

JAPAN

Tokyo's ODA policy in turmoil

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FOR more than a decade Japan was playing a leading and decisive role in development initiatives of countries in need of overseas assistance through her Official Development Assistance (ODA) program that saw an uninterrupted increase in budget allocation until Tokyo started to feel the pain of economic downturn. The economic slowdown for the first time in many years saw the emergence within the ruling camp of vocal opponents of country's generous aid policy, who for quite sometime were trying to convince leading policymakers that for Japan time had arrived to put a lid on its generous hospitality. They seem to be at last making a real breakthrough as Japan had to cease its number one position as donor nation last year and further cuts in ODA budget now no longer seems an absurdity.

But at the same time, it would be a grossly mistaken judgment to come to a definite conclusion that Tokyo's earlier role has suddenly come to a total halt or Japan has already changed her course to follow a completely reverse direction. ODA still constitutes the single most important factor for Japan in assessing the weight of influence that the country holds in international politics. Being the number one donor nation in the world did provide certain advantage that Tokyo utilized to the possible highest potential. A number of important international appointments rightfully went to Japanese nominees as a token of appreciation for a country willing to assist those in need; and in handful of other cases when Tokyo's desire was seen to be facing obstacle, Japan didn't hesitate at all to pursue the goal aggressively and in times in bullish manner utilizing the weapon of ODA to tame the opponents. It was reported earlier this year that the Japanese government suspended aid

to Uganda two years ago when it failed to support Japan's candidate for a top UN post, resulting in 11 hospitals across the country being seriously affected. Moreover, Japan's aggressive vote-buying initiatives through her ODA program at the International Whaling Commission came under severe criticism from different quarters in recent days. So, it was not always a one sided affair for Japan to be involved deeply in the foreign policy of ODA. It was also the single most successful diplomatic initiative that Tokyo had taken during the post World War II period, which saw the image of Japan rise sky high fuelling utmost confidence among Japanese policymakers, so much so, that many of them were even suggesting openly that the country should become a permanent member of the United Nations Security Council with rights and privileges that have been enjoyed by the big five.

It was all during a period when the economic fortune of Japan was showing signs of brighter days and as a result confidence was skyrocketing. But as the economic downturn gradually started to indicate the approaching crisis, even many of those who once aggressively defended the policy of foreign aid as the most important pillar of Japan's otherwise faulty diplomatic initiatives started to show signs of nervousness. And reversibly for those who always had shown their reluctance in offering a helping hand to the needy, the right time seemed to have arrived and they jumped in to avail the opportunity by calling on the government to cut country's ODA budget drastically and divert the amount towards the efforts of bailing the economy out of difficulty. The last couple of years of the last century witnessed heated intensified debates among supporters and opponents of the ODA policy that culminated in the call from the opponents for a thirty percent cut in country's ODA bud-

get. But as a thirty percent cut would almost definitely had placed Japan much lower in the list of donors by displacing the country from the top ranking position, the government was adamant in resisting such pressure. So, for more than two years the opponents had to wait until they were successful in pursuing the policymakers for an initial three percent cut in ODA budget in 2001 fiscal year to be followed by another ten percent reduction in the current fiscal year.

Despite only a three percent cut in ODA budget in 2001, a sharp depreciation of Japanese currency in exchange of US dollar further eroded the real value of Japan's ODA and the country had witnessed eighteen percent reduction in ODA budget in real term, which for the first time since 1996 pulled down the volume of Japan's yearly ODA allocation to below 10 billion dollar figure. This also displaced the country from the top donor position that Tokyo enjoyed for a decade since 1991. Tokyo's aid in 2001 amounted to US\$ 9.7 billion against US\$ 10.9 billion provided by the United States in the same year.

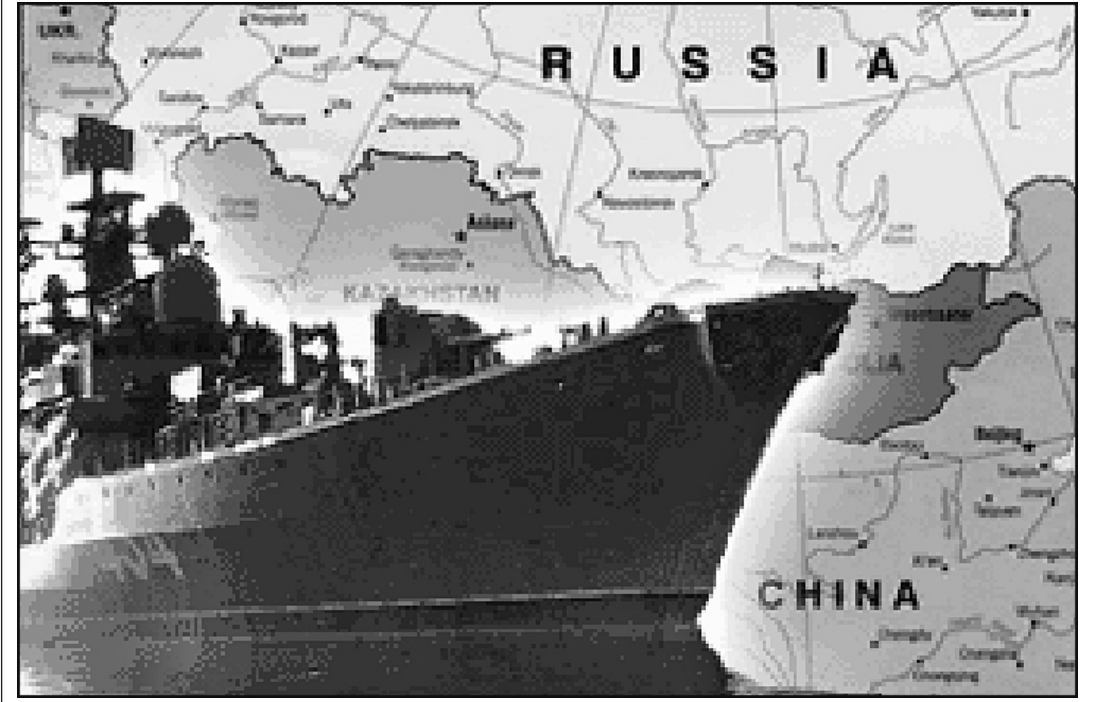
It is not only in terms of increasingly downsizing figures that Japan's ODA is facing serious crisis in recent days. A series of scandals related to a number of ODA projects in different countries as well as increasing criticism at home about the lack of transparency in the use of funding also compelled the program to face growing calls for a complete review of its operation. As part of the trend towards reform, a senior official at the Ministry of Economy, Trade and Industry has been appointed as the new director-general of the Foreign Ministry's Economic Cooperation Bureau, which handles ODA. The post was until now a reserved privilege for foreign office bureaucracy, who was reluctant to give in to the pressure from outside. But a number of ODA related scandals involving influential

politicians, foreign ministry officials and leading business firms left no other option open for the policy-makers but to go for a thorough overhauling of the system.

Meanwhile, a foreign ministry advisory panel has urged the ministry to make its aid more efficient and transparent. The 13-member panel that came up with a reform action plan, also recommended the formation of a five-member panel of private-sector representatives for evaluating projects funded by Japanese grant aid. The quality of Japan's ODA has not improved as much as some insiders claim. Suspicions of improper use of ODA fund are quite widespread, which proved to be partially true as the influential lower house lawmaker Muneo Suzuki has been indicted for taking bribes. He is also suspected of using his influence over a bid for an ODA project.

Japan seldom ensured transparency of projects conducted overseas with its assistance. Tokyo has not adequately considered the extent to which ODA helps recipient countries or how it serves Japan's own interest. The Foreign Minister now seems to be serious about addressing such criticisms not only verbally, but also with real initiatives. The appointment of Hajime Furuta, director general for commerce and distribution policy at the Ministry of Economy, Trade and Industry, as director general of Foreign Ministry's Economic Cooperation bureau is probably the first step towards that direction. Japan's ODA policy, as a result, is bound to go through much more radical changes in recent days to make the program compatible to the needs and calls of the twenty-first century.

Russia warily finesses China ties



IN an extremely rare meeting of Russia's ambassadors, Russian President Vladimir Putin recently explained Moscow's closer ties with the United States and Europe -- calling the emerging partnership between Moscow and Washington one of Russia's top priorities and urging the creation of a "common economic space" encompassing Europe and Russia, according to Interfax. The president's message is an outgrowth of a solidifying foreign policy initiative that links Russia's future -- at least over the next five to 10 years -- firmly to Europe and the United States.

This political and economic initiative also has a security component that is evident in Russia's new arrangement with NATO, Moscow's cooperation with Washington in Central Asia and the common view of an "Islamic militant threat" shared with the United States. Foreign Minister Igor Ivanov expanded on this component in a July 10 interview with Russian daily Izvestiya, explaining that Moscow sees Afghanistan as a more realistic threat than a "global nuclear catastrophe or aggression by the United States and NATO." In short, Ivanov said, "The threat to Russia lies in the Caucasus and on the Asian border."

Although Ivanov did not name China directly as a perceived threat and in fact tried to put a friendly face on Moscow-Beijing ties, it is clear that Russia's already wary view of China is becoming more so. With most of its population located west of the Urals and its military a mere shadow of the former Soviet force, Russia has little ability to defend its eastern reaches by traditional means. Instead, Moscow appears ready to use China's naval ambitions and Washington's Pacific concerns to keep China occupied to the west and south, rather than focusing north on Russia.

The Russian-Chinese relationship has been mixed since the collapse of the Soviet Union, and even long before. In the early 1990s, Moscow wavered between seeking support from the West and establishing a strategic partnership with Beijing to counter Washington's unchallenged power. Beijing did not fully commit to the partnership either, keeping one hand out to the West for investment and trade while the other was reaching for Moscow. But China's rapid economic expansion during the late 1990s and into the 21st Century contrasted sharply with Russia's rapid decline, and the collapse of the Russian economy left Beijing with little reason to care for its former rival.

China and Russia continued to negotiate, but Beijing began to see itself as the stronger partner of any relationship. This raised concerns in Russia that China posed a very real, albeit future, threat to Russia's resource-rich but population-poor eastern territories. Yet with Putin's inauguration, Russia began to seriously rethink its strategic global position -- and as Putin tightened his control at home, he began to portray Russia's future as intimately tied to Europe and the West. The events of Sept. 11 provided the perfect opportunity for Putin to put his plan fully in motion: Russia quickly joined in with Washington's anti-terrorism war, offering support, intelligence and a conciliatory attitude toward the U.S. presence in the former Soviet states of Central Asia.

Putin's strategic calculation was to integrate Russia economically into Europe while downplaying his nation's threat to U.S. interests, thus ensuring Moscow's security and opening a channel for economic assistance and investment. Although this required several apparent "concessions" to the West -- not the least of which was dialing back opposition to Washington's missile defense plans -- Putin determined that he could control the expected internal backlash so long as he could demonstrate clear authority and prove the tangible benefits of his Westward-looking initiative.

Aside from the old-school, hard-line Communists and the right-wing Russian nationalists, the group most clearly distraught with Putin's plans are Chinese leaders. Although Beijing had treated Moscow as a second-tier power in their strategic partnership, the rapidly shifting global order after Sept. 11 left China out in the cold. Even as the United States was accepting the legitimacy of Russia's campaign against the Muslim Chechens, Washington was criticizing Beijing's continued crackdown on the Muslim Uighurs from the western Xinjiang province.

Whereas China had been the center of U.S. attention -- both as an emerging economic power and as a politi-

cal and even military competitor in Asia -- before Sept. 11, it quickly slid off Washington's radar screen after the attacks. The nation's importance as a new World Trade Organization member also has paled amid the global economic slump, leaving Beijing struggling with the domestic social consequences of its more liberal market policies. With most of the world siding with the U.S. war against terrorism -- whether out of fear, desire for rewards or true sympathy -- China became a lone voice in the wilderness crying out against Washington's hegemonic goals, while its erstwhile partner was handing the keys to the former Soviet empire over to Washington's expeditionary forces in Central Asia.

Beijing always has been wary of Putin, and his apparent sell-out to the West along with Moscow's tacit acknowledgement of the "China threat" only confirmed leaders' suspicions about the KGB-agent-turned-president. Suddenly, with Moscow making moves like announcing that China was interested in taking over the Lourdes base in Cuba, it became clear to Beijing that Russia was setting it up to butt heads with the United States.

And this is apparently what Moscow intends, now that it is firmly moving toward reaping economic benefits from its Westward orientation. For Russia, China represents a clear security threat: a competing Asian land power, overpopulated and sitting astride the wide expanses of Russia's far east, where energy and other natural resources abound. With Moscow clearly unable to protect these borders through military means and with its nuclear deterrent insufficient to halt creeping migration from China, Russia needs a backstop in Asia -- something or someone to keep China in check long enough for Russia to re-emerge as a regional, if not global, power a decade or two down the road.

The obvious choice would be to come to terms with Japan, using the historical enmity between Tokyo and Beijing to protect Russia's eastern flank. But Moscow cannot trust Japan to keep its own imperial desires in check, so any work with Tokyo must be managed carefully. Moscow also has some leverage with China's other eastern neighbor, North Korea, but the hermit kingdom poses little threat to Beijing. Moreover, Russia's ties with Seoul are souring over Moscow's overdue debt to South Korea, making any partnership there even more unlikely than usual.

For Russia, aligning with another power to contain China presents another problem: It could expose the latent antagonism between the two nations and thus turn China's attention to countering Russia. Instead, Russia can avoid fully alerting Beijing to its goals and keep China off-balance with a carefully targeted program of military sales. Although Moscow and Beijing have deals in the works that include SU-30 multi-role attack fighters, most newer arms deals are designed to enhance China's naval capabilities. From Sovremenny destroyers with advanced ship-to-ship missiles to new Kilo-class submarines, Moscow is feeding Beijing's voracious appetite for new naval technology.

China's naval modernization is fueled by Beijing's desire to never again be constrained by Washington's naval prowess -- as it was in 1996, when the United States dispatched two carrier battle groups to the Taiwan Strait in response to Chinese missile tests. China fears that crucial supplies shipped by sea could be interdicted, particularly the oil it imports from the Middle East. Beijing also wants to expand its strategic reach to the South China Sea and beyond, not to mention build up a military force capable of truly defeating Taiwan's defenses.

Although China will continue to keep a wary eye on Russia, modern naval technology will prove too tempting to turn down. Yet Beijing's naval enhancements inevitably will drive Taiwan and other Asian nations to improve their own naval capabilities, and this will in turn bring in the United States, which will see China's naval expansion as a challenge to its own control of the Pacific.

With an occasional nudge here and there, Moscow can keep Washington and Beijing at each other's throats while Russia rebuilds its economy and eventually its military with help from Europe.

Courtesy: Stratfor

Five years on: The poor in crisis

ALAN BOYD

FIVE years after the start of East Asia's economic crisis, the poor are finally getting a better deal. Though the social scars will be apparent for another generation or more, poverty is in most cases back to pre-1997 levels, and likely to continue falling through the rest of the decade.

The bad news is that wealth disparities have in some cases become far more pronounced, disproving a popular conception that it was the affluent middle classes who took the brunt of the economic storm. An estimated 26.8 million people will this year earn less than US\$1 a day in South Korea, Indonesia, Thailand, Malaysia and the Philippines, compared with about 27.4 million who were classed as poor when the upheaval began.

Not all countries have managed to turn the clock back. There are still 39 million Indonesians living below the poverty line according to government figures, equivalent to 19 percent of the population of 210 million and slightly more than in 1997. In Thailand, an estimated 11 percent of the population does not have enough to eat, about the same as five years ago, though this is still a sharp improvement from the trough of 15.9 percent reached in 1998.

Malaysia and South Korea have both achieved lower poverty rates than in 1997, probably due in part to their more centralized - and effective - welfare systems, as well as a smaller dependency on rural economies.

On a regional basis, those on lower incomes have generally seen their economic influence trimmed in the past five years. In Indonesia they now control only about 26 percent of national income, down from 30 percent in 1996; poorer Thais have seen their share dwindle from 34 percent to 32 percent. This partly reflects an economic trend, evident since the early 1990s, for production to become steadily concentrated within a relatively small network of interlocking family companies.

Thus, South Korea, Indonesia and Thailand achieved most of their big leap forward during the 1980s and early 1990s without achieving a corresponding improvement in wealth distribution. Malaysia did in the 1980s, but lost ground in the following decade.

But just how accurate is the overall poverty picture, given that it is based on 1993 purchasing power? Consumer prices have risen by as much as 15-20 percent in some countries since the start of the crisis, making it unrealistic that most people could survive on \$1 a day. If we apply the more demanding income benchmark of \$2 a day, which is already in common use in other developing regions, a combined 180 million people fail the test in Indonesia, Thailand and the Philippines. These were the countries that suffered the biggest social fallout from the crisis.

Altogether, 51 percent of East Asians were living on less than \$2 a day in 2001, according to the Asian Development Bank (ADB), up from 46 percent on the eve of the crisis in 1996.

At one point, in 1999, the proportion was as high as 55 percent.

The financial turmoil that broke out in Thailand in July 1997 had an impact right across the social spectrum, removing jobs, raising food prices, making credit unattainable, uprooting families, disrupting education and in some cases putting basic health services beyond reach. Urban poverty in South Korea surged from 8.6 percent to nearly 23 percent during the worst period, in 1997-98. Inflation reached 80 percent in Indonesia in 1998 and 15 million people lost their jobs. Unemployment rose to almost 9 percent of the workforce in Thailand.

Not surprisingly, poverty patterns are closely related to economic disruption: studies by the ADB suggest that national incomes need to expand by 3-4 percent a year to prevent more of the population falling into the trap.

East Asia has witnessed history's fastest recorded reduction in poverty since 1960, a period that also saw the world's greatest economic miracle. More than 200 million people left the ghettos behind, even while another 400 million were being added to the total population. Using the guideline of \$1 a day, the number classed as poor in East Asia dropped by nearly two-thirds between 1975 and 1995 alone. Most of the decline occurred between 1985 and 1995, when incomes climbed the most rapidly.

In contrast, poverty levels rose sharply in 1998, when gross domestic product grew by less than 2 percent. Life expectancy fell slightly, and there were more reported cases of serious illnesses due to deteriorating nutrition. Similarly, the number of poor in Latin America rose from 197 million to 209 million between 1990 and 1995 because economic growth averaged only

slightly more than 2 percent.

Government leaders, preoccupied with soaring financial debts and a potential rupture of entire economic systems, as well as political stresses in Indonesia, Thailand and the Philippines, responded with little conviction to the poverty threat in East Asia. State spending on social-welfare nets as a proportion of overall budgets was initially boosted with the help of development aid in 1997, but still declined in most countries during the life of the crisis. Thailand spent 4.5 percent of its budget on welfare measures in 1996 but only 4.4 percent in 1997, 4.1 percent in 1998 and 4.3 percent in 1999. Malaysia invested 5 percent of funding in 1997, but cut back to 4.9 percent in 1998 and 4.7 percent in 1999.

By 1998, the toughest year of the upheaval, East Asia was spending less on poverty alleviation than Africa and Latin America. But on the other hand, it was getting more for its money, thanks to an entrenched cultural sense of inter-dependency and a tendency to achieve better targeting. Oxfam, the British-based international relief agency, noted in a 1999 report that public funding in East Asia was focused more heavily on primary and basic education and on low-cost health interventions that brought the most benefit to the poor.

Hence, Vietnam had an average income comparable only to that of Nigeria, but its average life expectancy was 15 years longer, its children were twice as likely to reach their fifth birthday and literacy rates were also twice as high. China's per capita income is barely 50 percent of Brazil's, but its population can expect to live four years longer than the average South American.

Studies by United Nations relief agencies suggest that East Asian communities survived because of an impressive level of self-reliance, especially in rural areas that could no longer fall back on casual

employment at urban building sites.

Another factor was the region's historically high level of household savings, which offered a partial safety net when public funds petered out. During 1997-2000, median gross domestic savings rates amounted to 33.5 percent in South Korea, Indonesia, Thailand, Malaysia and the Philippines, helping to maintain consistent levels of private consumption even when job losses were climbing. In Western countries, the average median gross domestic savings rate rarely rises much above 25 percent, while some other Asian countries - notably China - have managed more than 40 percent.

Though it was never going to be enough to withstand the wider economic turmoil, the savings buffer probably helped East Asia avoid an even worse social toll by enabling continued access to food and medicines. Infant mortality rates, usually viewed as an indicator of overall well-being within a community, stayed steady through the crisis. The fatality rate was 35 per 1,000 live births in 1999, compared with 40 in 1990.

Nevertheless, the hidden toll from the economic upheaval is probably still emerging. Oxfam believes there will be a massive rise in infectious diseases such as malaria and tuberculosis in coming years due to reduced spending on medicines. An increase is also expected in the incidence of mental illnesses, while the premature exodus of millions of children from schools, with limited education levels, will weaken the earnings capacity of the next generation of breadwinners.

"The message from East Asia ... is that rapid poverty reduction is possible and that just as governments and institutions have been serious about growth, they will also have to get serious about poverty reduction and human development," Oxfam warned.

Courtesy: Asia Times Online

