JAPAN'S FOREIGN AID POLICY

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I. *Introduction*

Developing countries are now at the threshold of the so called "development decade".[1] The outlook is promising but it is wishful thinking to underrate the immense and pressing difficulties. Developing countries must accelerate and diversify their economic development urgently if they are to attain momentum for self-sustained growth in the coming decade. To facilitate this, developed countries should voluntarily help to initiate the "big push" for developing countries for the mutual benefit and progress of both groups of countries. It was in order to invent and accomplish efficient measures for expanding trade of developing countries, that the United Nations Conference on Trade and Development was held in March–June, 1964.

Whether increase in trade or increase in aid is the more urgent for developing countries may be debated. It seems, however, that aid is a necessary precondition to increasing their capacity to trade, and their trade strength in world markets. Both trade expansion and aid are urgently needed.

Since she depends heavily on the markets of developing countries,[2] Japan (a country which must trade to live) has a vital interest in the steady economic development of Southeast Asia and other developing regions and the expansion thereby of their external purchasing power. Furthermore, political unrest and disillusionment among developing countries, particularly in neighbouring regions, create anxieties in Japan. Hence, Japan takes a keen interest in development assistance and has been doing her utmost in extending both financial and technical assistance to developing countries despite various limitations on her own resources.

The present paper attempts, firstly, to review briefly what Japan has done in extending foreign aid. Secondly, Japan's aid policies are critically examined in order to find lessons from experiences, either from success or failure. Thirdly, an attempt is made to assess what Japan should do and how she could improve her foreign aid policy. And fourthly, it is stressed that a wider international cooperation among advanced countries in framing foreign aid policies is urgently needed.

II. *Performances of Japan's Foreign Aid*

Among advanced nations of the world, Japan was rather late in coming back to the international scene after World War II. It took years for her to recover from disastrous war

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[1] See UN, *The United Nations Development Decade, Proposals for Action*, New York, 1962 (Sales No. 62, II, B. 2).

[2] See Kiyoshi Kojima, "Japan's Trade Policy," *Economic Record*, March 1965.

devastation, and only since recovery and the gradual normalization of her external political relation has she been able to turn her attention to foreign aid activities.

The first memorable event in the history of Japan's external economic cooperation was its participation in the Colombo Plan as a donor country at its sixth Consultative Committee Meeting in Ottawa in October 1954. This meant the beginning on the part of Japan of properly organized technical cooperation activities with East and Southeast Asian countries within the international framework. In order to make best use of our limited economic capacity, our economic aid started with technical cooperation.

Overseas investment and loans, which started in early 1955, were very modest in the beginning but their scale has become sizeable since 1956. Japan's economic cooperation entered into a new stage with the extension of $50 million worth of "yen credit" to India in 1958 for her Second Five Year Plan. This loan was extended by the Export-Import Bank of Japan directly to the government of India on the basis of an agreement between the two governments.

In March 1960 Japan joined the DAG (Development Assistance Group), which is now known as the DAC (Development Assistance Committee) of the OECD (Organization for Economic Cooperation and Development) since October 1961.

To supplement the activities of the Export-Import Bank of Japan, the Overseas Economic Cooperation Fund was created in March 1961, which provides loans on easier terms for more risky projects in developing countries. In both the Bank and the Fund, available capital fund has been steadily increased and now stands at 124.3 billion yen ($345.3 million) and 16.5 billion yen ($46.9 million) respectively. Also, in June 1962, the Overseas Technical Cooperation Agency was established to carry out Japan's technical cooperation activities. Thus, steps have been taken steadily to promote our economic and technical cooperation activities.

Since Japan joined the Colombo Plan in 1954, Japan's economic and technical cooperation has expanded rapidly. The total flow (net) of her financial resources, official as well as private, to developing countries and multilateral agencies was only $15 million as the annual average of 1950-55, but it increased to $371 million in 1961. Japan ranks now fifth—after the United States, France, the United Kingdom and Germany—among the donor countries of the free world in the total amount of assistance.

Japan's economic cooperation activities may be broadly divided into two categories: financial aid and technical aid. Financial aid in turn can be classified into three types: namely, grants, loans and private investment. Contributions to international agencies for development assistance may be dealt with separately.

Financial Assistance

Grants. Japan's annual reparation payments obligations now average $70 million; $25 million to the Philippines, $20 million each to Burma and Indonesia, and $4.5 million to Vietnam. In addition, she has agreed to extend grants to Laos and Cambodia in pursuance of the agreements for economic and technical cooperation concluded with these countries. Similar arrangements were made with Thailand in 1962 in connection with the "special yen" problem. Furthermore, in the event of the conclusion of negotiations with Korea, Japan is likely to extend grants of a substantial order to that country.

Certainly reparations are not aid but an obligation. However, reparations and reparation-

like grants have been utilized effectively to promote and accelerate the economic development of the receiving countries. By the end of November 1963, Japan had paid approximately $461 million out of her total obligations amounting to $1,019 million. It should be noted that most of the reparations has been made in the form of capital goods and incidental services which were used to establish and develop directly productive activities in Southeast Asian countries. A good example may be the construction of a 84,000 kw hydro-electric power station at Balu-chang in Burma. Sixty percent of the total cost of this project was covered by reparation payments. It was completed in 1960 and has almost doubled the existing electric generating capacity in the country. Similar contributions are to be found in other receiving countries.

Partly because of the heavy burden of reparations payments on our economy and partly because of Japan's limited capacity to aid, any other grants, except contributions through technical cooperation, have been quite limited.

Loan and Credit. Loans and credits extended by Japan can be divided into two categories; those based on inter-governmental arrangements and those carried out in the form of private export credits. Further, there are two types of credit extended on an inter-governmental basis: *direct loans* of public funds to the recipient government and *lines of credit* approving in advance supplier's credit up to a certain amount (on the terms and conditions as agreed upon between the Japanese and the recipient government).

Governmental loans have been extended to India, Pakistan, Brazil, Paraguay and Vietnam, and lines of credits to India, Pakistan, the Philippines, Indonesia, United Arab Republic and a few other countries. Largest governmental loans are the "yen credits" to India, totalling $210 million on 4 occasions; to Pakistan, totalling $75 million on three occasions; and to Brazil, amounting $17.5 million, a part of helping the establishment of the Minas steel mill. By the end of 1963, the total of governmental loans amounted to $314 million.

In order to promote private export credits, which are most necessary in order to increase our exports of plant, capital equipment, ships, etc., on a long-term credit basis, the government finances, in part, the supplier's credits mainly through the Export-Import Bank of Japan. This is needed as the rates of interest prevailing in Japan's capital market are so high that the Japanese suppliers of capital equipments and machinery can hardly be expected to extend credits to overseas buyers out of money obtained from private sources.

The outstanding amount of Japanese credits, the total governmental loans, lines of credit and export credits amounted to $667.1 million at the end of September, 1963 (see Table 1). Though they include a considerable volume of lending on commercial terms, they contributed effectively to the directly productive activity of developing countries.

TABLE 1. JAPANESE CREDITS TO LESS-DEVELOPED AREAS
(as of the end of September 1963 in millions of U.S. dollars)

	Outstanding Balance
South-east Asia	315.1
Latin America	285.5
Middle East	48.7
Others	17.8
Total	667.1

Private Investment. Japan's private investments in developing countries mainly comprise direct investment such as a joint venture or the establishment of a firm financed entirely by Japanese capital, while portfolio investment is very limited. Private direct investment is facilitated and encouraged by the government through the provision of public funds from the Export-Import Bank of Japan or the Overseas Economic Cooperation Fund, the investment principal insurance and investment profit insurance schemes operated and financed by the government.

Japan's direct investment in developing countries amounts to $376.8 million. Of this more than a third is directed to Latin America and a third to the Middle East. Private investment to Southeast Asia amounted to $85 million in 1963. That is smaller than the amount going to Latin America and the Middle East, but it has recently grown rapidly, having doubled in the last three years (see Table 2). The recent increase is due to an improvement in the investment climate of certain Asian countries towards welcoming foreign capital and technology, which would contribute to their productive capacity. With a view to encouraging investment in Southeast Asia, Japan has concluded treaties of friendship and commerce with Pakistan, the Philippines, India and Malaya. Double taxation agreements with India, Pakistan, Singapore and Thailand are also expected to be conducive to Japanese investment in these countries.

TABLE 2. JAPANESE DIRECT OVERSEAS INVESTMENT IN LESS-DEVELOPED AREAS
(as of the end of September 1963 in millions of U. S. dollars)

	Outstanding
South-east Asia	85.2
Latin America	148.6
Middle East	137.4
Others	5.6
Total	376.8

Table 3 shows some interesting characteristics of Japanese private overseas investment. A high investment per project is limited to mining, steel and machinery industries, while in other industries a large number of small scale projects are established. A large proportion of investment is concentrated in "Arabian Oil (Kuwait)", "Minas Steel Mill (Brazil)", and "Ishikawajima-Harima Shipbuilding (Brazil)". If the three big projects are excluded, all the rest is small scale industry. This indicates also the fact that, except for those two countries, our private investments have spread in all underdeveloped areas, particularly in Southeast Asia, and are fairly large in number though relatively small in size.

Table 3 also reflects Japan's economic interests. Mining is largest both by the number and the value of investment projects. Judging by the number of projects, textiles, foods, machinery, and fishery rank next to mining in that order. The order may also reflect a relative ease with which Japanese firms in different industries have been able to invest abroad and urgency for developing countries to establishing industries of different kind.

Technical Assistance

With a growing recognition of the importance of technical assistance, Japanese efforts in this field have not only rapidly increased in volume but also have become considerably more varied in type.

TABLE 3. JAPANESE PRIVATE OVERSEAS INVESTMENT IN LESS-DEVELOPED AREAS BY PROJECT
(as of the end of March 1963 in thousands of U. S. dollars)

	Number of Projects	Amounts ($1,000)	Investment per Project
Productive Activities	476	369,387	776
agriculture	19	3,556	187
fishery	37	4,637	125
mining	92	214,519	2,332
construction	5	1,841	368
foods	65	12,438	191
textiles	78	33,832	434
chemicals	23	1,672	73
ceramics	30	5,235	175
steel and metals	20	39,210	1,961
machinery	46	40,472	880
electrical machinery	31	4,423	143
miscellaneous	32	9,106	285
Service Industries	284	42,331	149
Total	750	411,728	549

Note: Figures include direct investment and portfolio investment, and, therefore, differ in a small range from Table 2.

Budgetary appropriations for bilateral technical assistance (excluding technical assistance under reparations agreements), a mere $36 thousand when technical cooperation started after Japan's accession to the Colombo Plan in 1954, have steadily been increased and stood at 3.6 million dollars for 1962.

In June 1962, the Overseas Technical Cooperation Agency was established under the Ministry of Foreign Affairs as the principal body for an integrated execution of technical assistance activities.

The programmes and schemes now in operation cover four types; receiving trainees, despatching technicians, overseas technical training centres and pre-investment surveys.

Receiving of Trainees. Trainees are received under various schemes including the Colombo Plan Scheme, Technical Cooperation Scheme for the Middle East and Africa, Technical Cooperation Scheme for Latin America and U.S.-Japan Joint Third Country Training Programme (see Table 4). We have received, largely from Southeast Asian countries, 5,335 trainees from 1954 to the end of October 1963. The main fields of training they entered were agriculture and fishery (37.9%), light manufacturing industry (9.8%) and education (8.6%).

Despatch of Technicians. The despatch of technicians is also undertaken under various schemes including the first three of the four just mentioned. The number of technicians sent to developing countries in the same period totalled 611, of which more than 80% were to Southeast Asian countries. Main fields of instruction were agriculture and fishery (43.8%) and, light manufacturing industry (13.0%).

TABLE 4. NUMBER OF TRAINEES RECEIVED AND EXPERTS SENT OVERSEAS UNDER JAPANESE ASSISTANCE
(April 1954—October 1963)

Type of Assistance	Trainees	Experts
Colombo Plan Scheme	1,284	479
Technical Co-operation Scheme for the Middle East & Africa	235	88
Technical Co-operation Scheme for Latin America	163	26
U. S.-Japan Joint Third Country Program[1]	2,139	0
Others	1,514	18
Total	5,335	611

[1] includes the number of trainees received and experts sent under the ICA Third Country Program prior to the inception of the Joint Program in March 1960.

Establishment of Overseas Technical Training Centres. Technical training centres in developing countries are a more recent introduction to the aid programme, for which budgetary appropriation was first made in 1958. Under the scheme it is the general practice for Japan to provide instructors and equipment and other necessary materials for training, while the site and building are provided by the recipient country. Nine centres of this kind have already been opened, three in India, two in Thailand, and one each in Pakistan, Ceylon, Afghanistan and Iran. Three more centres are to be opened within a year or two, one each in Pakistan, Brazil and Ghana. The establishment of two more centres is now under negotiation with the Governments of Nigeria and Kenya. The scheme has so far been very successful and now more attention is paid to achieving a quick hand-over of the operation of the centres from Japanese instructors to the local personnel. As shown in Table 5, our activities

TABLE 5. TECHNICAL TRAINING CENTRES UNDER JAPANESE ASSISTANCE
(as of June 1, 1963)

Country	Field of Training	Agreement Signed	Opened
India	small scale industries	January 25, 1960	December, 1962
Pakistan	agriculture	July 30, 1960	September, 1960
Thailand	telecommunications	August 24, 1960	January, 1962
Iran	small scale industries	September 12, 1960	September, 1962
Afghanistan	small scale industries	March 15, 1961	August, 1963
Ceylon	fisheries	March 20, 1961	October, 1961
Thailand	virus research	November 25, 1961	February, 1963
Brazil	textile industries	March 28, 1962	(not opened)
India	marine product processing	March 30, 1962	July, 1963
India	agriculture	April 23, 1962	July, 1962
Ghana	textile industries	May 23, 1963	(not opened)
Pakistan	telecommunications	November 16, 1964	April, 1964 (expected)
Nigeria	electronic training institute	under negotiations	
Kenya	small scale industries	under negotiations	

are mainly confined to small scale industries, agriculture, fishery and tele-communications in which Japan has long experience and technical advantages.

Pre-investment Surveys. In the last few years it has increasingly been recognized that the absence or shortage of adequate technical skills and knowledge has not infrequently hampered less-developed countries from formulating appropriate and realistic development plans and programmes.

Since 1958 we have been participating in the surveys of the Mekong River Development Programme. Furthermore new separate budgetary appropriations have been made since last year for "pre-investment surveys". This is a technical assistance of pre-investment type, carried

TABLE 6. ALLOCATION OF JAPANESE GOVERNMENT FUNDS FOR TECHNICAL ASSISTANCE
(in thousands of U. S. dollars)

	aggregate allocation FY '54—FY '60	FY '60	FY '61	FY '62	FY '63
BILATERAL PROGRAMS					
Colombo Plan Technical Co-operation Scheme	2,577	811	815	879	
Technical Co-operation Scheme for:					1,677
North-east Asia	8	8	8	33	
the Middle-East & Africa	275	122	213	313	
Latin America	123	69	110	143	
U. S.-Japan Joint Third Country Training Program	43	27	39	40	44
Overseas Technical Training Centre Development Scheme	1,803	632	680	1,103	1,374
Mekong River Development Program	328	141	153	178	178
Overseas Construction & Engineering Survey Program*3	164	41	44	350	406
Economic and Technical Co-operation Agreement with Laos & Cambodia*1	6,666	2,777	278	2,048	—
Multilateral Agencies and Others*2	49	15	17	23	23
Total	12,036	4,643	2,357	5,110	3,702
MULTILATERAL PROGRAMS					
Asian Productivity Organization	0	0	76	80	102
Contribution to EPTA	915	135	400	450	570
Contributions to UNSF	960	480	1,423	1,596	2,020
Voluntary Contributions to IAEA	42	22	25	28	28
Type 2 Fellowship to IAEA	44	32	24	27	24
Total	1,961	669	1,948	2,181	2,744
Grand Total	13,997	5,312	4,305	7,291	6,446

*1 on a disbursement basis.
*2 expenses incidental to training in Japan of fellows under training programs of the United Nations agencies and of national governments.
*3 Replaced by Pre-investment survey scheme in 1962.

out free of charge, for exploring the feasibility of various projects, mostly those related to infrastructure, at the request of the developing countries (see Table 6).

Contributions to Multilateral Aid Agencies

Japan participates too in development assistance by international organizations and multilateral agencies through contributions to these institutions. Japan has paid up $66.6 million, $20.7 million and $2.8 million to the IBRD, IDA and IFC respectively, and has also made contributions to the U.N. technical assistance programmes (see Table 7).

TABLE 7. JAPAN'S CONTRIBUTIONS TO MULTILATERAL AGENCIES
(accumulated totals in thousands of U. S. dollars as of September, 1963)

IBRD	66,600
IFC	2,769
IDA	20,658
U.N. Special Fund	3,979
EPTA	1,665
Asian Productivity Organization	260

Moreover, she has been active in supporting concerted cooperative action among industrialized countries of the free world willing to share the task of extending development assistance to the developing nations in Asia, Africa and Latin America. In addition, she has participated in the DAC cooperating groups and consultative groups, organized under the sponsorship of the World Bank, on Nigeria, Colombia and a few other countries.

To conclude this section with a summary of some principal points: Firstly, the total of foreign aid increased to $371 million in 1961 from $250 million in 1960 and reached 1 per cent of our national income. This increase was due to large credits in 1961 to the Minas Steel Mill (about $100 million) and the Arabian Oil (about $60 million). Because of the disappearance of these large export credits, foreign aid in 1962 decreased again.

TABLE 8. THE FLOW OF FINANCIAL SOURCES FROM JAPAN TO DEVELOPING COUNTRIES IN 1961 AND 1962
(net, million dollars)

	1961		1962	
I. Bilateral Aid		*364*		*273*
A. Grants		68		75
1. Reparations	65		70	
2. Technical co-operation	3		5	
B. Loans and Credits		196		138
1. "Yen" credits	27		12	
2. Export credits (government and private)	169		125	
C. Private Investment		98		68
D. Others		1		−8
II. Multilateral Aid		*7*		*8*
Total		*371*		*282*

Secondly, grants have been confined to reparation payments and "yen credits" are not large. This means that, even if reparations are included in foreign aid, Japan's proper aid in grants are quite limited.

Thirdly, the largest financial flow from Japan to developing countries (approximately three quarters) consisted of export credits and private investment, both of which were provided from Japan's commercial interests in order to promote exports of capital goods and imports of some raw materials, particularly mineral fuels and metals.

Fourthly, both technical cooperation and multilateral aid are limited in amount. On these Japan might well put more importance and emphasis.

III. *Lessons from Experiences*

It may be worthwhile to evaluate critically Japan's foreign aid in the hope of deducing some lessons from past experiences: for example, in what kind of activities and why Japan was either successful or unsuccessful.

Firstly, as has been explained already, Japan's foreign aid in a broad sense mainly comprises export credit and private investment, with which Japan assisted two types of projects in developing countries: one is large projects for developing mineral fuels and metals as well as shipbuilding industry, and the other a large number of small medium firms of labour intensive light manufacturing industries. Governmental loans (the "yen" credit) to India and Pakistan are also directed to large projects.

In the field of large projects, Japan's assistance in general has not been successful and still confronts such difficulties as additional investment needed because of ever growing inflation, inefficient labour and government, strong labour unions, etc., in recipient countries. The only exception is the Arabian Oil which is handled wholly under Japanese ownership and management. Certainly these large projects are risky for they need large capital, longer gestation periods, and even involve a danger of nationalization. Japanese investors, either private or government, are not certain whether their principal and profits will be repaid. Also there is no definite insurance measure to cover long-term credits like those over more than 10 or 15 years. A relative failure in large projects may require the need for internationalization of assistance with outright grants (not on commercial bases).

On the other hand, Japan's assistance to the smaller projects of labour intensive light manufacturing industries and fisheries in developing countries has been in general quite successful. They work fairly efficiently and their products contribute effectively to relieve domestic inflationary pressure and even to develop some export market. Their success is mainly due to the long Japanese experiences and technical advantages in these fields and also partly due to the fact that these light manufactures are more adequate leading industries at the present level of economic development in developing countries, although some countries put priority on heavy and chemical industries.

There is much concern in Japan that the establishment and spread of light manufacturing industries in developing countries, which are competitive against Japan's own light industries, might hurt our exports not only to developing countries but also to the third market. This is true to some extent. The industrialization in developing countries, however, raises income levels and creates bigger demand even for Japanese light manufactures of different types.

Viewed from the standpoint of rapidly changing comparative advantages between Japan and developing countries, it might be better for our light manufacturing industry to move into developing countries where abundant labour and low wages relative to efficiency can be utilized. This is an alternative to Japanese exports of light manufactures having to jump into heavily protected market. Assistance to light manufacturing industry in developing countries increases certainly our exports of capital goods and parts.

These facts suggest to us the importance of identifying Japan's proper and efficient role in foreign aid.

Secondly, Japan's reparations payments have been so far successful and beneficial not only for the receiving Asian countries but also for the Japanese economy. The success and ease of transfer of reparations stem from the fact that it is a reparation transfer from an advanced industrial country to underdeveloped non-industrial countries who have huge and urgent demends for any kinds of manufacture.[8] Japan felt the strain of reparations because of lack of sufficient productive capacity. The principle to which the Japanese Government has adhered of paying reparations with capital equipment and machinery worked beneficially. Almost all of our reparations payments were put in directly productive activities in Southeast Asian Countries. This prevented their being wasted on extravagant consumption in the receiving countries. It also stimulated a great deal of expansion in Japan's heavy manufacturing industries which were still competitively weak in the world market, for the reparations payments in capital equipment and machinery meant that a certain market for Japanese firms was safely provided by the reparations receiving countries who obtained Japanese goods gratis, even though they were a little more expensive than in the world market. In this sense, reparations were beneficial for Japan since they gave a great stimulus for her heavy industries which could expand production scale and reduce costs effectively.

Japanese experience of reparations payments with capital goods suggests that it might be beneficial both for developing and advanced countries if the latter countries as a whole extend outright grants of large international scale in the form of capital equipment and machinery in order to develop directly productive activities in developing countries. This proposal will be examined later more concretely.

Some inefficiency stemmed from a too rigid insistance that reparations be made in capital goods. Because of this, they were sometimes condemned as "monument-building" reparations. To define what are capital goods is difficult and we have to be flexible in our definition. Chemical fertilizers, which are most needed for raising agricultural productivity in Asia, should be thought of as capital goods for agricultural production. We had better widen the concept of capital goods according to the situation and timing of each receiving country. The Japanese Government has kept the principle until recently too strictly and too narrowly. This should be improved.

Thirdly, those overseas investments and reparations payments discussed above are connected closely with Japan's interests in increasing exports, but her investments to developing countries have also been undertaken with the object of increasing imports of primary products, which are vitally important for her economy, at a cheaper price and from a stable source. In other words, Japan invested in those primary industries, mainly oil and metal extracting project, the products of which are most needed for the Japanese economy. This is called

[8] On this point, German reparations payments after the World War I were different and fell into transfer difficulties since requesting countries wanted to receive reparations in money but not in commodities.

"development assistance for import", and is not only beneficial for developing countries but also for Japan since as we increase primary imports from developing countries, we can in return expand our exports to them, particularly since Japan usually has export surpluses with developing countries. It is also useful to stabilize our import prices through long-term purchase contract.

Japan's "development investment for import" has been so far confined to extraction of fuels, iron ore, copper and coal, and, therefore, its benefits were limited to those countries where abundant natural resources are available. If we can extend it to agricultural products, benefits will spread wider in developing areas. Thailand's export of maize to Japan is a good example. Thailand is one of the major rice-exporting countries in a Asia which suffered from a sharp decline in her rice exports due to Japan's increased domestic rice production. In Japan, however, need for animal fodders has been rapidly increasing. As a result of some cooperative efforts among the trading circles of Japan and Thailand, the latter's export of maize to Japan increased from a meagre amount of $2 million in 1957 to $26 million in 1961 and became a significant factor in the diversification of Thiland's export structure.

This kind of Japanese experience suggests that if advanced countries could find some primary products which are worth importing, and assist development of production in developing countries, it will be a great help for their economic development and diversification.

There are some difficulties in Japanese promotion of this kind of development. Firstly, developing countries who receive assistance must themselves strive ingeniously for improving productivity. In the case of maize cultivation, Japan tried to assist not only Thailand but also Burma and some other Asian countries, but only one country has been so far successful.

Secondly, advanced countries such as U.S.A., Canada, Australia, New Zealand, etc., and developing countries particularly in Southeast Asia are competitive in their exports to Japan in many primary products. The advanced countries' products have stronger competitive power, and are superior in quality, delivery, etc. This tends to make Japan's trade liberalization result in an increase in imports of primary products from advanced countries and a decrease in imports from Southeast Asia. Thus, Japan's trade liberalization is apt to "backfire" in Southeast Asia. We should strive, however, to increase mineral materials as well as agricultural products from developing countries faster than from advanced countries in order to assist developing countries and to narrow the gap of our export surplus with them. Improvement of productivity and cost reductions in developing countries are urgently needed. Some investments and technical assistance should be provided from us in increasing amounts. At the same time, Japan should import primary products from developing countries even though they are more expensive than those from advanced countries until developing countries' productivity can be improved through our assistance. This will involve bounties provided at our expense. This cost might be compensated if the developing countries in question would provide in return some preferential import treatment for Japan's capital equipment and machinery. Reciprocal preferential treatment might be practicable and beneficial.

Thirdly, since Japan's capacity to invest abroad and to import primary goods is limited, an internationalization of "development investment for import" is more desirable. Production geared to export to one market (e.g. Japan) might be uneconomical in such. It could also be precarious and result in wider price fluctuations than more widely based markets. Therefore, it is more beneficial for developing countries that a number of advanced countries should cooperate in carrying out this policy on a larger scale than Japan can alone.

Lastly, Japan should put more emphasis on technical assistance which so far has been very successful but limited in scale. Technical assistance is not only quite effective in raising productivity in agriculture and small-scale light industries to which Southeast Asian countries should give first priority for the economic development, but also it is a kind of foreign aid which Japan can provide more easily than financial aid.

In the initial stages of assistance to Southeast Asian countries, the major stress should be placed on agriculture. This should take the form of fertilizer (provided with outright grant from Japan and other advanced countries or produced within the country by plants constructed with the use of some type of aid), improved seeds, more advanced techniques of cultivation, and irrigations. Japan is the only country who has improved the productivity of rice culture tremendously within a short history.[4] The experience of Japan can be a major influence in the field of primary production by providing large numbers of agricultural specialists. Because of Japan's success in developing her agricultural sector, she should utilize this valuable experience.

Parallel to this idea is Japan's capacity to train people in fishery and small industries. These can more easily be established in Asia using Japanese technology rather than Western technology which stresses capital using-labour saving devices. This type of undertaking is extremely beneficial because Japan in the last 50 years has progressed through the stage of development that now confronts developing countries.

These critical reconsiderations of Japan's foreign aid performances reduce to two problems: one concerns Japan's proper role in foreign aid provision in the world scene and the other is the need for internationalization of aid through closer and systematic cooperation among advanced countries.

There is no need to repeat in detail the suggestions already made about Japan's proper and most efficient role in foreign aid in the world scene. To summarize, technical assistance to agriculture, fisheries and small-scale light industries should be given first priority and more emphasis. "Development investment for import" may be very beneficial both for developing countries and Japan. Increasing amounts of investment and loans are needed to establish manufacturing industries in developing countries, but Japan would better confine herself to small scale light industries and directly productive activities and refrain from risky large-scale heavy industry and infrastructure activities in developing countries.

These considerations are closely based upon Japan's economic interests. Aid for developing countries must not be provided from the standpoint of the donor countries' economic interests alone. We do believe, however, that unless aid meets the economic interests of donor countries, it will not continue to increase, particularly from a country like Japan which is still not wealthy. We should search for types of foreign aid that are beneficial both to receiving as well as donor countries.

The above priority for Japan's foreign aid policy might not be satisfactory for developing countries. They might not be content to receive mainly technical assistance. They might prefer the establishment of large heavy manufacturing and chemical industry as a top priority, although even though this is often mainly a question of national prestige. Thus, we may have to teach developing countries the correct and most efficient steps towards economic

[4] See Shigeru Ishikawa, "Conditions for Agricultural Development in Developing Asian Countries—An Appraisal of the Usefulness of Japan's Experiences", Committee for Translation of Japanese Economic Studies, No. 42, 1964.

development. At the same time, there are many things assistance to which is beyond Japan's capacity that should be done by a larger scale of international aid and by regional cooperation among developing countries.

Japan's capacity to provide financial aid is certainly limited, since she needs huge amounts of capital herself in order to grow rapidly and to catch up with Western countries. Also it is widely feared that foreign aid creates difficulties for the already precarious balance-of-payments position in Japan. This is superficially true. However, as experience of reparations shows, if foreign aid is provided properly and cleverly, it increases our exports and will not bring any additional balance-of-payments difficulties. Moreover, foreign aid will stimulate a rapid expansion of comparative advantage, structural adjustment of industry and trade, and thus further growth of the economy and the expansion of trade with developing countries. We have to invent ingenious ways and means of foreign aid. Not only the total sum of foreign aid but also its content is most important.

IV. *Internationalization of Aid to Developing Countries*

It is strongly recommended by the present writer that international economic aid should be increasingly provided to developing countries from developed economies with machinery, equipment, fertilizer and other capital goods for directly productive purposes in the coming decade.[5]

It is quite obvious that developing countries are seriously and urgently in need of more capital goods than they are able to obtain because of the balance-of-payments difficulties due to the slow growth of primary exports. International aid, in the past, however, has been confined either to aid given from humanitarian motives (aid by means of food, medicine, second-hand clothing, etc.) or to aid for building infrastructure and social overhead capital. Aid for directly productive activities has been very limited.

Almost all developing countries, although this varies from one country to another, have already passed by the period of serious food shortages experienced immediately after the war, and should now be able to overcome their food problems by their own efforts.

Take for example Southeast Asia—the increase in populations and in consumption per capita will double the demand for rice during the next twenty years. The manner in which it might be procured, however, is a serious problem. Imports of staple foods to Asian countries become increasingly burdensome and materialize in serious pressure on their balance-of-payments difficulties (especially in India, Pakistan, Indonesia, Mainland China and to some extent South Korea). It is an unusual dilemma of Asia that agricultural countries have to import large amounts of staple foods. If Asian countries come to depend upon foreign aid for food supplies, aid will have to be continued in ever-increasing amounts as population grows.

Asian countries have to develop their own productive power in foodstuffs. If they can save on imports of foodstuffs, they can increase the imports of machines, equipment and other capital goods for industrialization. If the productivity of rice-farming is raised, the productivity of other primary exports will also be improved, and thus per capita earnings will rise. If the productivity of rice is increased, some surplus labour and capital is subsequently created, and

[5] More detail of my proposal is in Kiyoshi Kojima, "A Proposal for International Aid", *The Developing Economies*, (The Institute of Asian Economic Affairs, Tokyo), December 1964.

these can be supplied to industrial sectors. The increase in the per capita income of the vast agricultural population, even if it is a low rate per capita, creates large demands for manufactured goods, this being one of the most important elements for successful industrialization. Sufficient food will also enhance the people's will to work and to improve their way of living.

In Southeast Asia, the increasing demand for rice should be met by the improvement of agricultural productivity through fertilization and irrigation. The yield of rice per hectare in Japan is equal to four tons or more, while in Korea and Formosa it is approximately three tons, and in other areas the yield is as low as one ton. The ranking of productivity is obviously correlated to the quantity of fertilizer used, and the low productivity is mainly due to non-fertilizer. Doubling the yield in twenty years is feasible if chemical fertilizer is used.[6] Provision of chemical fertilizers and/or establishment of fertilizer industries should be aided by international grants. This reduces the costs of aid to less than one-tenth when compared with the costs of aid in food.

Comparatively speaking, the food problem in other developing countries may not be so serious as in Southeast Asia, but the above reasoning would still apply.

In this connection, the food aid under United States Public Law 480 (the Food for Peace Programme) should be reconsidered. Food aids may play an important role in famine relief and as a buffer stock against changes in supply, but not beyond that, and cannot be a fundamental solution for the economic development of developing countries.[7] Food aids have been discouraging urgent efforts to improve food production in developing countries themselves. Foods can be produced more efficiently from the viewpoint of comparative costs than manufactures in developing countries. Sufficient food can also be provided without aid or without importing from developed countries if regional economic cooperation or integration among neighbouring developing countries are promoted. U.S. surplus disposals, on the other hand, have forestalled needed adjustment in donor countries in reallocating resources from agriculture towards more profitable industries.

Infrastructure in many developing countries has up to the present been fairly well developed in relation to their very low stage of industrialization, although it is insufficient in terms of advanced Western Nations' standards. In many instances it is better developed than in Japan. Infrastructure and directly productive activity should develop in parallel fashion, or more probably in see-saw manner through time. The next decade is the time in which developing countries should concentrate on expanding directly productive activities and utilizing infrastructure already available for industrialization. In later years the situation may change and infrastructure will be in short supply again in relation to the expanded directly productive activities, but the shortage may be overcome then by the developing countries' own efforts if industrialization in the next decade is successful.

As explained previously, what is most needed in developing countries at the moment, and in the coming ten years, is the import of capital goods for rapid industrialization and improvement in agricultural productivity. The capacity to import capital goods is seriously limited

[6] This point is clearly illustrated in "Preliminary Report of the Survey of the Fertilizer Economy of the Asia and Far East Region", Food and Agriculture Organization of the United Nations, Rome, 1960.

[7] This is pointed out clearly by J. G. Crawford, "Using Surpluses for Economic Development", XI International Conference of Agricultural Economists, August 21–30, 1961. *Ditto*, "World Agriculture: Some Coming Issues in Trade and Development Policies", U. S. Department of Agriculture World Forum, Washington, May 15–17, 1962. The following should also be referred to: FAO, *Development Through Food*, Rome, 1962, and OECD, *Food Aid, its Role in Economic Development*, 1963.

and fluctuates owing to balance-of-payment difficulties and becomes a primary bottleneck for their economic development. The provision of what is most needed in developing countries should be of the utmost significance in connection with international aid and should be the most efficient and beneficial way of utilizing international aid.

Therefore, in the coming decade, international economic aid in the form of outright grants should be increasingly provided to developing countries from developed economies with machinery, equipment, fertilizers and other capital goods for directly productive purposes. Since it is undeniable that both humanitarian and infrastructural aid make an important contribution to economic development, it is the more desirable if directly productive aid could be increasingly provided as a net addition to previous aid. If this is difficult, however, the emphasis in international economic aid should be transferred from humanitarian and infrastructural aid towards directly productive purposes.

Let us suppose directly productive outright grants are provided to the annual amount of $2,500 million, for the coming ten years. (This can be gradually provided beginning from, say, $1,000 million). Suppose private capital investment from advanced countries reaches $5,000 million (this was $3,200 million in 1961). The total financial resources from advanced countries would thus be $7,500 million.[8] which directly creates new demand for heavy and chemical industries in advanced countries. Suppose the capital-output ratio in those heavy and chemical industries is 1 and an additional demand is created through "acceleration effect" by the amount of $7,500 million.[9] Thus, the total demand for heavy and chemical goods will amount to $15,000 million.

Suppose further multiplier coefficient in advanced countries[10] is 4. The $15,000 million creates national income in the amount of $60,000 million, which is approximately 9 per cent of the present national income in advanced countries as a whole. This increase in national income creates further additional demand for heavy and chemical goods, say one-sixth of the incremental national income or $10,000 million. The total of demand for those goods will be $25,000 million, which means approximately 10 per cent of the present production of heavy and chemical industries in advanced countries.

The increase in national income induces the expansion of imports of light manufactures of labour-intensive type and certain kinds of agricultural products in advanced countries even if the production of those sectors remains unchanged. If labour and capital move from those sectors of comparative disadvantage to heavy and chemical industries, then the scope for importing those commodities is enlarged. It is unreasonable to suppose that the exports of manufactures in which developing countries have actual and/or potential comparative advantages will increase at more than 9 per cent per year, or more than the national income grows.

Exports of manufactures including metals from developing countries amounted to $4,000 million in 1961, of which $2,700 million[11] was directed to developed and centrally planned economies. New international grant and private capital is to be provided to the amount of $7,500 million. Investment of local capital too is certainly stimulated, say to the amount of $5,000 million. Thus the new financial resources amount to $12,500 million which are available

[8] This makes it possible for developing countries to approximately double the imports of machinery and transport equipment which amounted to $8,560 million in 1961.

[9] If there exists excess capacity, the acceleration effect may be small in the beginning and will increase with time.

[10] In the case of the disposal of surplus agricultural products, the multiplier income effect may not be anticipated, or may be very limited.

[11] If base metals are excluded, this amounts to $1,500 million

for establishing and expanding export-oriented manufacturing industries in developing countries.

Suppose the capital-output ratio is 1, as these industries are mainly of the labour-intensive type, but the capital-output ratio is generally higher in developing than in developed countries. Therefore, the $12,500 million investment produces manufactures at the same amount, a tenth[12] of which is supposed to be exported. This creates new manufacturing exports at $1,250 million annually or should reach $12,500 million in ten years time. This means that in 1970 manufactured exports amounting to $4,000 million will increase to $16,250 million[13] or four times, which requires an annual compound increase rate at 16 per cent.

If the proportion of manufactured exports between advanced and developing countries remains unchanged, this requires that advanced countries should increase manufactured imports from developing countries at an annual rate of 16 per cent, reaching $10,800 million,[14] which accounts for 20 per cent in total manufactured imports of advanced countries in 1961 (i.e., $51,100 million) but approximately 10 per cent in 1970, for the latter will also increase during the next decade. Such a volume of manufactured imports from developing countries will be feasible for advanced countries, without serious difficulties.

These are merely examples and it may not be necessary for them to be carried out exactly. However, it is still very clear that the proposal would have beneficial effects on economic expansion and improvement in efficiency, both for developing and advanced countries.

To sum up, the nucleus of the present proposal for improving ways and means of international aid is that economic efficiency of world resources will be immensely improved by the stimulus which is initially provided with a reshuffling of international aid. On the one hand, an increase in directly productive grants induces, owing to its direct and indirect effects, the expansion of heavy and chemical industries and the structural adjustment of resource allocation from comparatively disadvantageous to advantageous industries in advanced countries, and on the other hand, it also makes developing countries able to establish export-oriented manufacturing industries, mainly of a labour-intensive type, and to expand successfully exports of manufactures, markets for which are developed in advanced countries by their structural adjustment. Thus, a more optimum international division of labour in world economy will be attained and international trade as well as economic growth of nations will be harmoniously promoted.

The nucleus for improving the enonomic efficiency of world resources are gains from international trade, on the one hand, based on more optimum international specialization which is created by mutual structural adjustment of resource allocation both in advanced and developing countries, and on the other hand, multiplier income effects in each nation which increases employment, income and international trade with each other.

To realize such a large scale internationalization of aid to developing countries will take some time. In that case, it might be better to begin this sort of internationalization on a smaller scale within the Pacific basin countries.

[12] This ratio of export for production will increase yearly according to the progress of satisfaction in domestic demand.

[13] The balance-of-payments of developing countries in 1970 may also be projected. According to estimates made by UN (*World Economic Survey*, part 1, 1962, p. 8), the magnitude of the hypothetical balance to be covered by policy measures would amount to $11,000 million in 1970, which is required to support the target of 5 per cent annual increase in gross domestic product of the developing countries at the end of the United Nations Development Decade. These deficits will be met if manufactured exports of developing countries are successfully expanded according to our estimates.

[14] Since this includes basic metals, imports which are competitive with advanced countries production may be less than 70 per cent of the $10,800 million.