development Aid

Table 2 shows the recent tendency of development aid given by Japan. An interesting feature is the high share of private export credit. It shows that the increase in the export of heavy machinery necessitates deferred payment, and that the promotion of export is presently the highest goal of aid in Japan.

[1] See Tsutomu Nakamura, The Performance of Japanese Economy, in INTERECONOMICS, No. 11, 1968.

Table 2
The Forms of Japanese Economic Cooperation

	$ mn		p.c.	
	1961	1967	1961	1967
Government base				
Between two countries				
Grant	68	138	18	16
Reparation and others	66	127	17	15
Technical cooperation	2	11	1	1
Direct Loans	28	208	7	25
Subtotal	96	346	25	41
Investment and payment to international organisations	11	45	3	5
Total	107	391	28	46
Private base				
Between two countries				
Export credit (over one year)	176	380	47	44
Direct investment	98	84	26	10
Loans to international organisations	−4	0	−1	0
Total	270	464	72	54
Grand Total	377	855	100	100

Source: MITI, The Status and Problems of Economic Cooperation, 1968.

As for private direct investment, its amount has not changed greatly since it has increased suddenly from $ 18 mn in 1959 to $ 86 mn in 1960. There are some difficult problems for private direct investment to developing countries apart from the fact that Japan has a fast growing domestic market, such as: Uneasy political situations in developing countries, restrictions based on racism, insufficient external economies, limitations on remittance of profits, inferior partners for joint ventures, and an overall commercial base with risks. But recently Japanese have tried the development imports methods, whereby capital and techniques are supplied for the production and distribution sectors of such important raw materials as iron ore, petroleum, and lumber, which are imported to Japan. This method may bring advantage to both sides, though it is not very prevalent because of the above restrictions. Private direct investment in neighbouring countries, as a counter-measure against labour shortage in Japan, has also increased recently.

Government direct loans increased most rapidly. This is because a mitigation of the terms of aid has been recently requested by developing countries, and the Japanese government which has

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stepped into the active aid, has begun to comply with this request through direct loans at easy terms. Aid receiving countries increased from four countries in 1963 to nine countries in 1967 (a.o. Indonesia, India, Formosa, Pakistan, Korea, Ceylon, Yugoslavia). The emphasis of direct loans was put on heavy machinery for development projects in order to lay first a solid economic foundation in the aided countries. But recently the share of non-project aid to the raw material, consumer goods, and finished goods sectors has been increasing, because of the difficulty to import raw materials and finished goods on the part of the developing countries owing to their lack of foreign currency. The lack of foreign currency has also increased the share of deferred credits and refinance in the total of loans (24 p.c. in 1967).

Priority of South-East Asia

The major part of Japan's grants are still reparations. The share of its technical cooperation is very small—only 1 p.c. of total aid in contrast to 13 p.c. in the DAC member average, though that percentage is already much higher than it used to be before. Both Japanese industries as well as the aided countries are beneficiaries of government direct loans. But technical cooperation gives little benefit to Japanese industries. We must further not forget that Japan has little special connections with aided countries now, and that Japanese have a verbal handicap. But technical cooperation may contribute to the growth of exports to aided countries in the long run. And Japan is going to increase it in accordance to its future economic growth.

Though investments and payments to international organisations are still much lower than the DAC-member average, they have increased very much, and investment to regional organisations, say, to the Asian Development Bank, has also been increasing.

Table 3 shows that Japanese aid has been more and more concentrated on neighbouring South-East Asia. The share of South-East Asia aid as part of Japan's total aid has increased from 52 p.c. in 1962 to 62 p.c. in 1967, and it exceeds

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the share of trade with that same area (exports 28 p.c., imports 15 p.c.). This seems to be so because the Japanese are trying to build up their scope of influence in Asia to overcome the former situation characterised by diversified export expansion with no special area of influence.

Table 3
Geographical Distribution of Japanese Aid

Area	1962		1967	
	$ mn	p.c.	$ mn	p.c.
Asia (exclude West Asia)	149	52	500	62
Latin America	102	35	44	5
Africa	4	1	203	25
others	35	12	64	8
Total	290	100	811	100

Source: MITI, The Status and Problems of Economic Co-operation, 1968.

Japanese terms of aid are comparatively severe. In 1967, the average interest rate was 4.8 p.c., and the average term of refund was 16.6 years in contrast to the average of 3.8 p.c. and 23.4 years of DAC members. The terms have improved, though, if compared with 6 p.c. and 15 years in 1962. But Japan's accumulation of capital is still insufficient and the procurement of funds is not so easy in the domestic money market. The average domestic regulated money rate on lending of all banks was 6.9 p.c., and the non-regulated rate was 8.2 p.c. in 1967. A mitigation of the terms of aid shall be realised in accordance with Japan's capital accumulation.

Conclusions

Japan has been for a long time in a dilemma whether it should help building up those industries, through aid, which might strongly compete with its own important domestic industries, or whether it should, without giving aid, remain a political orphan in Asia. The present Japanese economic policy is inclined toward the first alternative, since strong economies are always the best trading partners.

As was stated at the outset, aid has two meanings for aided countries: economic growth and economic subordination. It is not so easy for developing countries to achieve independent economic development, getting rid of economic subordination. Though the situation is now different from the old imperialistic stage, it still is a complicated one. However, independent economic growth of developing countries can be achieved in the long run, as the Japanese example has shown.

A Centre of International Growth

by Dr Hans-Jürgen Harborth, German Overseas Institute, Hamburg *

The enquiry described by this report has started from the following question: will it be possible to make use, for international or even worldwide purposes, of similar structures for inducing economic growth as have been adopted successfully for a single nation's regional policy? To be more precise: are there growth centres radiating impulses of economic growth in worldwide dimension as well? French economists, F. Perroux in particular, have stated that national development strategy could be based on such underlying foundations [1].

It seems that Japan's economic rise to becoming the fourth main focus of the world economy [2] might serve as the model for creating new centres for inducing international economic growth. Before giving cogent reasons for this assumption, it may be useful to preface this argument by highlighting a salient difference between national and international centres of economic growth: the energies radiating from a national growth pole may influence and transform the entire economy of adjacent areas, whilst growth impulses emanating from a centre influencing a vast region, or even the entire economy of the world, operate in a different fashion. The greater the distance is between the growth centre and the region which

* From January 1, 1970, in: Research Institute for International Techno-Economic Co-operation, Technical University, Aachen.

1 Cf. F. Perroux, Note sur la notion de "pôle de croissance". In: Economique Appliqué, Vol. 6 (1953), p. 307 seqq. Furthermore J.-R. Boudeville, Problems of Regional Economic Planning, Edinburgh University Press 1966, and H. Körner, Industrielle Entwicklungspole als Instrumente der Regionalpolitik in Entwicklungsländern. In: Kyklos, Vol. XX (1967), p. 684-707.

2 A. Predöhl regards this a tendency towards a multi-centred world economy. Cf. A. Predöhl, Das Ende der Weltwirtschaftskrise, Reinbek 1962, p. 93 seqq.