

4-1-2004

International Aid for Development? An Overview Japanese ODA to Indonesia

M Mossadeq Bahri

Universitas Indonesia, mossadeq45@yahoo.com

Follow this and additional works at: <https://scholarhub.ui.ac.id/hubsasia>

Recommended Citation

Bahri, M. M. (2004). International Aid for Development? An Overview Japanese ODA to Indonesia. *Makara Human Behavior Studies in Asia*, 8(1), 39-44. <https://doi.org/10.7454/mssh.v8i1.81>

This Original Research Article is brought to you for free and open access by UI Scholars Hub. It has been accepted for inclusion in Makara Human Behavior Studies in Asia by an authorized editor of UI Scholars Hub.

INTERNATIONAL AID FOR DEVELOPMENT? AN OVERVIEW JAPANESE ODA TO INDONESIA

M. Mossadeq Bahri

Department of History, Faculty of Humanities, University of Indonesia, Kampus UI, Depok, 16424, Indonesia

E-mail: mossadeq45@yahoo.com; mmossadeq@yahoo.co.jp

Abstrak

Bantuan Luar Negeri Untuk Pembangunan, atau lebih dikenal dengan nama ODA (Overseas Development Assistance), merupakan salah satu tiang penyangga terpenting dari kebijakan luar negeri Jepang. Melalui bantuan yang diberikannya, Jepang tidak saja mendapat keuntungan secara politik, ekonomi, militer dan budaya, tapi juga mampu mempertahankan laju dan kestabilan ekonominya. Oleh karena itu, maka kebijakan untuk terus menyalurkan bantuan luar negerinya ke negara-negara dunia ketiga akan tetap dipertahankan Jepang.

Abstract

This Paper examines at a general level the utility of Japanese Official Development Assistance (ODA) program, where it is dispatched to, and its consequences to the recipient countries. In this paper special attention is given to Japanese ODA to Indonesia. In this paper I argue that the Japanese government has pursued, and still does pursue, aid relations with its neighbour seeking foremost political and economic benefit for Japan. Benefits for other are a secondary concern.

Keywords: Japanese ODA, strategic aid, trade aid, Japan-Indonesia relations, debt-burden

1. Introduction

International aid is controversial. One prickly issue concerns the primary motivations of the donor nations. There is surely a composite of reasons that explain why national governments spend money from the public purse to assist poor countries. One reason is humanitarian—compassionate concern for humankind bestows a moral obligation on wealthy nations to help alleviate poverty elsewhere in the world (McNeill 1981; Abbot 1973; Nester 1992). Governments of donor nations usually include this justification in policy statements that explain their aid strategies. A typical explanatory note to Japan's aid program put it this way:

“Japan is fully committed to its role in fulfilling the responsibility of the international community that the more advanced countries assist the developing countries, and has been making every effort to increase its economic assistance to contribute to the solution of the North-South problem. As a country that is committed to peace and as the second largest free-market economy in the world, Japan intends to contribute to the maintenance and promotion of

international peace and security through economic assistance to the developing countries” (Guide to Japan's Aid, 1990: 4).

It is clear from this statement that this assistance is to be given by `Japan' such that the assistance actually reaches the people who need it most, if that is the true intention. Other explanations paint a less altruistic position on the part of donor nations. These include some critiques that paint international aid as exploitative and at its worst, a tool of imperialism. Hasegawa (1975), Nester (1992) and Carnoy (1974) are among those who have argued that real donor motives are more often covert than overt and more often self-interested than altruistic. It is, of course, naïve to think that nations are exclusively motivated by altruistic desire to help the poor. Yet these authors argue that far more of government concerns for national self-interest than official aid policy rhetoric ever indicates.

The reason for this is straightforward. Aid is not given and received in a political vacuum. Bilateral aid in particular, by its very nature, involves dialogue between representatives of two sovereign governments which operate within political and diplomatic constraints

(Abbott, 1973: 1-10). Aid is only one instrument of foreign policy but it is considered as an integral element for maintaining cordial relations with countries that are regarded as having strategic and commercial importance. A 1972 Ministry of Foreign Affairs report states that 'Tokyo should give aid to assist foreign development, not simply to reinforce Japan's double-digit growth rates'. My brief analysis of Japan's aid program later, provides evidence that despite the defensive verbiage, national self-interest mostly around economic rewards has continued to shape Japan's ODA policy.

2. Methodology

In order to examine the aid relations between national societies, especially between developed and developing country, this study employs an analytical framework built upon theories of imperialism. Here, imperialism is taken to refer to the relation between the 'core' countries of developed industrial North and the 'periphery' countries of the South. According to this model, the periphery countries do not have ability to control their economic (and even, arguably, their political) development as they want to. The core countries will decide and determine how far and what kind of development will suitable for them. As pointed out by Lichtheim "What counts is the relationship of domination and subjection"(Lichtheim, 1971: 9). I believe that in analyzing the way advanced industrialized countries carry out their policies of aid relations toward developing countries through the model of imperialistic relations with an imperialistic theory of development (represented by dependency theory) is more suitable for understanding international relations than using a model derived from theories of development (e.g. as represented by modernization theory) which pretends to expand the notions of improving social welfare of underdeveloped and developing countries. Although both refer to capitalism, the discursive point of view of the subjects are different. Imperialistic understandings accommodates the view of those who are exploited, while capitalistic understandings focuses on the generosity of the donors and the stronger countries.

A philosophy espousing enlightened self-interest has been put forward by donor nations to legitimise their use of foreign aid for self-serving ends as well as to assist the nations that are supposed to receive the aid. This rationale gained some credence as evidence continued to mount that foreign aid projects do not perform the economic and social miracles that were once expected of them. But it is not just that donors can be major beneficiaries of their own aid. Another problem concerns governments as the administrative or distributing bodies. Sometimes when aid is channelled through powerful elites it does not reach the powerless in

the receiving nation who most need it (see e.g. Bauer and Yamei, 1972: 41ff.).

An extension of this line of argument sees aid as a covert form of neo-imperialism that preserves the structure of dependence and subordination in the interests of Western capital. This view finds the use of aid by Western nations a means to promote or maintain the capitalist system in the Third World, and to extend the social, economic and political hegemony of the powerful Western hegemons in those areas. The power behind the capitalist system today is often multinational, or more accurately 'transnational' corporations that own or control production or service facilities outside the country in which they are based.

Sometimes aid has been given to foster shared ideological disposition, as 'strategic aid' under Cold war conditions demonstrates clearly. Here aid becomes a tool to align the values, interests and world views of recipient governments with those of the donor government. Aid has also been used to sustain the influence of colonising nations in ex-colonies, as with UK and France postwar, or building new spheres of influence as the United States has done postwar. Some donor nations have used aid to secure benefits for their industries at home which are contracted to provide expertise and technology required for aid delivery. In the 1980s as much as 70 percent of British aid had a direct commercial benefit to private corporations in Britain itself (Webster 1990).

Aid can also increase opportunities for the donor to expand export markets. The trade motive behind aid is amply evident in 'trade aid' packages that facilitate commercial exports and private investment opportunities for the donor as well as the recipient. Most donor countries have institutional framework for this process, such as the United States Export-Import Bank and Overseas Private Investment Corporation. Japan has the Export-Import Bank (Exim Bank) and the Overseas Economic Cooperation Fund (OECF). Britain has Aid and Trade Provisions. Multilateral institutions such as the Asian Development Bank, the World Bank, and United Nations agencies also facilitate this 'trade aid' process (Carnoy 1974; Rix 1980; Hayter 1989, Webster 1990). The main beneficiaries of this form of aid are those countries which provide the bulk of international expertise to developing countries and which export equipment through direct links with aid agencies and projects.

Aid can also be used for explicitly ideological ends--to build up social and political systems that are considered to be consistent with donors' political disposition. By attaching specific conditions to aid, donors can secure the smoother functioning of the aid system and ensure that the returns they seek for themselves are put in

place, e.g. contractors from the donor nation are used in aid delivery, the receiving nations' restrictions on donors' imports are removed. Aid may also be used to create and sustain, within the government of the Third World countries, a class that is dependent on the continued existence of aid and foreign private investment. This type of aid reinforces unequal power structures in Third World countries and thus functions to help preserve of the capitalist system (Abbott, 1973; Hayter, 1989).

3. Analysis and Data Interpretations

3.1 An Overview of Japanese ODA

The motives behind the Japanese aid program are not dramatically less pure than those driving other donor nations' aid programs. They involve a mix of national economic and strategic imperatives as well as humanitarian concerns for receivers. (Nester 1992; Yanagihara and Emig 1991; Rix 1990). Hasegawa Sukehiro in his 1975 study of Japanese foreign aid identified at least five objectives driving Japan's aid policy: (1) to spur the process of Japanese reconstruction and economic growth; (2) to establish diplomatic relations between Japan and neighboring countries; (3) to maintain political, economic, and social systems, and stabilise policies that are beneficial to Japan in countries that receive Japanese aid; (4) to raise per capita income in Japan through the commercial flow back to Japan from foreign aid projects; and (5) to assert Japan's influence and leadership in both regional and global communities (Hasegawa, 1975: 11). These five goals may be achieved through the conduct of Japan's overall ODA program.

The Japanese government began its overseas aid program after the end of World War II in the form of reparations payments to countries that had suffered Japanese military occupation during the war. Japan qualified as an official aid donor when it joined the Colombo Plan in 1954. At that time Japan provided aid on a small scale, mainly in the form of technical assistance (Loutfi, 1973: 47). The thrust of Japanese ODA in its early years was mainly self-serving export promotion and natural resources procurement through tied-aid projects in Asian countries. (Hanabusa 1991; Yanagihara and Emig 1991; Rix 1980, 1987, 1990; Inada 1990). In the late 1960s and 1970s, the structure and geographic target of Japanese ODA changed. Yet Asia remained as the top priority region among Japan's ODA recipients worldwide, while more nations from Africa, Latin America, Middle East and Oceania became recognised by Japan as eligible to receive Japanese ODA.

The total yen value of Japan's aid program has increased considerably since that time and the range of

programs on offer has been expanded. The programs include yen loans, technical, economic and other grants, contributions through multilateral institutions, in particular the World Bank and the United Nations Development Program (UNDP), and through regional financial institutions such as the Asian Development Bank (ADB).

In 1984, Japan surpassed France to become the second largest donor nation. In fiscal 1987 to 1988, Japan leaped ahead again, surpassing the US to take position as the world's 'number one' aid donor. (Yanagihara and Emig, 1991: 37).

3.2 Institutionalisation

A landmark for Japan as a donor nation came in 1960 when Japan became a member of the Development Assistance Group, the international body of aid-donor nations within the Organisation of Economic Cooperation and Development (OECD) that later became the Development Assistance Committee (DAC). (Brooks and Orr, Jr., 1985: 325). In the early years of Japan's aid program, the principal agency for administering aid loans was a single body, the Japan Export-import Bank. The OECF was established in 1961 as a semi-official lending institution under the Finance Ministry's Economic Planning Agency. In its early days, the OECF functioned as a weak junior partner to the Bank, and over time gradually assumed control of much of the official aid programs (Caldwell 1972). The government set guidelines to demarcate responsibilities between them in 1975, making the OECF responsible for implementing all loans with a grant element of 25 percent or above (Yanagihara, 1991: 39).

In 1962, an institution to administer technical assistance, the Overseas Technical Cooperation Agency (OTCA), was established under the Ministry of Foreign Affairs. A variety of programs were incorporated under the ambit of technical assistance, including technical training for foreign officials. In 1974, the functions of OTCA were extended and the body was transformed into the Japan International Cooperation Agency (JICA). JICA has since remained the main agency for implementing technical assistance programs, thus managing a large part of Japan's grant aid (Yanagihara, *ibid.*, see also Rix 1980).

3.3 ODA and Japan's Changing

International Status

From the 1970s, Japan began to shape up as a formidable economic power in the world order. Japan emerged as the world's second largest economy, it became the world's third largest trading nation and

largest capital exporter, certainly a major economic player globally. The swift rise of Japan as an economic power has forced other countries to adjust. This process has helped to cast a spotlight on Japan's financial and political relations with other nations. Japan attracts concern and interest, criticism and praise, suspicion and expectation, tempered with the historical and economic caution. The Japanese government meantime struggles to establish a more influential position for Japan in the world community, a position that the government justifies as both appropriate and expected by other nations, given Japan's status as an economic and non-military power (Yanagihara and Emig, 1991: 39-40).

Japan's international status as a global economic power and the largest donor of aid internationally is far from the position Japan held at the end of World War II in 1945. After the War, Japan was one of the largest aid recipients. Japan continued to receive aid for at least a decade after the War and made its last payment on aid loans in 1983. Clearly Japan has completely transformed its position in the business of international aid.

In the second half of the 1970s, the Japanese government launched a series of mid-term plans to guide the expansion of its ODA program. The plan consisted of four major aid initiatives known as 'double target' plans that aimed to double the amount of annual aid in each plan from the baseline of the previous plan. Japan's four aid redoubling plans extended its foreign aid package dramatically. The strong value of the yen toward the US dollar helped Tokyo to surpass the US as the largest source of aid globally.

3.4 Japan's ODA to Indonesia

Historically, among other Asian countries Indonesia has proved particularly attractive to Japan through its rich natural resources and geopolitically important location even before the Pacific War. Japan's southward advance in the late 1930s was motivated by Indonesia's oil. As Masashi Nishihara noted in commenting on Japan's policies toward Southeast Asia, 'It is suggested that Japan's policies in Southeast Asia evolved first from its interests in Indonesia's natural resources, potential export market, and geopolitical location' (Nishihara, 1976: 9).

In the postwar period, the Japanese continued this interest in Indonesia's natural resources and geopolitical location. Just a year after Indonesia's abortive coup of 1965, Japan then initiated the establishment of the Inter-Governmental Group on Indonesia (IGGI) in 1966, this organization is now known as Consultative Group on Indonesia (CGI). At the same time, in April, Japan also sponsored the Southeast Asian Ministerial Conference on Economic Development (Nishihara, 1976: 203-204).

Therefore, in principle, it could be said that Indonesia became the most important nation for Japan in the Southeast Asia region. Compared to other ASEAN countries, Indonesia is the biggest recipient of Japanese direct investment (Suzuki, 1990: 8).

The reasons for Japan's ODA concentration in Indonesia is almost the same as those of Japan's ODA concentration in Asia as a whole. From the point of view of rehabilitating bad image of Japan, Indonesia is among the countries that must first be considered. This is understandable since the country had 'bitter experience' with Japan prior to the end of World War II. Japan's occupation in Indonesia, which lasted for three and half years, in fact, raised miseries almost relatively comparable to that raised by Dutch occupation for three hundred and fifty years.

Indonesia has a special position which is very important for Japan. It is one of the largest suppliers of natural resources to Japan. With its great amount of natural resources, Japan in the long run cannot but rely on Indonesia as its major supplier. Thus maintaining a better image and relationship with this country in a political imperative which in turn is hoped to guarantee a fluent supply of natural resources to Japan.

Indonesia has other special importance for Japan in the sense of its potency as a field of Japanese economic activities. Its importance is not in the sense of traditional 'Imperialism' either. In traditional term of market, Japan's trade with Indonesia showed a deficit on Japan's side. In 1989, the balance of Japan-Indonesia trade was US \$ 7.7 billion where Japan's export was US \$ 3.3 billion compared to its import of US \$ 11 billion (Schwarz and Vatikiotis, 1991: 95; Nester, 1992: 102).

Apart as a 'market', Indonesia's importance also lies in its position as the biggest concentration of Japanese investment. Japan's investment in Indonesia holds the first rank among the foreign investors, with 24.8 % of the share cumulatively grew between 1967-1990 (Schwarz and Vatikiotis, 1991: 96). Large amounts of capital invested in Indonesia, willy nilly, obligate Japan's government to provide protection to their investors in Indonesia. The type of protection needed by the Japanese investor is not in the sense of military one, but rather, as we have discussed earlier, in the form of good relations between investors' home country and host countries.

That Indonesia is one of the rich natural resources countries is a fact that Japan cannot neglect. Japan's deficit balance of trade toward Indonesia, as shown above, is due to large amount of natural resources Japan must import from Indonesia. Again, security in the sense of a stable supply of natural resources is among the highest priorities which must be considered at the

outset before aid are flowed abroad. In spite of Indonesia as the largest recipient of all types of Japanese ODA, her position is not revealed as the largest recipient of Japanese grant aid.

Among the ten major recipients of Japanese grant aid, Bangladesh has occupied a premier position during the year 1984 to 1989. After Bangladesh, the ranking of countries has shifted, with Thailand reaching the number two position from 1984 to 1987, and the same position was held by the Philippines in 1988 to 1989. Indonesia has occupied sixth rank in 1989, seventh rank in 1984, 85, 86 and 88, and eight rank in 1987.

Like in other recipient countries, the main focus of Japanese ODA in Indonesia is the provision of funding support for the establishment and expansion of basic infrastructure facilities, the so-called 'hard' type of assistance. In recent years, however, Japan's ODA programs have begun to pay attention to Basic Human Needs (BHN) based projects, even though the share of ODA in education, health and social infrastructure and welfare, on a commitment basis was only about 12% in 1986 (Pante, 1988: 32).

In the case Indonesia, the projects supported by Japan's aid program which are classified under 'BHN' do not always mean the 'soft' type of assistance, because in many cases the assistance comes in the form of buildings and the provision of equipments. Of course, there is nothing wrong with this situation, but what is important is the results of such generosity; what buildings are built? Where are they built, and what type of equipment are acquired?

Moreover, although ODA (loan) have been provided at relatively low cost to 'third World borrowers', there is now a very large debt-burden carried by most Third World economies. This debt-burden is a unique feature of the process of 'development' as experienced by the Third World. And it is attended by hunger, sickness and poverty. Recently, while official and commercial banks have been prepared to lend increasing amounts to Indonesia (in fact almost two-thirds comes from private banks), the ability of this country to repay these loans looks increasingly unlikely.

4. Conclusion

Based on the findings of Japan's aid flows abroad, especially to Indonesia, Japanese pragmatism is the operating principle, both at the diplomatic and strategic levels, rather than humanitarian considerations as her main motivational force in aid disbursement. Even at the project level, government to government negotiations and recipient priorities often dictate the type of project and hence the technology that will be

transferred. It follows, therefore, that on one hand, the choice of aid recipients, projects, and technology will be determined by economic and political interests within Japan, and on the other hand in the recipient country, interests will be decided by powerful elite's who share similar views, operate within the same capitalist system of production and distribution, and stand to gain from a definition of 'development' as an economic and growth related phenomena, according to the dictum of the donor. In short, the Japanese grant aid programs are too rigid and very are closely linked to the procurement of goods and services from Japan, i.e. buildings, equipment, supplies, Japanese experts, survey teams and so forth, to maintain its future political and economic interests.

5. Acknowledgments

This paper was part of my Ph. D. Thesis under the supervision of Associate Prof. Philips Howard John Davies and Dr. Faizah Yunus, Faculty of Arts and Social Sciences, University of Malaya. I wish to thank for their valuable comments and suggestions of this paper.

Although assistance has been generously extended to me, the failings which remains are, of course, my responsibility.

Bibliography

- Abbot, George C. 1973. "Two Concepts of Foreign Aid", in *World Development*, Vol. 9, September.
- Bauer, P. T., and Yamei, B. S. 1972. "The Pearson Report: a review", in T. J. Byers (ed.), *Foreign Resources and Economic Development: A Symposium on the Report of the Pearson Commission*, London.: Frank Cass.
- Brooks, William L., and Robert M. Orr, Jr. 1985. "Japan's Foreign Economic Assistance", in *Asian Survey*, Vol. XXV, No. 3, March.
- Caldwell, J. Alexander. 1972. "The Evolution of Japanese Economic Cooperation: 1950-1970," in Harold B. Malmgren (ed.). *Pacific Basin Development: The American Interests*, Mass: Lexington Books.
- Carnoy, Martin. 1974. *Education as Cultural Imperialism*, New York: Longman Inc.
- "Guide to Japan's Aid". 1990. Tokyo: *Association for Promotion of International Cooperation*.
- Hanabusa, Masamichi. 1991. "A Japanese Perspective on Aid and Development", in Islam, Shafiqul (ed.), *Yen*

for Development: Japanese Foreign Aid and the Politics of Burden-Sharing, New York, Council on Foreign Relations Press.

Hasegawa, Sukehiro. 1975. *Japanese Foreign Aid: Policy and Practice*, New York: Praeger.

Hayter, Teresa. 1989. *Exploited Earth: Britain's Aid and Environment*, London: Earthscan Publications.

Inada, Junichi. 1990. "Japan's Aid Diplomacy: Economic, Political, or Strategic?", in Newland, Kathleen (ed.), *The International Relations of Japan*, London: MacMillan.

Lichtheim, George. 1971. *Imperialism*, New York: Frederick Praeger.

Loutfi, Martha F. 1973. *The Net Cost of Japanese Foreign Aid*, New York: Praeger.

McNeill, Desmond. 1981. *The Contradiction of Foreign Aid*, London: Croom Helm.

Nester, William R. 1992. *Japan and the Third world: Patterns, Power, Prospect*, London: MacMillan.

Nishihara, Masashi. 1976. *The Japanese and Sukarno's Indonesia: Tokyo-Jakarta Relations, 1951-1966*, Honolulu: The University Press of Hawaii.

Pante Jr, Filologo. 1988. "Japan's Growing External Assets: A Medium for Regional Growth?", in *An International Symposium on Asian Pacific Cooperation*, Hongkong: Lingnan College.

Rix, Alan. 1990. *Japan's Aid Programs: A New Agenda*, Canberra: Australian Government Publishing Service.

Rix, Alan. 1987. *Japan's Aid Programs: Quantity vs Quality*, Canberra: Australian Government Publishing Service.

Rix, Alan. 1980. *Japan's Economic Aid: Policy-making and Politics*, London: Croom Helm.

Schwarz, Adam and Michael Vatikiotis. 1991. "Indonesia: Price of Security", in Holloway, Nigel, ed., *Japan in Asia: The Economic Impact on the Region*, FEER, 1991.

Suzuki, Ichio. 1990. "Suharto's Indonesia: Death and Development", in *AMPO*, Vol. 22, No. 1, 1990.

Webster, Andrew. 1990. *Introduction to the Sociology of Development*, London: MacMillan.

Yanagihara, Toru and Anne Emig. 1991. "An Overview of Japan's Foreign Aid", in Islam, Shafiqul (ed.), *Yen for Development: Japanese Foreign Aid and the Politics of Burden-Sharing*, New York: Council on Foreign Relations Press.