



Università
Ca' Foscari
Venezia

**Corso di Laurea magistrale (*ordinamento ex
D.M. 270/2004*)**

in Relazioni Internazionali Comparate

Tesi di Laurea

—

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**Japanese ODA to China: the
enabler of FDI**

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Anno Accademico

2012 / 2013

ABSTRACT

I programmi di assistenza ufficiale allo sviluppo (ODA) concessi dal Giappone alla Cina si sono rivelati di fondamentale importanza per la facilitazione dei processi di entrata degli investimenti diretti esteri del Giappone in Cina, così come per lo sviluppo dell'economia cinese. Per cominciare, possiamo certamente affermare che l'assistenza ufficiale allo sviluppo del Giappone ha avuto un ruolo importante nello sviluppo della Cina moderna, dal superamento di ostacoli legati alla mancanza di infrastrutture economiche, fino allo sviluppo di risorse umane e alla protezione dell'ambiente. Di conseguenza, possiamo dire che a partire dal 1978, anno in cui la Cina ha ufficialmente aperto le porte agli investimenti stranieri, fino a tempi recenti (anche se nel 2008 la maggior parte dei fondi ODA destinati alla Cina è stata tagliata dal governo Giapponese) gli ODA del Giappone hanno contribuito a migliorare l'ambiente di investimento in Cina, spianando la strada agli investimenti diretti esteri del Giappone. Col passare del tempo, i programmi ODA del Giappone hanno apportato cambiamenti importanti all'economia Cinese, che è diventata un grande polo di attrazione non solo per gli investitori Giapponesi, ma anche per gli IDE mondiali, grazie alle peculiarità degli aiuti ufficiali allo sviluppo del Giappone, che si sono concentrati principalmente sull'incremento della produzione industriale della Cina destinata all'esportazione, in un primo periodo, e sulla penetrazione del mercato interno della Cina in un secondo periodo. Lo scopo principale di questo studio è dimostrare che gli ODA del Giappone hanno modellato il proprio intervento sulla base dei bisogni dell'industria Giapponese in Cina durante il cambiamento della strategia madre di investimento del Giappone, ossia dall'esportazione verso i mercati internazionali di prodotti giapponesi alla penetrazione del mercato interno cinese. In questo ambito gli ODA hanno prima creato le infrastrutture economiche necessarie all'industria Giapponese, e poi hanno migliorato le competenze delle risorse umane e le infrastrutture sociali della Cina. Nel caso di studio che propongo nell'ultimo capitolo di questo lavoro, ho infatti cercato di dimostrare ciò, nell'ambito dell'evoluzione degli investimenti ODA e IDE del Giappone nei tre porti cinesi di Dalian, Shanghai e Tianjin, focalizzando l'attenzione sul cambiamento visibile nelle tipologie di investimento che il Giappone ha adottato nel tempo in questi tre porti. Il mio lavoro può essere inquadrato in un panorama molto più ampio di ricerca, che è quello collegato a tutte le varie teorie esistenti sulle caratteristiche particolari degli ODA del Giappone, che è stato spesso criticato come un attore disorganizzato e incompetente a confronto con gli altri paesi donatori di ODA Europei e Americani. Al contrario, il mio lavoro sebbene è incentrato sulla dimostrazione del legame esistente tra ODA e interessi economici Giapponesi, non vuole criticare il sistema di aiuti Giapponese, anzi, mira a sottolineare come gli interventi del Giappone in Cina hanno non solo portato vantaggi alle industrie Giapponesi, ma anche dato una forte spinta alla crescita economica cinese, tramite la costruzione di infrastrutture economiche e lo sviluppo delle risorse umane locali. Inoltre, esso è un'ulteriore prova che va ad unirsi alle tante già esistenti, per quanto riguarda le forti connessioni e gli accordi esistenti ai più alti livelli tra il governo e le lobby industriali Giapponesi, non solo nell'ambito nazionale del Giappone, ma anche nel campo internazionale fra ODA e IDE, come viene dimostrato nel nostro caso. Il mio lavoro inizia con una breve introduzione che sottolinea l'importanza degli ODA concessi dal Giappone alla Cina per la creazione di un ambiente di investimento adatto a ricevere gli IDE del Giappone. Successivamente, nel primo capitolo cerco di illustrare le peculiarità degli aiuti ufficiali allo sviluppo e in cosa differiscono dagli investimenti diretti esteri, per poi passare a un breve riassunto delle caratteristiche principali degli ODA dei maggiori paesi donatori e delle organizzazioni internazionali. Mentre, nel secondo capitolo

propongo una descrizione dettagliata degli ODA del Giappone, analizzando la storia degli ODA, la filosofia che si trova alla base degli ODA, le principali categorie di ODA concesse dal Giappone, le istituzioni del governo Giapponese che gestiscono gli ODA, il processo di implementazione degli ODA, e passando in rassegna i maggiori beneficiari degli ODA Giapponesi. Nel capitolo tre faccio un'analisi dei dati che riguardano gli ODA e gli IDE del Giappone in Cina e gli ODA e gli IDE degli altri maggiori investitori mondiali in Cina, in modo da vedere le differenti logiche di investimento adottate dal Giappone e dalle altre nazioni e istituzioni. Dal confronto si nota che, per quanto riguarda gli ODA, il Giappone si è concentrato principalmente sullo sviluppo delle infrastrutture economiche cinesi, a differenza degli altri paesi che si sono concentrati per la maggior parte sullo sviluppo delle infrastrutture sociali; per quanto riguarda gli IDE invece, possiamo osservare che i processi di delocalizzazione del Giappone in Cina hanno riguardato la maggior parte delle funzioni produttive (incluse quelle ad alto contenuto tecnologico), a differenza degli altri investitori che hanno preferito una strategia di delocalizzazione più isolata e mirata al puro sfruttamento del basso costo della manodopera cinese. In questo contesto, gli investimenti del Giappone hanno generato maggiori benefici per la Cina rispetto a quelli degli altri paesi, visto che oltre a fornire infrastrutture economiche utilizzabili dalla Cina, hanno anche stimolato processi di trasmissione del *knowhow* industriale, tramite una delocalizzazione dei processi industriali più completa, sviluppando il settore delle risorse umane in Cina. Inoltre, gli ODA del Giappone hanno prodotto un effetto attrattivo verso gli IDE degli investitori stranieri, che hanno aumentato l'ingresso di valuta estera in Cina. Nel capitolo quattro, descrivo la storia degli ODA del Giappone in Cina, fornendo un elenco dettagliato dei progetti ODA del Giappone, con una particolare attenzione alla categoria degli *ODA loans*, che sono la categoria di ODA più importante ai fini del mio lavoro, dato che sono stati utilizzati quasi esclusivamente per la costruzione di infrastrutture economiche in Cina, inclusa la costruzione di porti. Questo *focus* sugli *ODA loans* parte dal 1978 anno ufficiale di apertura della Cina agli investimenti diretti esteri, e prosegue fino al 2008, anno in cui i progetti *ODA loans* per la Cina vengono completamente eliminati dal Giappone. In seguito, ho riportato un breve riassunto sulla storia dell'evoluzione degli investimenti diretti esteri del Giappone in Cina dal 1978 al 2009, in base alla teoria del Professore Shibota Atsuo membro del *Research Institute of Economy, Trade & Industry*, che illustra i principali *trend* di investimento del Giappone in Cina dal 1978 al 2009. Poi ho riassunto i principali cambiamenti che si sono verificati nella strategia di investimento degli ODA, e ho cercato di individuare le principali tipologie di investimento adottate dal Giappone in Cina dal 1978 ai nostri giorni. Nel capitolo cinque prendo in esame l'evoluzione degli ODA e degli IDE del Giappone, durante le tre decadi che hanno caratterizzato la presenza degli investitori Giapponesi in Cina (80, 90, 2000), nei tre porti cinesi che sono oggetto del *case study*, ossia Dalian, Shanghai e Tianjin. In base a quanto riscontrato nell'analisi da me fatta, gli interventi ODA del Giappone sono serviti a creare un ambiente di investimento favorevole all'entrata degli IDE del Giappone nei tre porti in un secondo momento, e le stesse infrastrutture costruite tramite ODA giapponesi (coadiuvate da nuovi ODA per lo sviluppo delle risorse umane e dagli IDE) sono poi state riutilizzate quando la strategia del Giappone in Cina è cambiata, passando dal *focus* sulle esportazioni nei mercati internazionali al *focus* sul mercato interno cinese. Le connessioni presenti fra ODA e IDE del Giappone in questi tre porti sono facilmente rintracciabili nei casi di Dalian e Shanghai, e un po' meno nel caso di Tianjin, ove tuttavia si è formato un grande cluster industriale Giapponese. Infine, nelle conclusioni riassumo i contenuti principali del mio lavoro, e riporto tre opinioni diverse riguardo la concessione di aiuti ufficiali allo sviluppo del Giappone alla Cina; gli studiosi che ho preso in considerazione sono un

professore Americano, un professore Cinese e un giornalista Giapponese che esprimono pareri diversi e parzialmente contrastanti sull'argomento. Successivamente, ho fatto un'osservazione che riguarda la teoria della divisione interregionale del lavoro applicata dalle multinazionali Giapponesi in Asia, con un particolare *focus* su due esempi diversi di strategie di investimento adottate dagli investitori Giapponesi in Cina. In conclusione, ho ricapitolato i risultati del mio lavoro e verificato le ipotesi da cui sono partito. Le principali fonti che ho utilizzato sono libri e articoli di riviste specializzate di autori di varie nazionalità che esprimono diversi punti di vista riguardo agli ODA del Giappone per la Cina (per la maggior parte di autori Cinesi, Giapponesi, Americani, e Nordeuropei), documenti di istituzioni Giapponesi (JICA, MOF, MOFA, JBIC), pubblicazioni e atti congressuali di organizzazioni governative e non governative, pubblicazioni di organizzazioni internazionali, articoli pubblicati da società private, etc. Per quanto riguarda i dati sugli ODA e gli IDE del Giappone e degli altri paesi ho fatto riferimento ai *database* dell'*OECD* del *MOF* e del *MOFA*, mentre per quanto concerne i dati sui tre porti analizzati, ho fatto riferimento alle rispettive autorità portuali, al sito del porto di Rotterdam, e al sito di *World Port Source*. In aggiunta, ho trovato alcuni dati e commenti interessanti anche in interviste televisive fatte a professori Cinesi esperti del settore. I risultati del mio studio dimostrano che gli ODA del Giappone si sono conformati alle necessità degli investitori Giapponesi in Cina; in particolare, durante il processo di trasformazione parziale delle piattaforme orientate all'esportazione, costruite dal Giappone in Cina, in piattaforme per la penetrazione del mercato interno cinese, che è stata completata con successo grazie anche al supporto fornito dai progetti ODA. Infatti, gli ODA del Giappone hanno fornito le infrastrutture economiche necessarie in un primo periodo, e hanno creato delle risorse umane locali qualificate e ulteriormente migliorato l'ambiente di investimento, dopo il cambiamento della strategia Giapponese in Cina nel 2001.

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Introduction

The FDI enabling function of Japanese Official Development Assistance was one of the most important factors, which favored the entrance of Japanese Foreign Direct Investments in China after the opening of the Chinese economy in 1978. As a matter of fact, the Chinese investment environment at the end of the 70s was barely attractive for Japanese investors, due to the lack of economic infrastructures that characterized the Chinese territory, to the backwardness of the local technology, and to the absence of qualified human resources. However, the proximity of China to the Japanese peninsula, the richness in raw materials of the Chinese territory, a large pool of low-cost labor, and the possible future access to an enormous market represented a stimulating profitable opportunity for the Japanese government and the Japanese private sector. As a result, the Japanese government, who wanted to exploit the large potentialities offered by China, decided to start Official Development Assistance programs to China in order to improve the local investment environment, above all through the construction of economic infrastructures, thus creating a suitable environment for future Japanese FDI. Being Japan an economy strongly focused on exports at the end of the 70s, the Japanese investment strategy firstly relied on the construction in China of a series of exporting platforms, that allowed a drastic cut of production cost for Japanese companies, through a large outsourcing of the production processes, therefore improving Japanese products competitiveness in the international markets, and consequentially starting processes of transmission of industrial knowhow to China as well. On the other hand, starting from 2001, when China entered the WTO, the Japanese investment strategy in China partially changed, concentrating more on the sales of Japanese products in the rising Chinese national market, and shifting the attention of Japanese ODA to the development of the new fields of social infrastructures, human resources, and protection of the environment. The ODA projects of Japan to China built the framework which was necessary to Japanese FDI for their activities, first, by developing Chinese economic infrastructures, and after 2001 by developing Chinese social infrastructures. Furthermore, we can notice that in order to successfully implement its investment strategies, Japan widely relied on the accord existing between the Japanese government and the Japanese private sector at the highest levels, for promoting the interests of Japanese companies overseas, through the implementation of official development assistance projects in China, aiming at resolving the problems that were afflicting the Japanese industry in China. For instance, the case study about the three Chinese seaports of Dalian, Shanghai and Tianjin that I propose in my work, is a representative example of the enabling effect produced by Japanese ODA on the investment environment of these three seaports which attracted many FDI from Japanese companies; moreover, in this case study is visible the connection that existed between the Japanese government and the Japanese private sector interests as well.

I chose this topic for my thesis, since is interesting to see how Japanese ODA built in China a modern investment environment, ameliorating the economic infrastructures, the social infrastructures, the human resources, and the protection of the environment; therefore, reducing the risks and costs of FDI for Japanese investors, and boosting the economic development of China at the same time.

My work focus on the period that goes from 1978, the year of Deng Xiaoping¹ reforms that opened China to foreign direct investments, to nowadays, with a special attention to 2008, when the largest part of Japanese ODA programs to China ended. Indeed, in these years Japan was the largest investor in the world of ODA and FDI for China, thus revealing us the relevance China had for the Japanese investment strategy in those years, and still has today. From a spatial point of view, my work concentrates on Japanese investments in China, with a particular attention to the three Chinese seaports of Dalian, Shanghai and Tianjin, given that China, and especially these three seaports are among the locations of the biggest overseas Japanese industrial production clusters in the world, and represent three of the most important geographical areas for the concentration of Japanese investments in China.

The main objective of my study is demonstrate that Japan's ODA provided for the needs of the Japanese private sector in China; in particular, during the partial transformation of Japanese export-oriented platforms into basis for the penetration of the Chinese internal market, that started in fiscal year 2001, when the main task of ODA shifted from the development of economic infrastructures to that of social infrastructures and human resources. As a consequence, this shift in the Japanese investment strategy for China, officially initiated by the 2001 document of the Japanese Ministry of Foreign Affairs, the "Economic Cooperation Program for China", was successfully completed principally thanks to the support provided by the Japanese official development assistance projects. As a matter of fact, in the evolution of Japanese investments in the three seaports of Dalian, Shanghai, and Tianjin that is analyzed in the case study, the shift of ODA projects adapting to the evolution of local Japanese investments is clearly visible, as are visible the advantages brought by Japanese ODA to FDI, thus confirming the relevance of Japanese ODA in the Japanese FDI strategy.

A number of studies was done about the linkage existing between Japanese ODA and FDI in the Japanese foreign aid recipient countries by different scholars, who usually tend to criticize the Japanese ODA system for these links with the Japanese private interests, as well as for its inefficiency and disorganization. On the other hand, I believe that the Japanese foreign aid system is one of the best functioning aid systems in the world, notwithstanding the fact that Japanese ODA acts in accord with Japanese FDI; indeed, Japanese ODA dramatically ameliorated the Chinese investment environment, boosting the FDI attracting capacity of the Chinese economy, and consequentially the Chinese economic development. As a consequence, I focused my work on the FDI enabling function of ODA in the three Chinese seaports of Dalian, Shanghai, and Tianjin, in order to provide an analysis of the connections existing between Japanese FDI and ODA, seen under a different point of view. My thesis is divided in five chapters, in the first chapter I start with a description of the features of Official Development Assistance, and a brief illustration of the characteristics of the ODA of the major donor countries and international organizations in the world, pointing out which are the differences of their Official Development Assistance philosophies. In chapter two, I delineate the Japanese ODA system, in particular focusing on the history and philosophy of Japanese ODA, on the main categories of ODA, on the Japanese institutions that handle ODA, on the ODA implementation processes, and on the main recipients of Japanese ODA. Chapter three is an analysis of data concerning ODA and FDI of Japan and other major donor countries and international organizations in China. In this first part, I examine data about Japanese

¹ For the transcription of all the Japanese and the Chinese names present in my work, I utilized the Oriental system, which is characterized by a word order surname-name.

and world ODA in China, finding that Japanese ODA distinguished from the other donor countries for a stronger focus on the development of economic infrastructures in aid recipient countries, while the other international actors preferred to concentrate on the development of social infrastructures. On the other hand, in the second part of the chapter I took in consideration the Japanese and world FDI in China, discovering that the Japanese investment strategy relied more than other countries on the outsourcing of many of its production functions in China, including Chinese local supply for high tech components, whereas the other foreign investors, except for Korea that utilized the same investment strategy of Japan, chose a more isolated process of delocalization. In this framework, the Japanese ODA and FDI created more benefits than the other countries in China, given that the economic infrastructures built through ODA boosted the Chinese economy, and the wide outsourcing of production processes stimulated the transmission of industrial knowhow to local Chinese human resources. Chapter four analyzes the history of Japanese ODA to China, with a focus on the ODA loan programs of Japan, that are the most relevant category of ODA for my study, since they were utilized mainly for the construction of economic infrastructures in China, including seaports; while, in the second part of the chapter, I propose a brief analysis of the main trends of Japanese FDI in China from 1978 to 2009, basing on the theory of Professor Shibota Atsuo. Moreover, in the last part of the chapter, there is a description of the evolution of Japanese ODA in China, and a categorization of the main typologies of FDI implemented by Japan in China. In chapter five, I illustrated the case study about the three seaports of Dalian, Shanghai and Tianjin which is at the center of my work; through an analysis of the evolution of Japanese ODA interventions and an analysis of the evolution of Japanese FDI in these three seaports I tried to find out the connections between ODA and FDI. The results of the analysis demonstrated that a strong linkage between Japanese ODA and FDI existed in the seaports of Dalian and Shanghai, while in the case of Tianjin the accord among ODA and FDI was less visible. Finally, in the conclusions I examined the opinions of three scholars (an American professor, a Chinese professor, and a Japanese journalist) about Japanese ODA to China, in order to see some of the critics and praises that are addressed to Japanese ODA for China; next, I made some considerations about the strategy of international division of labour applied by Japanese companies in China, and resumed the main findings of my work.

The sources I used for my work are books and papers about the philosophy and history of Japanese official development assistance and Japanese foreign direct investment written by authors of different nationalities, expressing various and sometimes contrasting points of view about Japanese ODA and FDI. Furthermore, I utilized also projects evaluation reports of the Japanese ODA projects in China made by the Japan International Cooperation Agency and the Overseas Economic Cooperation Fund, publications of Japanese aid institutions (JICA and JBIC), and publications of international organizations (WB and OECD). In addition, for the data analysis, I collected data about Japanese and world ODA & FDI from the database of the Organization for Economic Cooperation and Development, from the Japanese Ministry of Finance and from the Japanese Ministry of Foreign Affairs; whereas for data concerning Japanese companies, I took data from websites of Japanese multinational companies, and websites of Chinese and Japanese governmental and non-governmental organizations. Concerning the data about seaports, I mainly utilized the websites of the respective port authorities, in addition to the website of the Port of Rotterdam Authority; moreover, I collected many important data also from the website of World Port Source. Sometimes I also found data or interesting comments about Japanese ODA to China in

television interviews made to Chinese professors, from some of the most important universities of China, transmitted on the China Central Television.

The results of my work confirmed the theory that Japanese ODA were linked to the needs of Japanese FDI during the process of transformation of the Japanese export oriented platforms in China into basis for the penetration of the Chinese internal market; in particular, Japanese ODA supported the Japanese private sector, through the construction of economic infrastructures and the development of Chinese human resources and social infrastructures.

Chapter 1. Official Development Assistance: the enabler of Foreign Direct Investment

ODA ?

...the countries of the South are struggling against enormous odds with the task of nation-building, but because of the fragile economic strength of these still young countries, inevitably, there are limits to what they are able to do. International support in some form or other is necessary to ease these limiting factors.²

As specified above, ODA is an investment that a developed country make in a less developed one in order to improve a recipient country's development framework; the Official Development Assistance belong to the category of foreign aid, that is a subcategory of the economic cooperation. According to the Former President and Chairman of the Board of the Overseas Economic Cooperation Fund (1990-1998)³ Nishigaki Akira and to Professor Shimomura Yasutami the classification of the various forms of economic cooperation is the following:

Cooperation comes in a variety of financial and technical forms; among them official development assistance (ODA) is an internationally recognized form of aid. What other methods of cooperation are there? Both financial and technical cooperation are included under the umbrella term "resource flows". The Development Assistance Committee (DAC), a subcommittee of the Organization for Economic Cooperation and Development (OECD), divides these flows into the following four categories:

1. Official development assistance (ODA)-among official flows of funds, ODA refers to flows to developing countries provided on more favorable terms than what is available on a commercial basis.
2. Other official flows (OOF)-these are like ODA in being official flows of funds, but for various reasons (not so quite advantageous condition, etc.) they do not meet the eligibility requirements for ODA. In the case of Japan, loans made by the Japan Export-Import Bank come under this category.
3. Private flows (PF)-this refers to private companies that provide financing, including export credits, or make direct investments or portfolio investments in developing countries. Corporate support for multilateral institutions through the purchase of bonds issued by the World Bank, etc. is also included here.
4. Grants by private voluntary agencies-a typical example would be volunteer activities at the grass-roots level by non-governmental organizations (NGO).⁴

ODA and FDI are two different types of foreign investment that come in different periods of one country economic development process, usually first comes ODA and in a second time the FDI; furthermore, while the FDI are entirely directed at the acquisition of some form of economic advantage by the investor, the ODA is characterized by a focus on the human, environmental and infrastructural development of the receiving country. In their book "The Economics of Official Development Assistance" professor Shimomura and OECF former chairman Nishigaki talk about

² Akira Nishigaki and Yasutami Shimomura, *The Economics of Development Assistance: Japan's ODA in a symbiotic world* (Tokyo: LTCB International Library Foundation, 1997), 85.

³ The Overseas Economic Cooperation Fund (OECF) was one of the main Japanese foreign aid institutions administering ODA loan programs to the developing countries.

⁴ Nishigaki and Shimomura, *The Economics of Development Assistance*, 85.

the particular requirements that an ODA must possess, in order to be distinguished from FDI and other forms of foreign aid, in particular they speak of three fundamental requirements:

1. An ODA must be administered by a Government or a Governmental Agency.
2. The main objective of ODA is the promotion of the economic development and welfare of the receiving country, thus excluding military aid.
3. The ODA which bears repayment conditions for the recipient country must be provided on advantageous financial terms for the recipient. In these cases, the “Grant Element” of the ODA is taken as an indicator of conditionality of the ODA, the factors that constitute this variable are: lowness of the interest rate, length of maturity period and grace periods. The more the grant element is large, the more the conditions for the receiving country are favorable. Generally, the percentage of grant element that a loan must possess, in order to be qualified as an ODA, is at least 25%.

Following the directions of professors Shimomura and Nishigaki, an investment meeting all the requirements for being classified as an ODA can take two different forms, the Bilateral ODA and the Multilateral ODA. The Bilateral ODA is a sum of money that is straightly provided to a developing country from the donor country, on the other hand, the Multilateral ODA consists in a sum of money that is given by a nation’s government to an international institution which is involved in the foreign aid process, such as the World Bank or NGOs. The Bilateral ODA can be divided into three forms:

1. ODA Grant- grants are usually provided to less developed and poor countries for the implementation of projects regarding the development of basic needs and social welfare (food, medicines, schools, hospitals, disaster relief), since this kind of ODA does not contemplate any repayment of interests, it can possibly imply some tying conditions.
2. Technical Cooperation- this kind of ODA is usually provided under the framework of grant aid, its principal objective is the development of human resources. Mostly, technical cooperation consists in the following interventions: transfer of technologies, training of qualified personnel, construction of teaching and training facilities, dispatching of technical experts to the receiving country, hosting foreign experts in the donor country for study missions.
3. ODA Loan- large infrastructure projects and megaprojects (roads, airports, seaports, power plants, hospitals, schools) are financed by loans, but, in contrast with what happens for a classic loan, the ODA loan repayment conditions are clearly advantageous for the recipient country. ODA loans have low interest rates and long interest repayment maturity periods, in addition, some loans have also a grace period.

The Multilateral ODA comprehends two main forms:

1. Capital Subscription- the international organizations that are active in the field of foreign aid to developing countries (the World Bank, Asian Development Bank) regularly receive from the government of the industrialized countries money in form of capital subscriptions to be invested in their aiding activities.

2. Contribution- the economic contribution is slightly different from the previous form of multilateral ODA, because it is not a regular subscription, but an occasional donation to an international organization active in the field of foreign aid.

Moreover, ODA can be further divided into tied and untied, meaning that a tied ODA is linked to the purchase of certain services or goods from a predetermined supplier indicated by the donor country, while an untied ODA does not impose any conditionality to the receiving country. In the majority of cases, the Multilateral ODA is untied, since it is not linked to the economic interests of one specific country, while the Bilateral ODA can be tied, as it may provide some advantageous conditions to the donor country.

In conclusion, we can say that ODA is the instrument through which industrialized countries try to boost the economic, social and environmental development of less developed countries, bringing different kinds of aid or relief to their still fragile economies.

THE MAIN SECTORS OF INVESTMENTS FOR ODA

According to the OECD, the Official Development Assistance funds can be invested in the following sectors: social infrastructures, economic infrastructures, production, multi-sector, commodity aid, action relating to debt, humanitarian aid, unallocated.

The social infrastructures sector receives the largest attention from the international community, since it is considered to be the primary sector to develop by most of the aid donors. This sector is composed by several subsectors: education (which consists in educational infrastructures, educational services, specialized education in particular fields), health (assistance to hospitals and clinics, public health administration and medical insurance programs, medical and dental services etc.), population policy (reproductive health and family planning), water supply & sanitation (sewerage, river development, etc.), government & civil society (conflict peace & security), and other social infrastructures & services. As we can see from the subsectors listed above, aid invested in the social infrastructures sector is mainly focused on the human resources development and on the improvement of the living conditions of the developing countries, thus the subsectors of education, health and water supply & sanitation acquire a great importance in this framework.

The economic infrastructures sector is another of the fundamental sectors to develop in order to boost the economy of the developing countries, however, there are some scholars who criticize countries who provide large quantities of funds to this sector, because of the danger represented by the donor country's private interests taking advantage from its foreign aid activities. The main subsectors of investment are: transport & storage (equipment and infrastructures for road, rail, water, and air transport), communications (equipment and infrastructures for television, radio, and electronic information networks), energy (production and distribution of energy including nuclear energy), banking & financial services, business & other services. In many cases the subsectors which receive greater attention are transportation & storage and energy, which are vital sectors for the facilitation of economic activities (including the activities of overseas businesses), thus giving more prominence to the critics moved against donors who invest a lot in this sector.

ODA directed to the production sector principally aims at the development of the agricultural and industrial systems of the recipient country, through various types of intervention. The

subsectors contained in this sector are: agriculture (agricultural machineries, fertilizers, irrigation systems, soil surveys, institution of agricultural development banks, etc.), forestry, fishing, industry, mineral resources & mining (assistance to extractive industry, development and refining of petroleum and ores, etc.), construction (geological surveys), trade policies & regulations (export promotion, promotion of commerce and distribution, institution of industrial development banks), tourism. Even if the subsector of agriculture is considered to be extremely important for the development of a poor country, donors who provide excessive aid to this sector, in particular to the mineral resources & mining subsector, had been criticized as well, because of the private interests possibly concealed behind the façade of foreign aid.

The main focus of the multi-sector is on general environment protection, indeed, following the increasing attention dedicated to environmental problems in the modern society, this sector became one of the most urgent to improve in order to ameliorate living conditions not only in the developing countries, but also in the industrialized countries. Other important subsectors that belong to the multi-sector are gender related projects, urban development and rural development.

The commodity aid sector is not considered as important as the other sectors by the majority of aid donors, who think that a mere provision of funds or things cannot produce a real and long-lasting change in a developing country, but only a temporary improvement of the present situation. The two main subsectors belonging to this sector are general budget support and development food aid, however, the subsector that receives the largest quantity of funds is the development food aid.

Action relating to debt is a sector that gathers funds in order to help countries who have problems with their foreign debt; the money collected for this purpose is conceded to a less developed country or to a country that has financial difficulties for improving its budgetary problems. The main sectors that compose action relating to debt are debt forgiveness, debt rescheduling, and debt refinancing.

ODA provided to the sector of Humanitarian aid consist in emergency aid that is conceded to a country facing a humanitarian crisis due to natural calamities or armed conflicts, under this framework distress relief in cash or in kind is provided to the country which has been hit. Interventions in the sector of humanitarian aid are divided into different subsectors: relief food aid, emergency response, reconstruction relief & rehabilitation, disaster prevention & preparedness etc.

The last sector identified by the OECD is the one formed by the unallocated funds which were included in the foreign aid budget by the donor countries at the time of the appraisal, but then were not utilized for some unpredictable reason.⁵

THE DIFFERENT AID STRATEGIES

Every donor country has its own aid philosophy and a consequent peculiar way to implement ODA, nonetheless, we can distinguish two main aid strategies which are applied more or less by all foreign aid donors; these are the strategy that prefer to boost less developed countries development through economic development, thus improving the developing countries economic infrastructures, and the strategy that prefer to build a developed nation through the development of social

⁵ The description of the various ODA sectors and subsectors is taken from the website of the OECD: OECD Statistics, accessed November 5, 2012, <http://stats.oecd.org/Index.aspx>.

infrastructures. The first model is applied by a few donor countries, and its main representative is Japan, while the second model is applied by the vast majority of aid donors in the world, and its main representatives are the Scandinavian Countries⁶.

ODA IMPLEMENTING COUNTRIES AND INTERNATIONAL INSTITUTIONS

The Multilateral ODA and the Bilateral ODA are administered by different entities, respectively the international institutions and the national governments; furthermore, every country and International organization involved in ODA activities have its own foreign aid philosophy, and its own peculiar way of implementing ODA. In the following pages I describe the structure and the aid philosophy of two representative examples of foreign aid organizations (the World Bank and the Asian Development Bank), then I review the aid philosophy of the largest aid donors in the world, who are the United States, Japan⁷, France, Germany, and the United Kingdom⁸.

The World Bank

The largest administrators of Multilateral ODA for the developing world are the World Bank Group and the European Bank for Reconstruction and Development (EBRD), however, according to statistics from the OECD in the last decade the EBRD had surpassed the World Bank in quantitative terms of aid.

The International Bank for Reconstruction and Development (first name of the World Bank) was founded in the aftermath of the Second World War, it was one of the three pillars of the Bretton Woods economic system together with the International Monetary Fund (IMF) and the General Agreement on Trade and Tariffs (GATT); the IBRD was created in order to serve as the main source of funds for the economic reconstruction of the post-war period. In a second moment, the IBRD was reformed and reorganized with the addition of four new organizations to ameliorate the effectiveness of its aid activities, so that the World Bank as we know it today is formed by five distinct organizations: the International Bank for Reconstruction and Development, the International Development Association (IDA), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), The International Center for Settlement of Investment Disputes (ICSID). Following what professors Nishigaki and Shimomura affirm, all the five parts of the WB group have the same objective, but, each of them take care of a specific sector of aiding activities.

The IBRD is the oldest and original part of the World Bank, whose major task was to rebuild the countries and economies devastated by the Second World War; however, after the reconstruction was completed, the bank shifted its aid activity to the development of the economies of the developing world. The main instrument that the IBRD use for helping other countries in their development process is bank loan, nonetheless, these loans can hardly be referred to as ODA, since

⁶ In recent years all aid donor countries are increasing the share of the ODA budget dedicated to social infrastructures sector, following the efforts for the amelioration of the foreign aid system promoted by the UN and the OECD.

⁷ In this chapter there is no allusion to Japan's ODA, since I preferred to dedicate the entire chapter two to the description of the Japanese ODA system.

⁸ Even if China has become today one of the leading countries among the biggest aid donors, in the period of time on which this thesis is focused, the Chinese contributions to foreign aid activities was still small, as a consequence, I chose to exclude China from the list.

they have very few concessive terms for the developing countries, as professor Shimomura and Nishigaki note:

The IBRD is funded primarily through capital subscription from member countries and loans from international capital markets, but the high cost of borrowing translates into high interest rates on IBRD loans. A glance at lending terms in fiscal years 1995-1996 shows that interest is around the seven-percent level for loans made under the bank's variable lending rate and from 4.4 percent to 6.85 percent for loans made at a fixed interest rate in a single currency for example the France franc. In addition a commitment charge of 0.25 percent is collected on undisbursed balances. Maturity periods range between 15 and 20 years with a five-year initial grace period. From a developing country's perspective, such lending conditions can hardly be called favorable, and so the International Development Association ... was established to remedy the situation.⁹

The first six countries which hold major shares for voting power in the IBRD are in order of importance the United States (15.56%), Japan (9.17%), Germany (4.58%), France (4.1%), the United Kingdom (4.1%), China (3.28%)¹⁰. The voting power share is decided on the base of the quantity of money which every country submit to the World Bank. The sectors that received the largest number of projects from the IBRD are mainly transportation infrastructures and electric power.

The International Development Association was founded in 1960 in order to provide a more convenient loan framework to the poorest countries who cannot afford loans from the IBRD, IDA is the so called "soft window" of the WB; however, to obtain loans from this institution the developing countries must fulfill a certain requirement, that is a GNI per capita below a fixed threshold that changes every year (for the year 2012 must be below US\$ 1,175). In addition, there is also another selective criteria for IDA loans recipients, indeed, since advantageous concessive conditions are provided for the loan, a careful evaluation of the recipient country economic situation and past behavior toward the WB is carried out before providing IDA loans:

Since 1980, the World Bank has been evaluating borrowers' policy and institutional performance related to economic growth and poverty reduction. These assessments are currently the main factor that drives allocations of IDA lending (the poorest of the eligible borrowers receive higher allocations for a given performance level). The assessments contain two factors- overall policy performance (80percent) and a measurement of the success of past IDA projects (20 percent). The policy evaluations include 20 performance criteria, spanning the categories of economic management (such as inflation and debt management), structural policies (such as trade policy and environmental sustainability), policy for social inclusion and equity (such as human resources and safety nets), and public sector management and institutions (such as property rights and transparency of the public sector). The project portfolio measurement rates countries in terms of "number of projects at risk"¹¹.

IDA funds and lending conditions are not the same of the IBRD, on the contrary, working personnel and facilities are equal. The IDA funds are provided by the richest member countries, the repayment of earlier IDA credits, the IBRD and the International Finance Corporation; the IDA

⁹ Nishigaki and Shimomura, *The Economics of Development Assistance*, 108.

¹⁰ "World Bank Finances, 12 July 2012", World Bank, accessed February 12, 2013,

<https://finances.worldbank.org/Shareholder-Equity/IBRD-Voting-Power-Tree-Map/tst3-imr2>.

¹¹ Kevin Morrison, "The World Bank, Japan and aid effectiveness", in *Japan's Foreign Aid: old continuities and new directions*, ed. David Arase (New York: Routledge, 2005), 32.

members meet every three years for the so called “replenishment”, in which they raise funds and draw new policies for the future interventions. In 2011 the three countries with the highest capital subscription were the United States (US\$ 42,870 million), shortly followed by Japan (US\$ 40,355 million) and Germany (US\$ 22,225 million)¹². The lending terms are dependent on the debt distress of each country, but, generally they are characterized by a medium percentage of grant aid and low interest rates (below 1%), in addition, grace periods are provided and the maturity period for loans repayment is quite long, from 25 to 40 years. IDA data shows that the infrastructures sector (32%) is the one receiving the greatest quantity of borrowings, followed by the social sector (24%) and the public administration and law sector (23%), agriculture (14%) occupies a good position as well¹³.

The International Finance Corporation was founded in 1956, it is independent from IBRD and IDA, and it has its own funds. IFC main objective is to finance and assist the private companies in their activities in the developing countries through specific investments; in order to do this, it offers a pool of funds and experts to the private companies who want to start businesses in the developing world. According to its doctrine, the IFC promotes private sector industries in developing countries, expecting that this would create new job opportunities for local people, generate economic revenues for the developing country as well as improve their environmental performance. Nonetheless, Professors Nishigaki and Shimomura note that, IFC emphasizes privatization, capital market development and the maintenance of private-sector infrastructures.

The Multilateral Investment Guarantee Agency was founded in 1988, its mission is to promote Foreign Direct Investment into developing countries, in order to support their economic growth, reduce poverty and improve people’s lives, as it is stated in the website of the organization. In practice, its main activities consist in providing political risk insurance to foreign investors when investing in developing countries, protecting them from possible risks linked to the instability of the local economies or other hardly predictable negative factors, such as the 2007 economic crisis.

The International Center for Settlement of Investment Dispute was established in 1966, it regulates investment disputes between states and nationals of other states, and its main function is that of providing facilities for conciliation and arbitration in international investments disputes. The ICSID has been created in order to satisfy the demands for compensation of private companies that had suffered economic losses in developing countries due to factors which were dependent on local negligence.

The five organizations that constitute the World Bank Group operate through different ways in the developing countries, so that, the operations that can be classified as ODA investment, according to the requirements listed before, are only the loans provided by IDA. Because of the favorable lending conditions of the IDA loans, as well as the presence of a grant element in the loan and the long periods of maturity, IDA is considered as the only organization in the World Bank that applies the ODA doctrine. This is significant for the purpose of this study, because between the five organizations forming the WB, IDA is the one which receives the largest share of

¹² Data from: “Statement of subscriptions and contributions committed as of June 30, 2011”, World Bank, accessed December 18, 2012, http://www.worldbank.org/ida/papers/IDAsubscriptions_contributions_June2011.pdf.

¹³ Data from: “IDA Financing”, World Bank, accessed November 25, 2012, <http://www.worldbank.org/ida/financing.html>.

Japanese funds (listing second between the largest donors), which are slightly inferior in quantity compared to the US funds amount; this Japanese trend of furnishing large amounts of money to IDA is not occasionally, but it has been a stable trend for many years.

The aid philosophy of the World Bank during almost seventy years of history has changed from an economic infrastructure centered aid system, to a social welfare focused one; this transformation in the World Bank policy has been strongly influenced by the evolution of the concepts of poverty and development that according to the World Bank Development Consultant Kevin Morrison started in the 80s:

Development is closely related to the eradication of poverty. Thus, as the international community's conception of poverty has expanded, so has its conception of development. For most of the twentieth century, until the 1980s, poverty was conceived of solely in terms of income expenditure. Those in poverty lacked, for example, the means for "minimum subsistence" or lacked the "minimum necessities for the maintenance of merely physical efficiency". But in the last two decades, the international conception of poverty has broadened considerably....

The World Bank's *World Development Report*- the flagship publication of the Bank, which every ten years focuses on poverty - provides a good indication of this trend. The 1980 *World Development Report* on poverty, for example, signaled a change by not mentioning income or consumption in its definition of absolute poverty, but rather focusing on, "a condition of life so characterized by malnutrition, illiteracy and disease as to be beneath any reasonable definition of human decency". The 1990 *World Development Report* on poverty further advanced this conception, supplementing "a consumption-based poverty measure with others, such as nutrition, life expectancy, under 5 mortality, and school enrollment."

...why has this broadening of development and poverty occurred? To a great extent it is because of research that has shown that income is too narrow a measure of human well-being. Instead of being only an end in itself, greater income has come to be seen as a means to an end. The end goal has been transformed into something resembling what Nobel Prize-winning economist Amartya Sen calls, "the capabilities that a person has, that is, the substantive freedoms he or she enjoys to lead the kind of life he or she values."¹⁴

As seen before, at the beginning the World Bank main focus was on the development of infrastructures, but in a second time it was understood that sole development of infrastructures was not sufficient for a real improvement of the living conditions of poor countries, as a result, the focus shifted on development of social infrastructures, human development and environmental development. The World Bank shift in the main sector of investment was led by the new concept of poverty and development:

It is not surprising that this change in the conception of development has led to changes in the philosophies and approaches of aid agencies. The income conception of poverty prevalent when development assistance started in the middle of the twentieth century led to a focus on economic growth. ... Between the 1950 and 1959, 61% of World Bank lending went to infrastructures, and none of it went to social sectors. However, as the conception of poverty has broadened – and as the consensus opinion on state-led versus market-led growth has shifted back and forth – aid agencies have changed their operations. The World Bank, for example, now lends 15 percent of its money to

¹⁴ Morrison, "World Bank, Japan, aid effectiveness", 24, 25.

infrastructure and 22 percent to the social sectors (the figures are lower and higher, respectively, when only concessional lending is counted).¹⁵

Another factor which brought the World Bank to change its aid policy toward the developing countries was the loosening of tensions at the end of the Cold War, as the WB Development Consultant Morrison affirms:

The international community's approach to aid policy has been in transition since the end of the Cold War. This is a result of at least three factors. First, the end of the Cold War has enabled development agencies to focus more on development than they did before, when political goals were a large determinant of aid allocations. Second, the international community's conception of development has broadened over time. Third, this broadening has led to a gradual expansion of the international strategy for aiding development.

Even if the aid philosophy of the World Bank passed through different stages, from economic infrastructures to social infrastructures development and from politically focused aid to development focused aid, its main aim nominally had not changed, remaining that of trying to alleviate world poverty.

The ODA implementation procedure of the World Bank did not strongly rely on a request-based system in the past, since the World Bank was convinced that its direct intervention could be more balanced and well directed, against a recipient country's request, which might be influenced by some political or economic local lobby. However, after the end of the Cold War there was a shift in the aid delivery policy of WB, so that the approach to aid delivery became one which was sustaining more the local ownership of projects and funds, as a way of improving the effectiveness of its ODA:

...the end of the Cold War took some of the political pressure off aid allocation. But it also brought the issue of aid "effectiveness" clearly onto the agenda of the international community. If aid was no longer so crucial for geopolitical purposes, then it needed to be effective at spurring development...

Thus, especially toward the end of the 1990s, there was an increased push to discover how aid could be *delivered* (not just allocated) more effectively. The World Bank provided its latest thinking about aid delivery in its *World Development Report 2000\2001* on poverty. It argued that aid should ensure "ownership" by the recipient country, should be delivered in ways that are less intrusive to the government than past delivery mechanism, and should be allocated to those countries who would use it best.¹⁶

Furthermore, the World Bank recently started using another method of delivering aid that gives even more responsibilities to the recipient country, this is the so called "sector wide approach"; it consists in a pool of funds raised up by different donors, that can be used by the receiving country in the long term development of a determined sector, previously decided through an accord between the donors and the recipient.

Finally, it must be said that despite the WB good will and endeavors to promote the alleviation of world poverty through foreign aid, its projects were not always successful in aiding developing countries; in particular, this is supposed to have something to do with the so called "Washington

¹⁵ Morrison, "World Bank, Japan, aid effectiveness", 25.

¹⁶ Morrison, "World Bank, Japan, aid effectiveness", 28.

Consensus” doctrine that imposed structural adjustment reform programs to the recipients of aid. This doctrine, which in the eyes of WB is the fundamental instrument for boosting economic development, came out to be one of the main reasons for the WB failures in poor countries.

The Asian Development Bank

The Asian Development Bank is the counterpart of the World Bank that operates exclusively in Asia and in the Pacific region, it was founded by Japan in 1966 with the objective of improving the living conditions of poor countries in the region. The bank is formed by two organizations, the Asian Development Bank and the Asian Development Fund (the bank’s soft window), respectively they have the same functions and characteristics of the IBRD and the IDA in the World Bank. In this sense, the ADF is the part of the ADB group which implements ODA for its investment operations, as a consequence, the poorest countries of the Asia Pacific region are dealt with the ADF; on the other hand, the countries characterized by a medium level of development refer to the ADB when they ask for foreign aid. Japan has always played a central role in the bank since its foundation, however, from the point of view of the voting power Japan and the US (the two largest contributing countries) have the same share in the organization, and they contribute with the same amount of money subscriptions to the bank funds¹⁷. Nonetheless, the strong influence exercised by Japan on the ADB is underlined by the similarity of the bank’s aid strategy and aid philosophy with that of the Japanese government, highly focusing on an economic infrastructures development centered system, as showed by the sectors that received the largest amount of funds in the ADB. The sectors which received the largest share of funds from the bank are in order of quantity: energy, social infrastructures, transport e communications, agriculture and agro-industry; in this context, the relevance attributed to the energy, transportation and communications sectors in the total budget is a clear sign of the importance of development of economic infrastructures in the bank’s aid policy.

The USA

Until the late 1960s, the United States was an aid superpower providing an overwhelming proportion- more than 50 percent- of the world’s aid. ...however, U.S. aid since then has tended to stagnate, and ODA as a percentage of American GNP has steadily fallen. Nevertheless, American influence on the World Bank and other international institutions remains unequalled. Herein lies the dilemma of an aid superpower that has passed its prime.¹⁸

Following what OECF former President Nishigaki and Professor Shimomura say, the aid philosophy of the US has always been connected with the US global strategy, in particular during the period of the Cold War, US aid was linked to being a supporter of the American political ideas and ideals, against the communist countries. The promotion of the American ideals of freedom and democracy in developing countries, that according to the US philosophy should have boosted the development process of the recipients, on the contrary, were regarded as interference in domestic affairs from the recipient countries and as an impediment to aid effectiveness. The aid philosophy promoted during that years by the US Agency for International Development (USAID), the most important foreign aid governmental agency of USA, was giving a great emphasis to basic human

¹⁷ Data from: “The ADB 2011 Annual Report Volume 1”, Asian Development Bank, accessed October 29, 2012, <http://www.adb.org/documents/adb-annual-report-2011>.

¹⁸ Nishigaki and Shimomura, *The Economics of Development Assistance*, 127.

needs and social infrastructure development, so that the main sectors of intervention were food, nutrition, population planning, health and education. Nonetheless, as Professor David Arase noted¹⁹, that period was also characterized by the so-called “aid fatigue”, which was a problem arousing from the US Congress opposition to the US aid activities, due to the skeptical vision of US aid effectiveness and efficiency; as a consequence, the US Congress blocked many budgets for foreign aid activities. Toward the end of the Cold War and the consecutive partial end of foreign aid entirely connected with the political alignment of one country, in 1989 the House of Foreign Affairs Committee published a report recommending a reform of foreign aid policy, focusing on four specific goals (economic growth, environmental sustainability, poverty alleviation, democratic and economic pluralism) and promoting a greater emphasis on US local staff authority and project post-evaluation, but the reform failed²⁰. Following this trend of foreign aid policy reform, in 1993 the President Clinton Democratic Administration changed the government development assistance policy main objective into sustainable development, concentrating on five specific areas:

- Environmental problems
- Democracy-building
- The population question and basic health care
- Economic growth
- Humanitarian aid

According to this new aid policy, the US government developed an aid philosophy that was more reliant on strategic planned goals which had to be reached before a fixed date in order to improve aid effectiveness; furthermore, an aid post-evaluation system, evaluating the project performance, was implemented as well. As a consequence, all the results obtained through the evaluation reports were utilized for the realization of an aid performance database, which has been useful to US in order to verify the effectiveness of its different types of interventions. Although all the efforts mentioned above has been implemented, the biggest problem of US foreign aid still remain the unending disaccord between the USAID administration and the Congress, in particular regarding the question of ODA effectiveness. As a matter of fact, every ODA project has to be approved by the US Congress, who has the power to invalidate projects which are considered useless or not in the best interests of the USA; this administrative obstacle provoked a weakening of the US aid system, and a consecutive decline of USAID²¹. In order to improve the coordination between the USAID and the Congress many initiatives were undertaken, however an accord is still difficult to reach:

...USAID is subject to constant and significant external review by Executive and Congressional actors. This has three major consequences: there is great pressure to demonstrate efficiency and effectiveness; policy continuity and coherence are chronic problems due to the conflicting demands of external actors; and low public support for AID translates into a weak aid effort in terms of ODA/GNP²².

¹⁹ David Arase, “Japan’s and the United States’ bilateral ODA programs”, in *Japan’s Foreign Aid: old continuities and new directions*, ed. David Arase (New York: Routledge, 2005), 121.

²⁰ Arase, “Japan United States bilateral ODA”, 121.

²¹ The USAID passed through different periods of prosperity and decline, however, after 2007 (the worst year of decline for USAID) it started to regain its leading role, especially under the mandate of President Obama.

²² Arase, “Japan United States bilateral ODA”, 129.

One disappointing phenomenon that was clearly visible before the efforts implemented by the Obama administration was the reduction of the quantity of aid provided to developing countries as the result of low aid budgets, as well as the closure of various USAID departments and cut to the USAID personnel. However, the situation started to improve since 2008.

One of the most outstanding features of the US aid philosophy is the presence of large contingents of specialized personnel, which are sent in the developing countries in order to help locals through technical cooperation programs, regarding technology transfer and infrastructure building. The personnel have a high autonomy from the US government in the field, and consequently flexibility for implementing programs, thus improving the effectiveness of policies corresponding to local needs. Under this framework, the US elected self-help as its basic philosophy, considering focusing on local population capacity-building as a better way than just giving them hi-tech machinery and money:

With respect to technical assistance, the United States traditionally has emphasized the transfer of know-how to aid recipients, and it views with suspicion the simple transfer of capital resources in development assistance. Also, US technical assistance is often managed through field offices and has developed a focus on building recipient capacity at various levels, in dialog with a variety of local and international donor actors²³.

Talking about critics of the USA foreign aid system, professors Shimomura and Nishigaki note that the political element in US aid activities is excessively influential:

...The United States is unique among Western donors emphasizing the self-help efforts of developing countries, although what constitutes self-help efforts in American eyes often include an emphasis on democratic political systems and market mechanism.²⁴

This US vision of foreign aid widely emphasizes the so-called “structural adjustment programs²⁵” which were imposed to the developing countries as a necessary condition to be accepted for the concession of aid; this approach was also adopted by the US controlled IMF and WB when conceding foreign aid to developing countries. One more aspect showing the influence of the political element in the US foreign aid are the characteristics of the first of the three types of bilateral assistance that the US provides, which are: Economic Support Fund, Development Assistance, Food for Peace Program.

- The economic support fund is a form of aid that possesses a strong political connotation, since it provides aid in the form of grants to politically fundamental countries for the US, such as Israel and Egypt, which in 1994 received about 30% of total US foreign aid.
- The development assistance comes in the form of grants concentrating in the sectors of agriculture and social infrastructures.

²³ Arase, “Japan United States bilateral ODA”, 123.

²⁴ Nishigaki and Shimomura, *The Economics of Development Assistance*, 128.

²⁵ This explanation of structural adjustment is quoted from the book of Former Chairman Nishigaki and Professor Shimomura, at page 152: “...the idea behind ‘structural adjustment’ is that a developing economy’s failure to work well is the result of excessive government regulation and intervention which distort economic efficiency. In order to get the economy back on a smooth development track, the IMF and the World Bank demand that aid recipients deregulate, reduce government intervention and liberalize private-sector activities, and make economic assistance conditional on the implementation of these reforms. This has recently become the standard approach to aid that Western governments and international institutions have adopted for the countries of Eastern Europe and the former Soviet Union.”

- The food for peace program furnishes aid in the form of grants and loans mainly focusing on reducing food shortages for poor countries and providing humanitarian relief, however, it has a second aim, which is disposing of the US agricultural products surplus²⁶.

One Special organization, which was peculiar of the US aid system was the Overseas Development Council, disbanded in 2000, a think-tank (not an aid agency) specialized in the elaboration of aid theories and aid strategies.

France

Along with contributing to international solidarity and world peace, a major feature of French's traditional aid philosophy is the pride of place it gives to the promotion of French language and culture.²⁷

As Professors Shimomura and Nishigaki affirm in their book the main activities of French foreign aid concern the sector of education, in particular francization of the local population, through sending French teachers abroad and hosting students from the developing countries in France, thus highlighting the importance of programs of technical cooperation in the French aid system. The importance attributed to a French style education originated from the French colonialism and all the relative theories about the superiority of the western civilization over the so called "others"; this is clearly visible in the case of France which implemented the majority of its ODA programs almost exclusively in its ex colonies, especially in the African Region which is one of the largest recipients of France's foreign aid. Apart for education, the other subsectors belonging to social infrastructures received a large quantity of funds from France as well, indeed, the social infrastructures sector is the largest recipient of France's ODA, furthermore, policies promoting the French exports had been implemented as well. The French aid system is quite complicated, and it is administered by various organizations that take part in the process of providing aid, the most important between them are the Ministry for Cooperation (responsible for financial and technical cooperation), the French Development Agency (responsible for loan projects and structural adjustment programs), the Ministry of the Economy, Finance and Industry, and the Ministry of Foreign Affairs.

Germany

The word balance is the best adjective for describing the aid philosophy of Germany; this inclination to act in a balanced manner is reflected in the geographical distribution of German's aid, as well as in the amount of funds conceded to the various aid sectors by this country. Nevertheless, even if the aid distribution of Germany is a balanced one, some countries still have more relevance for the German aid strategy; the countries that can be identified as Germany's largest ODA recipients are first of all China and then other strategically important trade partners, such as India, Indonesia etc. Regarding the German aid philosophy we can notice that there are many similarities with the Japanese one, indeed, especially during the 80s the aid strategy implemented by Germany was the same economic infrastructure development centered one of Japan, and in the same way, after the beginning of the 90s the social infrastructures sector took the leading position as Germany's ODA largest recipient, as happened (only formally, not practically) in Japan. The German foreign aid administrative system is very simple and efficient, there is a Federal Ministry

²⁶ Nishigaki and Shimomura, *The Economics of Development Assistance*, 129.

²⁷ Nishigaki and Shimomura, *The Economic of Development Assistance*, 131.

for Economic Cooperation and Development which is responsible for establishing Germany aid policies, and two organization that are respectively responsible for the practical implementation of aid, the German Technical Cooperation Agency (responsible as well for all the processes connected with technical cooperation), and for the financial activities related with foreign aid, the German Bank for Reconstruction (financial cooperation, export credits, and overseas investment loans).

The United Kingdom

The main feature of the British aid philosophy is the focus on the alleviation of world poverty, and the emphasis on the concepts of “good government”, democratization and human rights, as Professors Shimomura and Nishigaki say in their book²⁸; as a consequence, the sector of social infrastructures (in particular the sub-sectors of education, health, government & civil society) is the one to which the British aid officials pay more attention. Another characteristic of the UK aid system is that the largest part of the ODA funds are invested mainly in the territories belonging to the ex-colonies of the British Empire, and in the area of the least developed countries of Sub-Saharan Africa. The British aid system entered at the beginning of the 80s in a period of so called “aid fatigue” during which we can see a long stagnation of the UK foreign aid activities, but, after the beginning of fiscal year 2001, there was a positive shift in the ODA investment trend, so that the quantity of the ODA budget started again to increase. The British foreign aid administrative system is very old and still connected with some of the institutions that once pertained to administrative structure of the British Empire:

A special feature of the British system is the existence of Crown Agents for Overseas Governments and Administrations, an agency responsible for business transaction, payments and other ODA-related administrative work. The crown agents were founded in 1833 and have an extremely long history; formerly responsible for colonial administration they now make use of their experience and expertise to administer Britain’s ODA.²⁹

The principal institution that manages all the processes connected with British ODA activities (from the establishing of aid policy to aid implementation) is the Department for International Development , an extra-ministerial bureau of the British Foreign Office.

²⁸ Nishigaki and Shimomura, *The Economics of Development Assistance*, 134.

²⁹ Nishigaki and Shimomura, *The Economics of Development Assistance*, 134.

Chapter 2. The Japanese ODA system

HISTORY OF JAPAN'S OFFICIAL DEVELOPMENT ASSISTANCE

The year 1954 marked the entrance of Japan in the mechanism of bilateral economic cooperation, because in this year Japan joined “The Colombo Plan for Cooperative Economic and Social Development in Asia and the Pacific”. The Colombo Plan was a project for economic and technical cooperation developed by the British Commonwealth ex colonies, in order to promote the human resources and economic development of its own members. In the same year Japan also signed a peace treaty with Burma including an agreement for war reparations and economic cooperation, thus starting the programs of war reparation to the Asian countries that were invaded by Japan during the Second World War. At that time, Japan thought that the best way to concede war compensation to the Asian countries that suffered its aggression was to give them compensation in the form of foreign aid for the reconstruction of their economies; this trend of “war compensation diplomacy” as is called by Feng Shaokui in his article³⁰, lasted until 1977:

...from 1955 to 1977, Japan paid total compensation of approximately US\$ 1.5 billion to 11 Asian countries in the form of goods and labor, and this “compensation diplomacy” played the role of a “path-breaker” in exploring Japan’s economic cooperative relations with Southeast Asian countries³¹.

While continuing its war reparation program, Japan decided to concede its first yen loan to India and Pakistan in 1958 officially starting its ODA activity (at this time the concept of ODA has not been created yet, only in 1970 the DAC introduced this new concept); there were two main reasons for the beginning of yen loans, the first according to MOFA was the construction of friendly relations between Japan and the international community, and the second suggested by Professor Feng was promoting Japan economic cooperation with Southeast Asian countries. With respect to the relation between Japan’s war reparations and ODA, one interesting thing for the purpose of this study is that when China resumed the diplomatic relations with Japan in 1972 and decided to renounce to the Japan’s war reparation money, the action was positively embraced by Japan, who in return at the end of the 70s started its ODA programs to China:

That is to say that the provision of Japan’s ODA to China is, to some extent, a kind of compensation for China’s renunciation of war reparations. Of course, as time goes by, the linkage between Japan’s ODA and the issue of war reparation is gradually fading³².

In the 50s Japan reconstruction was already completed, and after the second half of the 60s its growing economic power was increasingly being canalized into foreign aid activities; as a proof of this, in 1969 Japan begun general grant aid programs and tried to improve the status of its tied aid loans. These efforts for improving foreign aid activities were implemented under the influence of the OECD guidance, which set in 1970 the ideal ratio of GNP/ODA for its member countries to 0.7 percent, a result obtained only by the Scandinavian donors. On the other hand, one factor which weakened the ODA activities of Japan in the East Asian Region during the 70s was the oil shocks; indeed, for a country poor in natural resources as Japan the raw materials question had always

³⁰ Shaokui Feng, “Japanese aid to China: a comparison of ODA from Japan and Europe”, in *Japan’s Foreign Aid: old continuities and new directions*, ed. David Arase (New York: Routledge, 2005), 205.

³¹ Feng, “Japanese aid to China”, 206.

³² Feng, “Japanese aid to China”, 206.

represented a difficult task to solve. The strategy followed at that time was to transfer a part of ODA funds dedicated to Asia toward the Middle East countries, in order build a friendly framework and consequently facilitate the provision of crude oil from Middle East. Nonetheless, with the last payment of war reparations to the Philippines in 1976, Japan gained more resources to dedicate to its ODA programs, as a consequence, the framework of foreign aid activities experienced a diversification of the sectors of aid and of the geographical distribution of aid. Respectively, in addition to the classical economic infrastructure sector, the basic human needs and the human resources development sectors acquired a larger importance than in the past, and for what it concerns the geographical distribution of aid, many poor countries started receiving aid from Japan (Middle East, Africa, Latin America, the Pacific region). As the importance of ODA was increasingly growing in Japan at the end of the 70s, MOFA decided to make a revision of Japan's ODA philosophy and objectives issuing in 1978 the document "The Current State of Economic Cooperation, and its Outlook: The North-South Problem and Development Assistance" whose two main points for Japan economic cooperation were:

- Japan can insure its security and prosperity only in a peaceful and stable world. One of the most appropriate means for Japan to contribute to the peace and stability of the world is assistance to developing countries.
- Japan is closely interdependent with developing countries since it is able to secure natural resources only through trade with those countries. Therefore, it is essential to maintain friendly relations with developing countries for Japan's economic growth³³.

Furthermore, in 1980 MOFA issued another document praising the advantages furnished by ODA to Japan, the name of the document was "The philosophies of Economic Cooperation: Why Official Development Assistance?" and the motives stressed by MOFA here were "humanitarian and moral considerations" and "the recognition of interdependence among nations". In addition, this document defined the Japanese aid philosophy as based on Japanese experience and concluded saying that providing ODA is a way of improving the international environment, thus ensuring also Japan comprehensive security. Following this trend of renovation of its ODA philosophy, and adapting to the continuously changing international context, in 1991 Japan published four new ODA guidelines for the implementation of its foreign aid:

- Pay attention to the trends of military expenditures of recipient countries.
- Monitoring the trends of development and production of mass destruction weapons and missiles of the recipient countries.
- Pay attention to the export and import of arms of the recipient countries.
- Monitoring the efforts for promoting democratization and introduction of market-oriented economy, and the situation regarding the securing of basic human rights and freedoms in the recipient countries.

According to MOFA the necessity for these ODA guidelines was due to the end of the Cold War, and the consequent danger of acquisition of weapons of mass destruction by developing countries from satellite states of the ex-Soviet Union, as demonstrated by the outburst of the Gulf War menacing the stability of world's peace; these guidelines were aiming at discouraging militarization

³³ "History of Official Development Assistance", MOFA, accessed December 22, 2012, <http://www.mofa.go.jp/policy/oda/summary/1994/1.html>.

of developing countries as well as promoting democratization and market-economy in the aid recipients. Another fundamental step in the history of Japan ODA is the publication of the ODA Charter in 1992, resuming all the basic philosophies, principles and priority areas of Japanese aid, learned through 40 years of experience in the field of development assistance, and seen under the new perspective of the post-Cold War international context. As for the basic philosophy of the ODA Charter, the following four points were stressed in particular:

- Humanitarian considerations.
- Recognition of interdependence among nations of the international community.
- Environmental conservation.
- Support for self-help efforts of the recipient countries.

In 2003 the ODA Charter was revised by MOFA in order to reflect the changed international context surrounding Japanese ODA; according to MOFA the major changes which influenced the revision of the Charter were:

- The advancement of globalization that modified the importance for the international community of the issue of development, emphasized by the 9.11 terrorist attack on the US.
- New major concepts in the international development agenda, such as “peace building” and the “UN Millennium Development Goals³⁴”, and stronger emphasis on sustainable development, poverty reduction and human security.
- Japan’s worsening economic condition which required a more efficient and more transparent ODA system, that should be strategically aimed and emphasize quality over quantity.
- The growing participation of public organizations such as NGOs, volunteer organizations, universities, local governments and business circles in the processes regarding development assistance.

As a consequence, taking in account these factors MOFA modified some points of the old ODA Charter, which more or less remained the same, apart for a stronger emphasis in the fields of poverty reduction, human security and the active use of ODA in peace building. Another element which was emphasized in the 2003 revision was the necessary improvement of the Japanese ODA request-based system, which needed a higher cooperation and consultation with the recipient countries at the levels of project design and project implementation. Furthermore, in 2005 a revision of a 1999 document issued by MOFA, and called “Medium-Term Policy on ODA” provided a new framework for addressing the challenges of the Millennium Development Goals. The problems of Human security is again highlighted, together with poverty reduction (one of the main objectives of MDGs), sustainable growth (using ODA in order to start and assist economic partnerships), specific actions for peace building, the necessity to undertake disaster prevention and disaster relief activities, and finally the strengthening of the functions of Japan’s governmental agencies at local level in the developing countries. These efforts to enhance the functions of Japan’s local governmental agencies and embassies was also officially stated by the MOFA document called

³⁴ The UN MDG are eight international development objectives, stated in the UN Millennium Declaration of the 2000, that have to be achieved within 2015; the eight MDG are: eradicate extreme poverty and hunger, achieve universal primary education, promote gender equality and empower women, reduce child mortality, improve maternal health, combat HIV/AIDS malaria and other diseases, ensure environmental sustainability, and develop a global partnership for development.

“Country Assistance Policies” in June 2010, suggesting the creation of “Country-based ODA task force³⁵” promoting attempts for a country-specific assistance, in which was underlined the necessity to improve the strategic value, efficiency, transparency and accountability of ODA. In addition, in the same month of 2010 an ODA review document promoting reforms in the Japanese ODA doctrine was issued by MOFA; the basic philosophy announced in the document was “Enhancing enlightened national interests. Living in harmony with the world and promoting peace and prosperity³⁶.”. The priority issues highlighted in the document were reducing poverty (mainly through contribution in the achievement of MDG), investing in peace and supporting sustainable growth; in order to better implement these priorities MOFA underlined some fundamental concepts for Japan’s foreign aid:

- Mobilizing Japan’s human, intellectual, financial and technological resources: expanding dialogue with various stakeholders, cooperation with the private sector, strengthened cooperation with the NGO.
- Strategic and effective aid: measures for strategic and effective cooperation, taking a leadership role in the international community, human resource development, reinforcing policy-making functions and implementation capacity.
- Promoting public support and understanding: information disclosure, wider public participation.
- Mobilizing financial resources for development.
- Revision of the ODA Charter.

MOFA issued this ODA review in order to answer the critics which were risen toward its foreign aid activities by other aid donor countries; as a matter of fact, MOFA has always tried to build an efficient aid system, following a trend which is promoting continues efforts for the improvement of the quality of its foreign aid, and it is arguable that is going to continue on the same path also in the future.

JAPAN’S ODA PHILOSOPHY

The two basic concepts: experience and self-help

The fundamental concept around which orbits all the Japanese aid philosophy is “experience”, and in particular the Japanese own historical experience at the time it was an aid recipient in the aftermath of World War Two disastrous defeat. In 1946 Japan started receiving aid from the USA government in form of economic relief (food, medicine, clothing) which lasted until 1951; at the end of these American aid programs Japan began to receive loans in 1953 from the World Bank and the US Export Import Bank as well as from private banks in order to rebuilt its post-war economy, this trend ended in 1966. Japan used its WB loans mainly for large scale infrastructure projects, such as roads and railroads, electric power plants, steel industries, shipbuilding industries and automobile industries as Nishigaki and Shimomura explain in their book. A large percentage of the loans provided by the WB (more than half) were used in the construction of roads such as the

³⁵ The concept is taken from: “Outline of the Country Assistance Policies”, MOFA, accessed December 17, 2012, http://www.mofa.go.jp/policy/oda/assistance/outline_cap.html.

³⁶ “ODA Review: Summary of the Final Report”, MOFA, accessed December 17, 2012, http://www.mofa.go.jp/policy/oda/reform/pdfs/review1006_summary.pdf.

Tomei expressway (linking Tokyo to Nagoya), because the rapid economic growth and industrialization of Japan desperately needed an efficient transportation network; other examples of the same type were the construction of railways, such as the Tokaido bullet train (linking Tokyo with Osaka). Among the projects for electric power plants that were extremely important for supplying the developing industries energetic needs, especially the steel-making companies, the most outstanding ones were Kurobe Dam number 4 in the prefecture of Toyama and Shin-Kokura thermal power station in Kitakyushu city. Examples of steel factories financed by the WB loans were the Kawasaki Steel's Chiba plant (after the merging with Nihon Kokan in 2002 changed name in JFE Holdings) in Chiba prefecture East of Tokyo, Yawata steel and Fuji steel (the two companies merged together giving life to the Nippon Steel Corporation), and Kobe Steel. Japan considers the transportation, energy and steel sectors as fundamentals in a country who want to develop its economy, the spectacular rapid growth of Japan in post-war years proved the rightness of this theory; as a consequence, Japan applied the same successful development strategy in poor countries, with the same great emphasis on economic and transportation infrastructures development.

Another characteristic of the time Japan was an aid recipient, was the strong emphasis put on the Japanese ownership of aid by Japanese officials against the WB loan's conditionality:

Rather there are stories senior aid officials tell about how Japan experienced early attempts at what would later be called "conditionality" in the negotiations of these loans, but how it managed to get its own way because it was convinced of its own priorities, for example, for high speed trains over air transport. In other words, there was an early emphasis on the ownership of the development process whatever the challenges from the donors or lenders of the time. This extended historical episode has had a powerful symbolic value in Japanese thinking and official writing about its development experience. Arguably its own record has contributed to its thinking about the crucial importance of self-help³⁷.

This strong emphasis put on aid ownership since the time Japan was an aid recipient, is present in the Japanese actual aid philosophy, as it can be seen from the Japanese interventions in the developing world, where much importance is given to local self-help efforts. As professor Watanabe Toshio said: "Japan's aid philosophy is to support the self-help efforts of a developing country based on the recipient's own requests without attaching any political conditions (conditionality) to aid."³⁸ The theory which lies behind the Japanese self-help model is very well illustrated by Nishigaki and Shimomura who divide their discourse in two parts: the basic positions and the check points for self-help efforts. There are two basic positions regarding self-help philosophy:

- Firstly, the economic development of one country is possible only if the population and the government make efforts and sacrifices in order to improve their own conditions, in this sense foreign aid becomes just one simplification in the process of development, that must be implemented by the developing country itself.
- Secondly, the foreign aid donor must not impose its programs to the recipient, on the contrary, it has to discover nascent local projects and helps them grow out through grant aid,

³⁷ Kenneth King and Simon McGrath, *Knowledge for Development?: comparing British, Japanese, Swedish and World Bank aid* (London: Zed Books, 2004), 157.

³⁸ Nishigaki and Shimomura, *The Economics of Development Assistance*, 146.

loans or technical cooperation; using professors Shimomura and Nishigaki's metaphor the donor country has to "ensure that these small seeds can grow to fruition"³⁹.

In addition, it is hypothesized that four check points for self-help efforts are necessary to ensure its success:

- The first one is the redaction by the developing country itself of a development strategy general plan, on which the aiding country can base as a starting point, and which can be eventually modified in a second time by the donor experts. This is particularly important for the success of self-help efforts, since the feeling of the population participating in something that has been created by their own country, and the achievement of a goal which has been selected by the local government, can stimulate the working force to make more efforts. As a consequence, an imposed foreign project cannot receive the same welcoming of a national one.
- Another vital and obvious check point is a country fiscal balance; as a matter of fact, if the economic situation of one country is worsening because of bad resource administration, the hopes for a future development through self-help efforts would consequently fall down.
- A third check point is the response to an external shock in the economic environment, such as the oil shocks of the seventies. The response that some countries had in that occasion was to rise up foreign borrowings, in order to overcome the higher expenditures (and consequently raising their foreign debt), while other countries did not borrowed foreign money but tried to solve the question across different strategies, as augmenting the level of exports. In this sense, the countries which indebted themselves are considered less reliable for the application of a self-help model, than the countries that overcame the crisis with their own strength.
- The last one is the attitude of a society toward savings and education, indeed, a country that is ready to make sacrifices now in order to improve its future, improving its human resources in case of education or increasing its financial resources in case of savings, will be more prepared to sustain self-help efforts.

Summarizing, one country's independent efforts and especially one country's will for development are an important signal to foreign aid countries, who should not ignore the developing country labeling it as unable to think out a good development strategy for themselves, but should apply a self-help based model fostering local ideas and promoting local projects. Japan's faith in the self-help model also led Japanese aid officials to select loans as their favorite tool for foreign aid interventions, since the commitment to repay the loan interests can stimulate developing countries to make efforts and sacrifices in order to accomplish their duty, thus implying the realization of the self-help doctrine. The strong conviction of Japanese aid institutions in the self-help doctrine is demonstrated also by Japanese domestic examples, as in the 1995 Kobe earthquake, when Japan's government preferred to concede governmental loans instead of grant aid in order to start the process of post-reconstruction, as professor Marie Söderberg explained in her book about Japanese foreign aid:

³⁹ Nishigaki and Shimomura, *The Economics of Development Assistance*, 147.

The victims in Kobe did not receive new houses but instead received loans enabling them to build houses for themselves. Rather than grants they were given “help to self-help”, a concept and a way of thinking that influences Japanese foreign aid as well.⁴⁰

In this specific case, the excessive faith in the self-help model created a ridiculous situation for wretched people hit by the earthquake not only had to rebuild their houses through loans in a place where due to the earthquake no construction enterprises were left operational, but also had to provide to their most basic needs by themselves in the first days after the catastrophe, since the Japanese government was slowed down by bureaucratic obstacles in the process of conceding emergency aid.

The main objective of the ODA philosophy

The declared objective of Japan’s ODA philosophy since the beginning of aid activities has been:

Since the end of World War II, Japan has conducted its foreign policy under the belief that contributing to the peace and prosperity of the international community brings peace and prosperity to Japan itself. ODA has been an important tool for realizing this goal of Japan’s foreign policy. As symbolized by the stability and development of East Asia, ODA has contributed greatly to the growth of developing countries and regions. This was itself significant to Japan’s foreign policy. Furthermore, as the coverage area of its ODA expanded to more areas and regions, Japan, too, benefited from ODA: Japan’s international status rose; the market for Japanese products expanded; and sympathy towards Japan was fostered. In addition, the attentive approach of Japanese aid itself has been highly regarded by the international community⁴¹.

As previously seen, Japan taking example from its own experience had always put great emphasis on economic infrastructure development for its ODA programs in order to foster development in poor countries, and realize its final objective of peace and prosperity in the international community. However, when it understood that the sole economic infrastructure development was not sufficient to solve the problems of developing countries, it realized a shift in its aid philosophy toward the development of social and environmental sectors. In 1992, the “ODA Charter”, issued by the Ministry of Foreign Affairs of Japan, brought to the revision of Japanese aid philosophy; according to professors Nishigaki and Shimomura, in addition to the old concerns for humanitarian issues and international community’s interdependence, new subjects needed to be focused on in Japanese aid philosophy, in order to assure the effectiveness of aid, these new subjects were environmental protection and support for self-help efforts:

This statement makes clear Japan’s intention to put environmental conservation at the center of its aid program. In addition, the emphasis on self-help efforts is an aid philosophy rooted in Japanese history, one that can be seen as a common thread running through all Japan’s ODA efforts from the very beginnings of Japanese aid. In setting forth these basic positions, the ODA Charter takes on a character that is uniquely Japanese.⁴²

⁴⁰ Marie Söderberg, *The Business of Japanese Foreign Aid: five case studies from Asia* (London: Routledge, 1996), 32, 33.

⁴¹ “ODA Review: Summary of the Final Report”, MOFA, accessed December 17, 2012, http://www.mofa.go.jp/policy/oda/reform/pdfs/review1006_summary.pdf, 19.

⁴² Nishigaki and Shimomura, *The Economics of Development Assistance*, 287.

Together with this reviewed philosophy, a set of principles that had to be respected by the recipient countries in order to receive aid from Japan were set⁴³; one of the principles that drawn much attention was the fourth, since it regarded the political conditionality of aid and consequently the issue of non-intervention in the internal affairs of other countries. Under this framework, professors Nishigaki and Shimomura say that the key for the implementation of the fourth principle of the ODA Charter (regarding political conditionality) is not imposition but persuasion, convincing the ODA recipient that a certain project is in its best interests, so that, the recipient will spontaneously accept and collaborate to the project. Nevertheless, when a certain level of political conditionality is required in order to enforce the observance of human rights, Japan would adopt a tougher attitude clearly imposing its conditions, as in 1988 when the Japanese government suspended its ODA programs to Myanmar, due to the violation of human rights during the military coup. Furthermore, a series of priority issues were addressed as well by the ODA Charter, they were: cooperation between the developed and developing countries in the approach to the global problems, basic human needs, human resources development and research and other cooperation for improvement and dissemination of technologies, infrastructure development, structural adjustment. The priority regions for Japan's aid activities indicated in the ODA Charter were first of all the ASEAN countries, followed by LLDC localized in Africa, Middle East, Central and South America, Eastern Europe and Oceania.

In 2003 a review of the ODA Charter was deemed necessary by MOFA, in order to address the new challenges coming from the modern globalized society, especially after the 2001 terrorist attack on New York. The main objective of the new Japanese aid philosophy in the 2003 revised ODA charter was the same of the past:

The objectives of Japan's ODA are to contribute to the peace and development of the international community, and thereby to help ensure Japan's own security and prosperity⁴⁴.

As well as the same remained the concept of referring to the past Japanese experience as an aid recipient, in order to implement better aid policies for developing countries; nonetheless, the environment in which the ODA was operating changed, due to the terrorist menace and the advancing of globalization. As a consequence, a new group of problematic issues had to be addressed by Japan's ODA: the gap between the rich and the poor, ethnic and religious conflicts, armed conflicts, famine, refugee crises, terrorism, suppression of freedom, human rights and democracy, natural disaster, sustainable development, environmental problems, infectious disease, gender disparity. The way MOFA chose to face these new problems brought to the reshaping of Japan's aid philosophy:

Japan, as one of the world's leading nations, is determined to make best use of ODA to take the initiative in addressing these issues. Such efforts will in turn benefit Japan itself in a number of ways, including by promoting friendly relations and people-to-people exchanges with other countries, and by strengthening Japan's standing in the international arena. In addition, as nations deepen their interdependence, Japan, which enjoys the benefits of international trade and is heavily dependent on

⁴³ The four principles of the 1992 ODA Charter are almost the same as the four principles announced in 1991 by Prime Minister Kaifu Toshiki, that are listed in the paragraph about ODA history above, except for the first principle of the ODA Charter which in accordance with the new ODA philosophy address the questions of environmental conservation and development.

⁴⁴ "Japan's Official Development Assistance Charter, August 29, 2003", MOFA, accessed November 28, 2012, <http://www.mofa.go.jp/policy/oda/reform/revision0308.pdf>, 1.

the outside world for resources, energy and food, will proactively contribute to the stability and development of developing countries through its ODA. This correlates closely with assuring Japan's security and prosperity and promoting the welfare of its people. In particular, it is essential that Japan make efforts to enhance economic partnership and vitalize exchange with other Asian countries with which it has particularly close relations. Japan aspires for world peace. Actively promoting the aforementioned efforts with ODA, and manifesting this posture both at home and abroad is the most suitable policy for gaining sympathy and support from the international community for Japan's position. Therefore, Japan's ODA will continue to play an important role in the years to come⁴⁵.

As a result, five strategic basic policies for development (including new ones and revised old ones) were adopted with the ODA Charter revision:

1. Supporting self-help efforts of developing countries- The most important philosophy of Japan's ODA is to support the self-help efforts of developing countries based on good governance, by extending cooperation for their human resource development, institution building including development of legal systems, and economic and social infrastructure building, which constitute the basis for these countries' development. Accordingly, Japan respects the ownership by developing countries, and places priorities on their own development strategies. In carrying out the above policy, Japan will give priority to assisting developing countries that make active efforts to pursue peace, democratization, and the protection of human rights, as well as structural reform in the economic and social spheres.
2. Perspective of "human security"- In order to address direct threats to individuals such as conflicts, disasters, infectious diseases, it is important not only to consider the global, regional, and national perspectives, but also to consider the perspective of human security, which focuses on individuals. Accordingly, Japan will implement ODA to strengthen the capacity of local communities through human resource development. To ensure that human dignity is maintained at all stages, from the conflict stage to the reconstruction and development stages, Japan will extend assistance for the protection and empowerment of individuals.
3. Assurance of fairness- In formulating and implementing assistance policies, Japan will take steps to assure fairness. This should be achieved by giving consideration to the condition of the socially vulnerable, and the gap between the rich and the poor as well as the gap among various regions in developing countries. Furthermore, great attention will be paid with respect to factors such as environmental and social impact on developing countries of the implementation of ODA. In particular, the perspective of gender equality is important. Japan will make further efforts to improve the status of women, giving full consideration to the active participation of women in development, and to ensuring that women reap benefits from development.
4. Utilization of Japan's experience and expertise- Japan will utilize its own experience in economic and social development as well as in economic cooperation when assisting the development of developing countries, fully taking into account the development policies and assistance needs of developing countries. Japan will also utilize its advanced technologies, expertise, human resource, and institutions. Implementation of ODA will be coordinated with key Japanese policies to ensure policy coherence, taking into consideration implications for Japan's economy and society.
5. Partnership and collaboration with the international community- Mainly with the initiative of international organizations, the international community is sharing more common development goals and strategies and various stakeholders are increasingly coordinating their aid activities. Japan will participate in this process, and endeavor to play a leading role. In parallel with such efforts, Japan will pursue collaboration with United Nations organizations, international financial institutions,

⁴⁵ "Japan's Official Development Assistance Charter, August 29, 2003", MOFA, accessed November 28, 2012, <http://www.mofa.go.jp/policy/oda/reform/revision0308.pdf>, 1.

other donor countries, NGOs, private companies, and other entities. In particular, Japan will enhance collaboration with international organizations that possess expertise and political neutrality, and will endeavor to ensure that Japan's policies are reflected appropriately in the management of those organizations. In addition, Japan will actively promote South-South cooperation in partnership with more advanced developing countries in Asia and other regions. Japan will also strengthen collaboration with regional cooperation frameworks, and will support region-wide cooperation that encompasses several countries.⁴⁶

In addition, four priority issues connected with the new objectives and new basic policies of the ODA Charter were asserted as well:

- Poverty reduction- Poverty reduction is a key development goal shared by the international community, and is also essential for eliminating terrorism and other causes of instability in the world. Therefore, Japan will give high priorities to providing assistance to such sectors as education, health care and welfare, water and sanitation and agriculture, and will support human and social development in the developing countries. At the same time, sustainable economic growth, increase in employment, and improvement in the quality of life are indispensable for realizing poverty reduction and Japan places importance on providing assistance for these issues accordingly.
- Sustainable growth- In order to invigorate developing countries' trade and investment, as well as people-to-people exchange, and to support sustainable growth, Japan will place importance on providing assistance for the development of the socioeconomic infrastructure -a key factor for economic activity, and also for policy- making, the development of institutions, and human resource development. This will include (i) cooperation in the field of trade and investment including the appropriate protection of intellectual property rights and standardization, (ii) cooperation in the field of information and communications technology (ICT), (iii) the acceptance of exchange students, and (iv) cooperation for research. In addition, Japan will endeavor to ensure that its ODA, and its trade and investment, which exert a substantial influence on the development of recipient countries, are carried out in close coordination, so that they have the overall effect of promoting growth in developing countries. To that end, Japan will make efforts to enhance coordination between Japan's ODA and other official flows such as trade insurance and import and export finance. At the same time, private-sector economic cooperation will be promoted, making full use of private-sector vitality and funds.
- Addressing global issues- As for global issues such as global warming and other environmental problems, infectious diseases, population, food, energy, natural disasters, terrorism, drugs, and international organized crime, further efforts must be given immediately and in a coordinated manner by the international community. Japan will address these issues through ODA and will play an active role in the creation of international norms.
- Peace-building- In order to prevent conflicts from arising in developing regions, it is important to comprehensively address various factors that cause conflicts. As part of such undertakings, Japan will carry out ODA to achieve poverty reduction and the correction of disparities, as referred to above. In addition to assistance for preventing conflicts and emergency humanitarian assistance in conflict situations, Japan will extend bilateral and multilateral assistance flexibly and continuously for peace-building in accordance with the changing situation, ranging from assistance to expedite the ending of conflicts to assistance for the consolidation of peace and nation-building in post-conflict situations. For example, ODA will be used for: assistance to facilitate the peace processes; humanitarian and rehabilitation assistance, such as assistance for displaced persons and for the

⁴⁶ “Japan’s Official Development Assistance Charter, August 29, 2003”, MOFA, accessed November 28, 2012, <http://www.mofa.go.jp/policy/oda/reform/revision0308.pdf>, 2, 3.

restoration of basic infrastructure; assistance for assuring domestic stability and security, including disarmament, demobilization, and reintegration of ex-combatants (DDR), and the collection and disposal of weapons, including demining; and assistance for reconstruction, including social and economic development and the enhancement of the administrative capabilities of governments.⁴⁷

The regions that according to the revised Charter necessitated priority of intervention were almost the same of 1992 (a great emphasis on ASEAN countries, followed by Africa, Latin America, Middle East, Oceania), except for a new interesting focus on the regions of South and Central Asia. Making a comparison between the priority issues of the 1992 charter and the 2003 revised charter, is interesting to see that structural adjustment and infrastructure improvement disappeared from the list of 2003 priorities in favor of sustainable growth and peace-building, while the other concepts regarding basic human needs and human resources development have transformed into reducing poverty and addressing global issues. From the perspective of development priorities we can notice an improvement in the quality of Japanese aid philosophy, as well as a consequent upgrade in the quality of Japanese aid activities.

Following this trend of renovation in 2010 a review of official development assistance was promoted by MOFA in order to gain more public support and understanding as well as improve Japanese ODA's effectiveness; the document was significantly called "Enhancing Enlightened National Interests: living in harmony with the world and promoting peace and prosperity". In this document Japanese officials argued that changes in the ODA international environment, brought by globalization, more competitive emerging economies, and new leading aid donors, together with problems arising from the Japanese domestic ODA environment related to low public support for ODA activities, produced a necessity for revising Japan's official development assistance. According to this document three factors are the most important for revitalizing Japanese ODA: a more strategic and effective implementation of aid, a strong support and understanding from the people, the mobilization of resources needed to meet development challenges. In addition, a new concept of development cooperation is highlighted as well in the ODA review:

Today, a wide range of stakeholders are involved in development issues and financial sources to flow into developing countries have diversified. It is necessary and appropriate to regard assistance to developing countries as "development cooperation," which includes not only ODA but also other official flows (OOF) and cooperation by non-public sectors (private companies, NGOs, citizens). Based on this recognition, we place ODA at the core of development cooperation, and consider its place within a larger context of coordination with OOF and non-public sectors and in the framework of international cooperation.⁴⁸

This form of development cooperation is sustained by three pillars, which are reducing poverty, investing in peace and supporting sustainable growth. On the other hand, the philosophy of the ODA review remained almost the same of the past, except for some additional new concepts:

It is through global peace and prosperity that the peace and prosperity of Japan can be achieved. With this recognition, Japan will continue to actively contribute to solving the global challenges,

⁴⁷ "Japan's Official Development Assistance Charter, August 29, 2003", MOFA, accessed November 28, 2012, <http://www.mofa.go.jp/policy/oda/reform/revision0308.pdf>, 3, 4.

⁴⁸ "Enhancing Enlightened National Interests: Living in harmony with the world and promoting peace and prosperity, June 2010", MOFA, accessed January 14, 2013, http://www.mofa.go.jp/policy/oda/reform/pdfs/review1006_report.pdf, 6.

thereby creating a better international environment. In this globalized world, assistance to developing countries is not a “charity” but a “modality” to pursue common interests of the world including Japan. To this end, we need to undertake development cooperation by fully utilizing Japan’s human resources, expertise, financial resources and technologies in addition to ODA.⁴⁹

An interesting innovation about the philosophy of this ODA review is the official collaboration promoted by the Japanese government between the private sector and the public sector in the financing processes regarding Japanese aid, through coordination of ODA, private funds and other official flows, for an improved effectiveness of ODA. Furthermore, at the end of the document an additional revision of the ODA Charter is announced for the future, considering the possibility of implementing sector-specific development policies as the most effective way of improving Japan’s aid policies.

Japanese economic interests and ODA

Embedded in Japan’s philosophy of development is the idea that the public and private sectors must work not as adversaries, but as partners in development.⁵⁰

For this reason, according to professor Söderberg, Japanese industrial lobbies have a large influence on Japan’s development assistance processes, comparing to other countries where other factors interacted with official development assistance. Perhaps, the most important Japanese institution which promoted the interests of the Japanese private sector in the developing countries was the Ministry of International Trade and Industry (MITI) replaced in 2001 by the Ministry of Economy, Trade and Industry (METI). MITI was one of the main supporters of the expansion in developing countries of Japanese exports, and one of the main instigators of the outsourcing of Japanese companies abroad, especially since the appreciation of the yen enforced by the Plaza Accord in 1985⁵¹. Under that framework, ODA loans provided by Japan, which have always had a general focus on economic infrastructures development projects, became the priority not only for the recipient countries, developing their domestic economies and export markets, but also for the Japanese companies operating overseas. Indeed, the economic infrastructures built through Japanese ODA loans in the developing countries were necessary to Japanese companies for their outsourcing processes, in particular for the transportation and production of labor-intensive products, or part of products that could be later exported to Japan for the final assembly, or straightly exported from the developing country to the global market. However, despite this tendency of taking advantage from foreign aid activities in order to pursue its own economic interests, Japan’s tied conditions for ODA loans are among the freest in the world; furthermore, in 1978 an official governmental policy fixed general untied conditions for yen loans as a rule to be strictly observed by ODA implementation agencies. Since 1978 the untied factor in ODA loans became to increase reaching a level superior to

⁴⁹ “Enhancing Enlightened National Interests: Living in harmony with the world and promoting peace and prosperity, June 2010”, MOFA, accessed January 14, 2013, http://www.mofa.go.jp/policy/oda/reform/pdfs/review1006_report.pdf, 7.

⁵⁰ Hanabusa Masamichi, “A Japanese perspective on aid and development”, in *Yen for Development*, ed. Shafique Islam (New York: Council of Foreign Relations Press, 1991). Quoted from: Söderberg, *Business Japanese Foreign Aid*, 72.

⁵¹ The Plaza Accord was an agreement between the governments of France, West Germany, Japan, USA and the United Kingdom signed in 1985 at the Plaza Hotel in New York. The main objective of the agreement was the depreciation of the US dollar in relation to the Yen and the Mark, through an intervention in the currency market; the immediate effect of the accord was the appreciation of the Japanese yen, with the consequent fall of Japanese exports due to the reduced competitiveness of Japanese goods.

90%; this condition, together with the appreciation of the yen after the Plaza Accord, dramatically reduced the competitiveness of Japanese firms in the international biddings for ODA loan project's contracts organized by the Japanese ODA recipient government agencies, thus producing a consequent complaint of Japanese private companies toward the Japanese government. It happened that foreign companies competing with Japanese companies in an international bidding won thanks to favorable conditions granted with Japanese money, this kind of events discouraged Japanese corporations to undertake international biddings and provoked a wide criticism of the ODA system in Japan. Nonetheless, Japanese industrial lobbies and trading houses still have a large influence on Japan's foreign aid activities, above all performing project recommendation functions in the ODA mechanism.

THE THREE MAIN CATEGORIES OF JAPANESE ODA AND THE SUBSCRIPTIONS TO INTERNATIONAL ORGANIZATIONS

As seen before, the official development assistance can be divided into two main categories, the multilateral and the bilateral one, in the case of Japan the percentage of bilateral ODA has always been largely superior to the multilateral ODA; therefore, underlining a strong desire to control directly how the Japanese money is actually used in the developing countries, as well as a certain influence exercised by some industrial lobbies in the choice of investment fields. The three main forms of Japan's ODA bilateral assistance are Grant Aid, Technical Cooperation and Yen Loans.

Grant aid

Grant aid is defined by professors Shimomura and Nishigaki as "The form of financial cooperation that helps developing countries acquire what they need but does not require repayment in return⁵²"; in addition, they point out that this form of ODA is mainly directed to the poorest countries of the developing world (African countries, Bangladesh), owing to the favorable conditions of grant aid. As a consequence, in this form of foreign aid the sectors with the lowest profitability (education, health, sanitation, agriculture) are those receiving most investments; however, the transportation sector, which is a fundamental but not a non-profitable one, received many grants as well, because of the inability of repayment for large-scale infrastructure loans by the low income countries, that so desperately need a good transportation network in order to develop their economies, as professor Shimomura and Nishigaki noted. Grant aid is divided in the following categories:

- *General grant aid*- this category consists in general foreign aid that does not require repayment of interests; it includes debt relief grants for least developed countries which cannot afford repayment of their foreign debts, and large-scale infrastructure projects, such as the construction of two bridges on the Meghna river in Bangladesh.
- *Grass-roots grant aid*- this kind of grant aid was introduced in the foreign aid panorama in 1989; it originated from the problem of communication sluggishness affecting the project proposals presented by the developing countries local governments, which needed extremely long periods of time to be transmitted to the ODA evaluating commission in Tokyo for the project approval, thus losing their time-related functionality. In order to obviate to this problem, the Japanese embassies present in the developing countries were given the power

⁵² Nishigaki and Shimomura, *The Economics of Development Assistance*, 166.

to autonomously approve small local projects proposals, requested by local public agencies and non-governmental organizations, and concede them grant aid. This kind of grass-roots grant aid gave life to finely-tailored interventions with a high flexibility and a strong correspondence with local needs. A representative example is the proposal made by the Amahl Joti NGO in Delhi, requesting for the provision of new facilities and funds for their activities, which mainly consist in providing legs prosthesis for children with physical disabilities.

- *Grant aid for fisheries-* in the field of nutrition the share occupied by fish in the animal proteins can be a relevant factor for the population of poor countries, following this idea, Japan promoted grant aid for fisheries, taking advantage from its expertise in the sector. This category of aid includes the provision of fishing boats, training vessels, research vessels, ice machines, and aquaculture research centers to developing countries in order to develop the local fishing sector.
- *Emergency grant aid-* natural disasters, civil wars and different types of violent conflicts had generated large masses of refugees and people who necessitate humanitarian aid, to respond this emergency Japan established the Japan Disaster Relief Teams in 1987 composed by a rescue team, a medical team and a team of experts, who can be sent in the disaster areas according to type of emergency. The emergency grant aid also includes aid furnished through the Japanese Red Cross, and aid given by other international relief organizations. When a tornado stroke Bangladesh in 1996 killing and injuring tens of thousands of people, the Japan Disaster Relief medical team played a fundamental role in the rescuing operations, answering quickly to the call for help and consequently saving the life of many locals, receiving the praise and gratitude of most of them.
- *Cultural grant aid-* financial support for the preservation of cultural amenities and for the promotion of cultural exchanges between Japan and the recipient country is provided by this category of grant aid.
- *Food aid-* this type of grant aid was designated in order to respond to the countries suffering from food shortages, Japan concedes grants to these countries for the purchasing of food supplies, such as rice, wheat, maize, and other grain products.
- *Aid to increase food production-* through this kind of aid Japan sustains the improvement of the agricultural system of the recipients in order to increase their food production capacity, providing them with agricultural equipment, pesticides, fertilizer, etc.⁵³

Since the beginning of its development assistance history, Japan's grant aid was managed and straightly handled to recipients by MOFA, but, after the unification of all foreign aid activities under the authority of the Japan International Cooperation Agency in 2008, grant aid has been administered by the same JICA (except for grant aid which MOFA directly handles to countries that are particularly important for the Japanese diplomatic policy). Due to critics concerning the lack of coordination between the Japanese government institutions that were involved within the ODA mechanism, with a consequently low efficiency of Japan's foreign aid, it was decided in 2008 to unify all aid functions under one organization in order to simplify and improve the ODA process. Unfortunately, whatever change has Japan foreign aid system passed through, the share which grant

⁵³ The categorization of grant aid is taken from: Nishigaki and Shimomura, *The Economics of Development Assistance*, 166-171.

aid occupied and still occupies in the total amount of Japanese aid budget, despite the efforts to increase it, has always been inferior to that of its yen loans, possibly due to the importance given by Japanese aid philosophy to the concept of help for self-help.

Technical cooperation

Technical cooperation has been regarded by Japanese officials as one of the most important forms of ODA, especially since the publication of the ODA Charter in 1992, emphasizing the impellent need to develop the human resources sector in the developing countries, in order to produce a real shift in the process of improving the economic conditions of the recipients. Moreover, this kind of development assistance is justified by the Japanese “help for self-help” model, and regarded as the most successful one, in contrast with the mere concession of money or sophisticated machines, useless to a country who cannot use them in the best way; in this framework, transfer of technologies became the fundamental way through which knowledge is passed by, and human resources are improved. We can distinguish different forms of technical cooperation implemented by the Japanese government:

- *Projects for accepting trainees*- the main objective of these projects is the transfer of technologies from the donor to the recipient through training programs for students; trainees from the developing countries are sent to Japan in order to acquire the technical capabilities proper of the high level of the Japanese expertise in the field of technology. Furthermore, training programs are organized also in third countries (belonging to the South) with a long experience as aid recipients, and thus with a good level of expertise. As a consequence, under a framework of South-South cooperation is easier to successfully complete the transfer of technologies, due to the minor differences in the technological levels of the two countries and to the similar customs (for the South-East Asian Region). An emblematic example are the training programs organized in Thailand at Kasetsart University in 1996 for students from Vietnam, Laos and Cambodia regarding agricultural production and environmental awareness; a proof of this successful initiative is that in 1995 there were 110 projects of South-South cooperation implemented by Japan⁵⁴.
- *Experts dispatch projects*- as suggested by the name, this kind of technical cooperation consist in sending Japanese experts from different sectors to the developing countries, in order to transfer the necessary knowledge, which can be also other than technical, such as expertise in the field of policy or management. For instance the “Support in the Formation of Key Governmental Policies” was centered on providing advices for the construction of new political system in countries that were shifting from a socialist model to a market-economy oriented one.
- *Japan overseas cooperation volunteers*- this program has some similarities with the expert dispatch, but it differs from the previous for the condition that volunteers must be young people between the age of 20 and 39, recruited by advertising. The main aim pursued by volunteers is technology transfer as well, however, a second important target is mixing with the local population and becoming part of the local community, thus giving life to a real cultural exchange in the background of technology transfer programs. When a cyclone hit Bangladesh, the Japanese volunteer corps, who were working there and had contacts with

⁵⁴ Nishigaki and Shimomura, *The Economics of Development Assistance*, 172.

the local community, were able to improve Japan's government intervention during the disaster relief operations, thanks to the knowledge of the local community most necessary needs.

- *Development studies*- the difficulty of designing an overall plan for development by the developing countries themselves, generally due to a shortage of qualified personnel, led Japan to start this kind of technical cooperation, providing the recipients with plans to implement. Japanese experts, in first place, help the developing country draw a master plan for the comprehensive development of a specific area or a specific sector, than in a second time they carry out feasibility studies in order to verify if the planned projects are achievable or not, and finally, a project completion evaluation is delivered for judging the overall effectiveness of the project. These types of programs are regarded as preparatory actions before the implementation of the various forms of development assistance; as a result, most of the projects listed in the master plans and feasibility studies receive yen loans or grant aid from the Japanese government.
- *Project-type technical cooperation*- the main characteristics of this type of technical cooperation is the completeness of its project-based intervention, respectively including the dispatch of Japanese experts in the recipient country, the sending of local trainees to Japan and the concession of grant aid to the developing country. A typical project starts with the Japanese government conceding grant aid in order to build infrastructures and provide materials, in a second moment trainees of the recipient country are sent to Japan for the training necessary to learn how to use the means given by grant aid, finally experts from Japan are dispatched to the developing country for completing the process of transfer of technology in the grant aid built facilities. Through this comprehensive intervention many of the problems affecting other technical cooperation forms are solved, in particular the major problem of the lack of qualified human resources who do not have the skills for utilizing infrastructures and means furnished through grant aid infrastructure projects; as a result, the efficiency is highly improved thanks to the synergy of various forms of technical cooperation. Some examples of project-type technical cooperation are: the Primary Health Care Training Center in Thailand, the Kilimanjaro Agricultural Training Center in Tanzania, the Jomo Kenyatta University of Agriculture and Technology in Kenya, the Noguchi Memorial Institute for Medical Research Center in Ghana, the training in the use of irrigated rice cultivation equipment in Ivory Coast, etc.
- *Japan disaster relief teams*- the disaster relief organization, that is responsible for this form of technical cooperation, born with the law enacted in 1987 concerning the dispatch of Japan relief teams, its main aim is to provide aid as soon as possible when a major natural or humanitarian disaster occurs. The organization can count on a medical team of 500 persons ready to leave for the area of the disaster in 48 hours, a team of 1500 persons from firefighting units, police and maritime safety agency, and starting from 1992 self-defense forces for Peace Keeping Operations⁵⁵ as well as disaster relief; In addition, financial aid and emergency aid supply can be provided at will. Many interventions were made through

⁵⁵ The International Peace Cooperation Law was enacted by the Japanese Diet in 1992, in order to allow the Japanese Self-defense forces to participate to the peace keeping operations in the aftermath of the Gulf War; before the Japanese Self-defense forces could not be used outside the Japanese territory.

this form of technical cooperation in areas hit by natural disasters and humanitarian crisis, for instance in China, the Philippines, Thailand, Bangladesh, etc.⁵⁶

JICA⁵⁷ has always administered technical cooperation on behalf of the Japanese government, since the launching of Japan's technical cooperation programs in 1954 within the framework of the Colombo plan, until nowadays after it became an independent agency with larger powers. This long-standing experience in the field of technical cooperation empowered JICA with an outstanding expertise and a highly qualified personnel, that are vital for the sector of human resources development; however, the share occupied by technical cooperation in the total of Japanese development assistance is small compared to the percentage of ODA loans.

Yen loans

ODA loans (also referred to as yen loans) are sums of money conceded by the Japanese government to developing countries in order to help them improving their development process, the money is lent on favorable terms which are more advantageous than those given on a commercial basis, thus distinguishing them from a classical loan. The typical characteristics of a Japanese ODA loan are a long-term period of maturity (usually 30 years), a period of grace for the interests repayment which is around 10 years, and a low interest rate near 2.5 %; a loan with repayment conditions similar to that cited above, has a grant element of more than 60%. Moreover, there are different lending conditions according to the level of development of the borrowing country, from the LLDC that can receive a particular favorable treatment with an interest rate of only 1%, to countries which had already achieved a high stage of development such as Brazil or China that receive a less favorable treatment, with an interest rate of more or less 5%. Yen loans are generally directed to the development of the recipient's economic infrastructures, in particular the transportation sector, the energy sector, the telecommunication sector, and the iron and steel sector; some examples are mega-projects for transportation infrastructures, electric power plants, dams, thermal power plants, steel plants construction and updating projects. However, after the publication of the ODA Charter in 1992, ODA loans were used for projects concerning environmental and social infrastructures as well, such as water supply facilities, sewerage systems, environmental conservation projects, afforestation projects, higher education projects, public health projects, rural community infrastructures, etc.; in some occasions, ODA loans can also be directed to debt relief activities. Furthermore, according to Professors Shimomura and Nishigaki ODA loans can be divided in two categories:

- *Project Loans*- this category of ODA loans addresses the implementation of a specific project, whose main objective is generally the recipient country economic development, as a consequence, the construction of economic infrastructures (ports, airports, roads, power plants, oil refineries, fertilizer factories, etc.) and the furniture of the relative equipment are the core of this category of loans. However, large-scale projects are not the unique target of project loans, indeed, rural and regional development programs also play an important role as well. In these cases, loans concern various small-scale projects that are gathered together

⁵⁶ The classification of technical cooperation and the relative data are taken from: Nishigaki and Shimomura, *The Economics of Development Assistance*, 171-174.

⁵⁷ JICA was established only in 1974, so that at the beginning of technical cooperation programs in 1954 the organization handling technical cooperation, that would have later become JICA, was the Overseas Technical Cooperation Agency.

in a single package and directed to the development of determined areas, through financing the construction of local roads, improving rural electrification, and building irrigation systems for example, as was the case of the village development programs in Northeastern Thailand. Another form of project loan is the so called “two-step loan”, that is a financial loan managed through the banking system:

This is a form of support for directed credit carried out by the government of a developing country. The mechanism works as follows: funds are lent to development banks, agricultural banks and other directed credit institutions (step one). These funds are then used to provide financing for projects undertaken by small and medium-sized businesses, farmers and other customers (step two). The arrangement has two results: it fosters and strengthens the financial systems of a developing country while directly addressing grass-roots needs. Nevertheless, because this approach involves a partnership with a directed credit institution in a developing country, careful checks must be made to ascertain the partner’s dependability⁵⁸.

- *Non-Project Loans*- as the name suggest this category of loans is not project-based, thus it has no specific goal to be achieved, except for a general improvement of the recipient country’s macroeconomic conditions. Non-project loans are commodity loans (the first type of loan conceded by the Japanese government at the beginning of its aid history) which are conceded to developing countries affected by foreign exchange imbalances in order to provide them with the funds for the purchasing of the most necessary items for their economies (raw materials, spare parts, fuel, etc.), as well as funds for emergency relief when a humanitarian crisis occurs⁵⁹. According to the old Japanese aid doctrine, even if commodity loans could temporarily solve a developing country’s economic difficulties, they could not successfully address the underlying key problem which caused the crisis, that was a necessary reform of the country’s economic structure; as a result, structural adjustment loans took over the leading role played before by commodity loans in Japan’s ODA loan trend. Thereby, the Japanese government started cooperating with the WB, financing WB structural adjustment loans, and believing that structural adjustment programs were the best way to improve developing country’s economies, nevertheless, when they noticed the failure of these economic development policies, they began promoting a radical reform of the structural adjustment loan system.⁶⁰

At the beginning of Japan’s aid activities ODA loans were administered by the Export-Import Bank of Japan (JEXIM), but, in a second moment the Overseas Economic Cooperation Fund (OECF) took over all functions concerning ODA loans implementation; consequently to the fusion of JEXIM and OECF into the Japan Bank for International Cooperation (JBIC) in 1999 the responsibility passed to this new organization, finally in 2008 after the reform of JICA, ODA loans came under its control. ODA loans had always occupied the highest share in the total of Japan’s official development assistance activities, nonetheless, since the publication of the ODA Charter in 1992 increasing efforts have been made in order to augment the share of other forms of ODA which are more advantageous for the developing countries. ODA loans are widely used by the Japanese

⁵⁸ Nishigaki and Shimomura, *The Economics of Development Assistance*, 176.

⁵⁹ Commodity loans are considered a very useful means for the emergency assistance, for instance, during the First Gulf War countries damaged by the war were provided with commodity loans, which temporarily helped their economic recovery.

⁶⁰ The information about the Japanese government’s yen loan programs and the relative data are taken from: Nishigaki and Shimomura, *The Economics of Development Assistance*, 175-177.

government because they reflect the Japanese aid philosophy ideals, especially the fundamental model of “help for self-help”. According to this model a country who receives a loan will be more determined to make efforts and sacrifices for the completion and success of the loan related project in order to repay the interests of the loan, and receive a positive evaluation by the Japanese aid institutions, thus facilitating future requests of loans; while a country who receive grant aid would not show the same determination and spirit of sacrifice.

Subscriptions to international organizations

With respect to the contributions and subscriptions of Japan to international institutions, it can be noticed that Japan largely participates in many multilateral aid activities. In the WB’s soft window, the International Development Association, Japanese subscriptions and contributions ranked second after the United States in fiscal year 2011⁶¹. Moreover, in the ADB’s soft window, the Asian Development Fund, Japanese contributions and subscription occupy the first place in the ranking⁶², furthermore, in the African Development Bank’s soft window, the African Development Fund, Japan’s subscriptions and contributions placed in the second position after the United States in fiscal year 2012⁶³. Besides, Japan had always maintained a high level of subscriptions to the various agencies belonging to the United Nations, ranking second in the classification of UN member countries largest contributors in fiscal year 2012, after the United States⁶⁴.

The classification of the different forms of Japan’s official development assistance that can be consulted on the website of JICA is more detailed than the one illustrated above, nevertheless, for the purpose of this study I retained sufficient the classification made by Professors Shimomura and Nishigaki in their book.

THE JAPANESE GOVERNMENT INSTITUTIONS THAT HANDLE ODA

According to professor Shimomura and former chairman of OECF Nishigaki there were 19 ministries and agencies of the Japanese government involved in the mechanism of official development assistance before the reforms of 2008, thus complicating and slowing down the process of ODA implementation. In that framework there were three main institutions (MOFA, JICA and OECF) which were playing leading roles in the ODA system. MOFA was responsible for the negotiations of grant aid with recipient countries, while JICA was charged with grant aid project implementation; in addition, JICA was also appointed for the implementation of technical cooperation programs, together with other ministries that possessed the necessary specific capacities. On the other hand, the yen loan policy was managed by the so called “four-ministry system⁶⁵”, which were the Economic Planning Agency (EPA), MOFA, the Ministry of Finance (MOF) and the Ministry of International Trade and Industry (MITI); moreover, the four ministries could also request advices from other specific ministries (the Ministry of Agriculture, Forestry and Fisheries,

⁶¹ “Statement of Subscriptions and Contributions Committed as of June 30, 2011”, IDA, accessed December 18, 2012, http://www.worldbank.org/ida/papers/IDAsubscriptions_contributions_June2011.pdf.

⁶² “ADF Partners”, ADB, accessed December 5, 2012, <http://www.adb.org/site/adf/adf-partners>.

⁶³ “Investor Presentation, September 2012”, The African Development Bank, accessed November 30, 2012, <http://www.afdb.org/fileadmin/uploads/afdb/Documents/Investor%20Presentation%20September%202012%20for%20Website.pdf>.

⁶⁴ “Assessment of Member States’ contributions to the United Nations regular budget for 2012”, United Nations Secretariat, accessed November 30, 2012, http://www.un.org/ga/search/view_doc.asp?symbol=ST/ADM/SER.B/853.

⁶⁵ Nishigaki and Shimomura, *The Economics of Development Assistance*, 179.

the Ministry of Construction, the Ministry of Transport, etc.), depending on the nature of the loan project, in order to design a better intervention. In the last stage of this process the OECF was entrusted with the practical implementation of the ODA loans. Due to the vital role performed by JICA, MOFA and OECF in the old ODA system, a more detailed description of the structure and functions of these three organizations may be required before the illustration of the functioning of the 2008 reformed system.

The old JICA

The Japan International Cooperation Agency was a public agency under the direct control of MOFA, it was founded in 1974 after the merging of the Overseas Technology Cooperation Agency (founded in 1962, responsible for technical cooperation) and the Japan Emigration Service (founded in 1963, responsible for overseas migration). At the time of its foundation, JICA also took over all functions executed before by the Overseas Agriculture Cooperation Foundation and some functions of the Japan Overseas Development Corporation as professor Shimomura and Nishigaki suggest in their book. At the beginning, JICA was entrusted with two main tasks, the first one was the implementation of technical cooperation programs with foreign countries, and the second one was the management of emigration programs to Central and South America. However, JICA's first assignment was the most important one, its contents were:

- In the framework of technical cooperation: acceptance of trainees, dispatch of specialists, development of surveys and project-type technical cooperation.
- Dispatching of groups of young volunteers overseas.
- With reference to disaster relief and assistance programs, the sending of Japan Disaster Relief Teams in the areas hit by calamities.
- In the background of development cooperation: economic support and technical support for Japanese private companies who wanted to invest on development projects in the developing countries, which were characterized by an high risk and low profitability (projects that were not accepted by the OECF and JEXIM).⁶⁶

In the framework of technical cooperation programs, as specified above, JICA also redacted master plans and feasibility studies for Japanese foreign aid institutions, including for its projects of technical cooperation and for the OECF loan projects, thus acquiring the additional role of research institute for international cooperation studies. In addition, another function performed by JICA was the management of the Japan Overseas Cooperation Volunteers (JOCV), a program for dispatching Japanese young volunteers overseas in order to implement technical cooperation programs in the developing countries concerning different sectors: agriculture, forestry, fisheries, education, health, etc. One characteristic that distinguish the volunteers programs administered by JICA from other international cooperation agencies, is that the experts and senior overseas volunteers, who are dispatched to developing countries with different tasks, do not belong to JICA but to the various Japanese ministries, depending on the specific abilities required by the project. This is a unique feature of JICA, since other international cooperation agencies implementing overseas volunteers programs have their own specialized personnel organized in departments dedicated to specific sectors, while JICA hire specialized personnel only when need it.

⁶⁶ The description of the contents of technical cooperation is taken from: Nishigaki and Shimomura, *The Economics of Development Assistance*, 180.

The philosophy at the base of its technical cooperation programs was declared by JICA at the World Summit for Social Development that took place in South Africa in 2002:

Japan International Cooperation Agency (JICA) places importance on the following aspects in improving technical cooperation to developing countries and supporting their capacity development.

- Respecting ownership of the developing countries.
- Sharing knowledge and technology through working together with developing countries.
- Establishing human and institutional relationship between Japan and developing countries.
- Utilizing Japanese experiences in her development process. (JICA program for WSSD, 30 August 2002, 2 September 2002)⁶⁷

The semi-governmental nature of JICA was abolished in 2003 with the foundation of a new JICA, independent from the Japanese government and from MOFA, this was the first step toward the reforms implemented in 2008.

The OECF

According to Professor Marie Söderberg⁶⁸ the Overseas Economic Cooperation Fund born from the first attempts of the Japanese government to establish an alternative funding for overseas development projects, which differed from the essentially export-oriented activities of the Export Import Bank of Japan (JEXIM). With this objective the Asian Development Fund was constituted in 1957, but, since no other countries were interested at that time in the initiative, the money that Japan had already allocated for the purpose, was redirected to the foundation of the OECF in 1961; the first loan was made by the OECF in 1965 to South Korea. Since the beginning of its life, OECF suffered from administration problems, because all the three ministries of MOF (Japan's Ministry of Finance), MOFA, and MITI wanted to control the fund; finally, EPA was nominated supervisor of the fund with the hard task of coordinating the joint management executed by the three ministries. Nevertheless, the political weakness of EPA negatively influenced the achievement of the OECF development goals, in favor of the subordination to Japanese bureaucratic interests. Interests that were visible also in the structure of the OECF, since the loan department was directed by an officer of the Bank of Japan, and many of the key positions were occupied by officials of the JEXIM and the Japan Development Bank (founded in 1951). As Professor Söderberg note, the necessity of clearly separating the functions of the banks and the OECF fund, led to the formation of an investigating committee in 1963, which declared that the fund had to assume a paramount role through an independent body. The first project for which the OECF was given full responsibility was the Indonesian aid program in 1968, nevertheless, before 1975 when OECF took over all functions concerning ODA loans, the loans were still conceded both by OECF and JEXIM. However, the real turning point in the OECF process of growing are the four plans for the doubling of aid budget launched in 1978 by the Japanese government, which boosted the international reputation of the OECF, that in 1992 was providing nearly 50% of Japan's total aid through ODA loans, with a budget increased five times during the period of 1978-1992⁶⁹. The outstanding role played by OECF in the world of foreign aid in the first half of the 90s has been underlined by professor Söderberg in her book:

⁶⁷ King and McGrath, *Knowledge for Development*, 167.

⁶⁸ Söderberg, *Business Japanese Foreign Aid*, 51.

⁶⁹ Söderberg, *Business Japanese Foreign Aid*, 52.

By July 1994, the outstanding balance of OECF loans and equity investments exceeded ¥8 trillion, approximately half that of the World Bank group and more than the combined total of four regional development banks (the Asian Development Bank, the Inter-American Development Bank, the African Development Bank and the European Bank for Reconstruction and Development). OECF has become one of the world's major development finance institutions as well as a principal executing agency of Japan's ODA.⁷⁰

Nonetheless, the problem of funds collection for the new ODA loans expanding strategy affected the OECF, since the amount of money which could be withdrawn from the Japanese general account budget⁷¹ had limits, as a consequence, a new source of funding was found in the borrowing from general public's savings:

...there was a limit due to political considerations on the amount ODA could increase within the General Account Budget. Money had to be found somewhere else and the solution chosen was to borrow it from the general public's savings. OECF was already borrowing money in 1978. It had started borrow from the Fiscal Loan and Investment Program in 1965 but there was limit placed on the amount as OECF legislation prohibited it from borrowing more than its own capital and reserve fund. This was insufficient to pay for the increase in ODA that Japan had committed itself to undertake. Something had to be done and in 1979 the OECF legislation was amended to enable OECF to borrow three times the sum of its capital and reserve fund. Consequently, as loans increased, borrowings as a percentage of OECF's financial resources also increased. In addition, due in part to international pressure, the terms and conditions of the loans became more favorable to recipients. The increasing cost of the funds for OECF, at the same time as the return was lowered, led to a negative spread after fiscal 1980.⁷²

This trend of borrowing three times more than the its capital reserves involved significant risks for OECF, which as former chairman Nishigaki said "Because the cost of borrowing raises interests rates on the loans the OECF makes, (OECF) it is inevitably forced to be structurally in the red⁷³".

With respect to the structural organization of the OECF, it was administered by a board of executives made up by six members and one auditor, one of the members who acted as chairman had usually been in the ministry of finance, as for the other members they included: a representative from MOF, a representative from MITI, a representative from MOFA, a representative from EPA, a representative from OECF who acted as vice-president, and an official from EPA who acted as auditor. Besides, the organization was constituted by other subordinate organisms reporting to the board of executives, there were a secretariat office, a research institute, 17 overseas offices and 8 departments. Among the departments there were: a co-ordination department responsible for planning and administration (completely controlled by MOF, since it had the assignment to clear the annual budget request), an accounting and general services department, a controller's department, three operations departments in charge of operations in different countries, a project development department (a special section treating with environmental and social development issues was added to this department in 1993 after the publication of the ODA charter in 1992), a

⁷⁰ Söderberg, *Business Japanese Foreign Aid*, 51.

⁷¹ The General Account Budget according to professor Shimomura and Nishigaki is used for general government expenses, such as public works, social insurance, education, defense, etc.; it is formed by a large part of tax revenues and a small part of government bonds.

⁷² Söderberg, *Business Japanese Foreign Aid*, 52, 53.

⁷³ Nishigaki and Shimomura, *The Economics of Development Assistance*, 182.

technical department. For the purpose of this study is interesting to note that in the three operations departments, the section dedicated to the OECF's operations in China was the first section of the second department, the same in charge for operations in Korea and Mongolia⁷⁴. An outstanding peculiarity of the OECF administrative structure was the extremely small number of staff through which the organization was managed, only 315 staff members against the 6,197 staff members of the WB in 1993⁷⁵. Following professor Söderberg theory, except for a necessity of the Japanese government to save money, there were also other reasons for such a contained number of staff:

It may also be because the Japanese type of loan aid is somewhat different from that of the other countries. A large amount of money is disbursed but with a low degree of interference in the affairs of other countries. Aid is to be requested by recipient countries themselves. OECF does not have a large number of staff giving advice on what should be done in different developing countries....their staff are economist and bureaucrats....The shortage and type of staff also affects the type of projects that OECF is likely to support. It leads to a preference for "large-scale projects" where a considerable amount of money can be spent at one time with minimal administrative effort. It is much easier for OECF to manage a project with one big power plant than ten smaller ones in different countries.⁷⁶

The role played by the staff in the request process was also important, because the OECF officials that were present in the OECF's overseas offices were acting like intermediaries between the local government and the Tokyo offices, when a request for a loan was made in the recipient countries.

The OECF's loans main sector of investment has been essentially that of economic infrastructures, in particular large-scale infrastructure projects concerning transportation, telecommunications, energy, steel industry, and chemical industry, until the publication of ODA Charter in 1992, when the sectors of environment and social infrastructures began receiving a certain attention from the OECF. Following this new trend OECF started giving loans for water supply infrastructures, sewerage systems, industrial waters decontamination treatment, environment improvement general projects, and other projects that before were not considered. Another feature of OECF loans is a tendency to loosen their tying conditions for the recipients, starting from the 1975 DAC agreement and continuing with the already cited Japanese governmental policy of 1978 onwards, promoting international competitive biddings held by the recipient country agencies for project contracting, and conceding generally untied loans.

In 1995 the merging of JEXIM and OECF was announced, and in 1999 the Japan Bank for International Cooperation (JBIC) was founded. In the new bank coexisted two major tendencies linked to the old OECF and the old JEXIM main interests, the first one was the pursue of international development through concession of ODA loans, and the second one was the promotion of international commerce and the promotion of Japan's exports. This contrast generated many fears and hopes about the merging of the two different visions of JEXIM and OECF in the years before the fusion was realized, as clearly explicated by OECF former chairman Nishigaki:

One natural reaction is the fear that the new organization will try to force through deals with Japanese companies under the guise of aid. From a different perspective, there are concerns that such

⁷⁴ The description of the structure of the OECF with the relative data is taken from: Söderberg, *Business Japanese Foreign Aid*, 56, 57.

⁷⁵ Söderberg, *Business Japanese Foreign Aid*, 54.

⁷⁶ Söderberg, *Business Japanese Foreign Aid*, 54.

a merger might dilute the export-promotion function of the EX-IM bank. Other critics have pointed to a lack of transparency in the accounting system which would allow deficits produced by aid to be offset by earnings from highly profitable projects.⁷⁷

Finally, the fusion was realized, but after nine years of unpleasant coexistence, the ODA loan related activities of JBIC were totally transferred under the jurisdiction of the new JICA in 2008, and JBIC became the international wing of the Japan Finance Corporation.

MOFA

The Japanese Ministry of Foreign Affairs was involved in the process of foreign aid since the end of the Second World War. At the beginning of Japan's foreign aid activity, MOFA had a central role in the coordination of Japanese aid, nonetheless, due to the increasing number of projects and to the growing necessity for specialized capacities, it gradually transferred its functions to other institutions maintaining only a minor role in the field of grant aid. The grant aid projects which are directly administered by MOFA have an outstanding importance for Japanese diplomacy, thus they had to be handled with certain tact in order to obtain the desired effect on diplomatic relations between Japan and the recipient country.

Another important role performed by MOFA officials is that of defining the ODA policy for the Japanese government; this includes fix the main objectives and characteristics of Japanese foreign aid, promoting revisions of the ODA doctrine, and developing strategies for the improvement of the effectiveness of foreign aid interventions. Some results concerning this kind of activity performed by MOFA are: the 1992 ODA Charter with its relative revisions, the ODA review of 2010, ODA rolling plans, ODA sectorial development policies, ODA mid-term policies, etc. However, after the reform of 2008, part of these ODA theory related functions were transferred to a new organization belonging to JICA, the JICA Research Institute.

The reformed JICA

The new JICA created in October 2008 took over all the functions concerning Japanese foreign aid activities, as a result, JICA received from JBIC the entire responsibility for the administration and implementation of yen loan programs, and acquired a partial jurisdiction from MOFA over the implementation of grant aid programs. The unification of Japan's development assistance activity all under a unique organization firmly consolidated the Japanese ODA system, thus improving its effectiveness and its promptness, as a matter of fact, JICA was previously slowed down by bureaucratic obstacles and uncoordinated aid institutions. According to the 2008 ODA review issued by MOFA the unification of all functions under one organization was based on the following three main concepts:

- Enhancing program and project planning capacity- JICA will enhance its development needs analysis in which it has high expertise, and strengthen its program and project planning capacity. Specifically, JICA will analyze the needs and development policies of recipient countries and design five-year country and sectorial programs. Upon consultation with partner country governments and other donors and aid agencies, JICA will propose to reflect the programs in the CAPs of the Government of Japan. JICA will take advantage of the JICA Research Institute which was

⁷⁷ Nishigaki and Shimomura, *The Economics of Development Assistance*, 183.

established when the new JICA was launched, and develop and raise awareness about new models of assistance bearing in mind Japan's experience and technologies and changes in development needs. Current efforts include support to Africa for increasing rice production, an infrastructure development package, support to tackle climate change, and promotion of partnership with BOP businesses.

- Building flexible implementation capacity- The programs designed will steadily reflect past lessons learned and other considerations during the planning stage (to ensure the thorough implementation of the PDCA⁷⁸ cycle) and will be implemented based on appropriate outcome indicators. In addition, in order to develop an effective aid implementation mechanism, JICA will encourage staff to work in the field. JICA will also lead development policy discussions among diverse stakeholders, including experts, volunteers, domestic offices, and technical trainees, and strengthen NGO assistance and strengthen partnership with the private sector, including through the restructuring of overseas investment and loans. JICA will also take full-fledged steps to improve the implementation mechanism in the field, including enhancing the security management system in unstable developing countries and regions, such as areas undergoing peace-building.
- Thorough cost reduction and strengthening governance- Bearing in mind the results of the screening process by the Government Revitalization Unit, JICA aims to further enhance the efficiency of its program implementation by thoroughly cutting costs and strengthening governance. JICA will install a system to receive proposals to improve its operations from various stakeholders, including experts, volunteers, NGOs, and consultants. In addition, JICA will strengthen its internal control functions (e.g., program review and evaluation; ex-post audit; compliance system; and evaluation, procurement and monitoring) and reduce costs through reviewing its acceptance of trainees, travel costs, and commissioned work.⁷⁹

Along with the reform of JICA a new vision of development was also announced, furthermore, JICA stated four new missions, the relative strategies for realizing these missions, and established a set of guiding principles to guide the implementation of the four strategies. In the new vision that JICA holds there are two new fundamental concepts about development, the concept of “inclusive development” and the concept of “dynamic development” that in the explanation provided by JICA are:

"Inclusive development" represents an approach to development that encourages all people to recognize the development issues they themselves face, participate in addressing them, and enjoy the fruits of such endeavors. The role of New JICA is to effectively provide backing for this process.

"Dynamic development" refers to the creation of self-reinforcing virtuous cycles of mid- to long-term economic growth and poverty reduction in a constantly changing environment of developing countries where a variety of issues arise simultaneously and get entangled each other. New JICA will provide creative, highly effective support toward this end, at times moving swiftly and at times acting from the longer-term perspective as the situation calls for.⁸⁰

After the definitions of the new development concepts, JICA also suggest the general attitude that it will maintain toward them. With respect to the new four missions announced by JICA, they are:

⁷⁸ The PDCA cycle is a four step management method, the acronym stay for Plan-do-check-act or Plan-do-check-adjust.

⁷⁹ “2010 ODA White Paper: Reform of JICA”, MOFA, accessed January 27, 2013, http://www.mofa.go.jp/policy/oda/white/2010/html/honbun/b2/s2_3_2.html.

⁸⁰ “New JICA: Our Vision, Mission and Strategy”, JICA, accessed January 11, 2013, <http://www.jica.go.jp/english/about/mission/index.html#vision>.

- Addressing the global agenda-The advance of globalization brings positive effects, sparking economic development and providing people with new opportunities. It also has its negative side, though, including such effects as uneven wealth distribution and the cross-border issues of climate change, infectious diseases, terrorism, and expanding economic crises. These effects pose a threat to the stability and prosperity of Japan—which depends on resources from around the world—and the rest of the international community. The threat is particularly dire for developing countries. New JICA will make full use of Japan's experience and technologies as it works in concert with international society to address the various globalization-related issues developing countries face in a comprehensive manner.
- Reducing poverty through equitable growth-Impoverished people in developing countries are particularly susceptible to the effects of economic crisis, conflict, and disaster and are constantly exposed to the risk of even deeper poverty. Moreover, growing wealth gaps are a destabilizing factor in societies. Helping people to escape poverty and lead healthy, civilized lives is a vital task not only for the growth of developing countries but also for the stability of the international community. To reduce poverty, employment opportunities must be expanded through equitable growth that gives proper consideration to impoverished members of society, and public services like education and healthcare must be enhanced. New JICA will provide support for human resources development, capacity building, policy and institutional improvements, and provision of social and economic infrastructure, thereby pursuing sustained poverty reduction through equitable growth.
- Improving governance- A state's capacity for governance refers to its status as a society that can take the resources available to it and direct, apportion, and manage them efficiently and in ways that reflect the will of the people. Improving governance is of vital importance to the stable economic growth of developing countries. However, these states often have underdeveloped legal and judicial systems and administrative organs, which present obstacles to efforts to reduce poverty through economic growth. New JICA will offer support aimed at improving the fundamental systems needed by a state, as well as systems for effectively providing public services based on the needs of people, and at fostering the institutions and human resources needed to manage those systems appropriately.
- Achieving human security-The advance of globalization causes an increase in various cross-border dangers and exposes many people in developing countries to civil strife, disasters, poverty, and other humanitarian threats. The concept of human security places individual human beings at its core, seeking to defend them from fear and want: fear of things like conflict, terrorism, disaster, environmental destruction, and infectious disease, and want in the face of poverty and in social services and infrastructure. By building up people's abilities to address these issues themselves, this approach aims to build societies in which they can live with dignity. In order to defend the weakest members of society from these various threats, New JICA will support efforts to bolster social and institutional capacity and to increase people's ability to deal with threats themselves.⁸¹

In the four new missions proclaimed by JICA the focus on social development is very high, thus showing a reform of the organization, not only in its structure but also in its basic aid philosophy. Regarding the four strategies that must be implemented in order to accomplish the four missions, they are:

- Integrated assistance-New JICA will undertake the integrated management of three modalities of assistance—technical cooperation, ODA loans, and grant aid—to offer comprehensive support that organically combines such elements as policy and institutional improvements in developing countries; human resources development and capacity building; and improvements in infrastructure.

⁸¹ “New JICA: Our Vision, Mission and Strategy”, JICA, accessed January 11, 2013, <http://www.jica.go.jp/english/about/mission/index.html>.

We will also make use of diverse approaches and take advantage of the expanded scale of our operations to tackle issues that go beyond borders and affect entire regions or that span multiple sectors. Through such integrated assistance, New JICA will pursue international cooperation with even more development impact in terms of both its quality and scale.

- Seamless Assistance-New JICA brings together a wide variety of aid approaches to provide seamless assistance that spans everything from prevention of armed conflict and natural disasters to emergency aid following a conflict or disaster, assistance for prompt recovery, and mid- to long-term development assistance. Among developing countries are states at various stages of development, from the least developed countries where most of the population lives in poverty to middle-income countries that are on the growth track but are still wrestling with the problems of wealth gaps in society. New JICA will provide assistance in ways that best match the level of development in each recipient nation, taking a long-term perspective and offering seamless assistance to ensure sustainable development into the future.
- Promoting development partnerships- New JICA aims to be a good partner for developing countries, accurately grasping their changing needs through a focus on the field and promoting their own self-help efforts swiftly and effectively through a focus on results. We will also promote public-private partnerships, pooling the experience, technologies, and resources of local governments, universities, nongovernmental organizations, and other actors. Furthermore, to fulfill our responsibilities as one of the largest donor organizations in the world with more than 40 years of experience, we will strengthen partnerships with international organizations and other donor institutions, leading the creation of a broad framework for development assistance in a global community that is seeing growing numbers of players in the international cooperation field and increasingly diverse forms of aid to developing countries.
- Enhancing research and knowledge sharing- In the face of the advance of globalization and the rise of new international cooperation actors, global trends in the issues affecting developing countries are undergoing sweeping change. Through the establishment of the JICA Research Institute, New JICA will put its wisdom gained in the field to work, building broad networks of academics from Japan and elsewhere around the world to create new knowledge value in the field of international development assistance not just for Japan but also for the entire world. To play a leading role in guiding the newest development trends, we will enhance our research and knowledge-sharing capacities. We will also actively carry out surveys and research grounded in actual assistance projects, focusing on the subjects in both regional and issue-based contexts.⁸²

The four strategies that JICA promote in order to achieve the objectives of its new four missions underline the implementation of a comprehensive coordinated intervention (through loans, technical cooperation and grant aid) which improve the efficiency of Japanese aid, furthermore, a wider approach toward the different forms of foreign aid is also highlighted. Another two aspects that receive attention in the four strategies are the importance of cooperation between Japan, the recipient country's organizations and third party donors, and the broadening of the global network for international development assistance and knowledge sharing processes, one of the most recent forms of development cooperation. The guiding principles that had to inspire and lead aid activities are:

- Achieving synergies of the merger- By smoothly combining diverse aid modalities, we will make use of our synergies by speeding up the aid process, scaling up pilot and model projects, and spreading them out in other regions and communities.

⁸² “New JICA: Our Vision, Mission and Strategy”, JICA, accessed January 11, 2013, <http://www.jica.go.jp/english/about/mission/index.html>.

- Tackling complex, difficult issues flexibly with the field based approach-By accurately grasping the development needs on the ground and designing activities with their focus on the field, we will deal flexibly with complex, difficult and intertwined development issues.
- Fostering expertise for providing professional solutions-As an organization specialized in international cooperation, we will perform internationally competitive work, putting our experience and wisdom gained in the field to work and using our expertise and knowledge-sharing capabilities to quickly and accurately address a wide range of development issues.
- Efficient and transparent operations- By managing and evaluating our operations efficiently and transparently, we will remain constantly committed to renewing and streamlining our organization, thereby maintaining a high level of accountability.⁸³

This new set of guiding principles stress how the evolution of Japanese aid toward a modern aid philosophy and consequently more efficient interventions, as can be seen from the great attention received in particular by the field-based approach and by the efforts for promoting the transparency of aid related operations, make JICA one of the best international cooperation agencies in the world. As a consequence, we can say that the 2008 reform of JICA improved the overall Japanese ODA system, from the organizational structure to the aid philosophy and practical aid activities.

In the framework of reforms the same year the Institute for International Cooperation (founded in 1984, belonging to JICA) was replaced by the new JICA Research Institute, whose objective is to promote a larger international cooperation in the field of development studies than before, creating a worldwide research network. The main research directions of the new research institute are: incorporating a comprehensive perspective through cross-field research of development issues, integrating past and future in its studies, unravel East Asian growth experiences and explicate their validity, public open activities and collaboration with the international community. It can be said that JICA Research Institute is considered as a kind of ODA think-tank, elaborating theories for the best implementation of international cooperation development projects.

JICA is one of the biggest international cooperation agencies in the world, this feature is clearly underlined by the structure of its organization which is constituted by: the headquarters and the JICA Research Institute situated in Tokyo, 15 domestic offices (including international centers, training centers and branch offices), four JICA libraries well distributed on the Japanese territory, and 94 overseas offices around the world.

THE ODA IMPLEMENTATION PROCESS

The general process of implementation

According to professors Shimomura and Nishigaki, even though technical cooperation, grant aid and yen loans are three distinct forms of development assistance, in their processes of implementation there are two main common features. First of all, for every one of these forms of ODA, three entities can be distinguished for the participation in the implementation process; they are a donor country, a recipient country and a supplier of services or goods (it can be an individual, a manufacturer, a trading company, a general contractor, a consulting firm, etc.). The relationship that links these three entities is the following, the supplier provide the recipient country with some

⁸³ “New JICA: Our Vision, Mission and Strategy”, JICA, accessed January 11, 2013, <http://www.jica.go.jp/english/about/mission/index.html>.

services or goods on the base of a contract, and the donor country pay the supplier in place of the recipient, thus providing an ODA to the recipient country. The relationship is based on a contract, which is concluded between the supplier and the Japanese government in case of technical cooperation, and between the supplier and the recipient country for grant aid and yen loans. Nevertheless, the payment is always done by the donor country as a principle, as a result, the recipient do not receive any money, which is usually directly disbursed to the supplier of services or goods. The second similarity between the three different forms of ODA is in the implementation procedure, following the same three main stages for each form of development assistance: the project identification or preparatory stage, the project implementation or implementation stage and the project completion also called follow-up stage (including post-evaluation and project monitoring). Under this framework, a positive project completion feedback can be used for the preparatory stages of subsequent projects, as a consequence, countries which had implemented successful projects have more chances to be chosen for future development assistance programs.

A practical example: the OECF's yen loans implementation process

Between the three main forms of development assistance that the Japanese government implements, perhaps the most representative one, from a quantitative point of view, is yen loans; in addition, because of the importance that this form of ODA had in the Japanese foreign aid activities in China, in the following pages I am going to describe the process of implementation of an OECF's loan⁸⁴. The loan project implementation procedure is divided into nine stages: 1) project identification, 2) preparation, 3) request, 4) appraisal, 5) the loan approval decision-making process, 6) procurement, 7) disbursement, 8) project supervision, 9) follow-up.

1. Finding a development concept which is suitable for becoming the core of the future project is the objective of the identification stage. The identification refers to the understanding by the donor's side of what kind of development needs in which sectors should be addressed by the future projects in the developing country; in order to do this an overall analysis of the developing country's economic situation, economic infrastructures and directions of local development policies have to be made. Answering to this call various Japanese agencies develop specific studies exploring the developing countries different sectors and their relative priority needs that require intervention; studies made by foreign aid agencies, such as the WB, on the same issues are also considered as highly valuable. Another material that is taken in consideration are the master plans for developing countries and post-evaluation project reports produced by the JICA Research Institute; master plans are important because they illustrate the general trend of development in a certain sector or in a certain region providing important information for future plans, on the other hand, post-evaluation reports provide an analysis of project completion, thus suggesting other points which need further improvement.
2. In the second stage, the identified development concept must be fixed and transformed into a tangible aid project. First of all, ideas for possible development projects based on the identified concept are drawn up, than studies on the achievability of the proposals are made, and finally after the most appropriate project had been selected a draft of the plan

⁸⁴ The description of the process of implementation of OECF's yen loans is taken from the book: Nishigaki and Shimomura, *The Economics of Development Assistance*, 184-195.

concerning the geographical conditions, the size and the technology to be applied is arranged. After the project outline is completed, a series of feasibility studies are implemented, in order to check the appropriateness and possible success of the plan; the main points analyzed in the feasibility study are possible technical and economic problems, and especially after 1992 the impact that the project will have on the environment and on the society. The main agencies carrying out these feasibility studies utilized by Japan are JICA, through its development study program, and the United Nations Development Program (UNDP); the key role in these agencies is played by development consultants possessing a high level of specialization and long experience in the field of development studies. The feasibility study for a Japanese yen loan is usually done by JICA, however, sometimes UNDP can be also consulted for the project; the developing countries also make feasibility studies on their own. Once the feasibility studies are successfully completed, the relative projects are listed as possible candidates for yen loans by the Japanese government and the OECF; the lists containing project proposals for the various developing countries are then subject to an exchange of view between the recipient countries and the Japanese foreign aid institutions.

3. The third stage of the process consists in the request made by the developing country, through the local Japanese embassy, for a yen loan to the Japanese government. When the request is submitted, a detailed plan for the project together with the relative feasibility study must be provided to the Japanese institutions. The request-based system is not a peculiarity of Japan, since the WB and other European aid institutions also use the same mechanism for the request of ODA loans, because they share the belief that before starting a project in a developing country is necessary to check the recipient intentions. As seen in the previous stage, the Japanese government has a list of projects proposals to be implemented for the major developing countries, so that when the loan request comes, OECF usually is already aware of the situation. Under this framework, an exchange of views between the recipient's officials and OECF officials is held at the local level in one of the overseas offices of the OECF, or in Tokyo for the recipient countries which don not have an OECF mission present in their territory. If during the exchange of views there is an agreement on a proposal for a yen loan, a second discussion start about the potential problems that can arise and their possible resolutions, thus promoting an improvement of the original project; the partial revision done at this stage is important for refining project details.
4. After receiving the yen loan request, the Japanese government begins a detailed study of the project, therefore, the materials furnished by the developing country are analyzed by the OECF, the so called four ministries (MOFA, EPA, MOF, MITI) and by other ministries depending on the nature of the project like the Ministry of Agriculture Forestry and Fisheries for a project regarding the sector of agriculture. The study of the project is not limited to researches on documents in Tokyo, indeed a mission composed by Japanese experts is send to the developing country in order to make a survey of the area that will be interested by the project and examine the local conditions for the implementation. Even though missions are sent by the Japanese government, is the OECF specialized personnel who undertake a professional and in-depth appraisal of the overall conditions of the proposed project: examining it from an economic point of view (from a macroeconomic perspective and from the side of economic profitability), verifying its technological effectiveness, considering its impact on the local environment, evaluating the aspect of

women in development (WID)⁸⁵. In case a necessity for further improvements originates during the process of appraisal, an additional revision of the project can be made by the OECF's Special Assistance for Project Formation (SAPROF). Finally, the OECF reports the results of the evaluation to the Japanese government, who utilize the OECF's data in order to decide if the project will be approved and consequently financed, or not; in case of approval, there is an assessment also for the dimension of the loan.

5. In the fifth stage, the Japanese government examines the appraisal provided by the OECF and select the relative project from a list of proposals for that specific developing country, contemporarily it decides the size and the terms of the loan (interest rate, maturity period, grace period, procurement conditions for goods and services, etc.). After this passage has been completed, the decision of providing the yen loan is communicated to the recipient country through the local Japanese embassy or across a meeting between the two countries government officials. In a second time, the yen loan is confirmed by an exchange of notes between the two governments and then the yen loan is officially granted. The rules for the concession of yen loans establish that after a loan is granted by Japan, an international bidding must be organized by the recipient country in order to find who will supply the goods and services necessary for the project implementation. The project's procurement conditions delineate who is qualified for entering into the bidding:

1. General untied conditions- companies from all countries and regions can participate.
2. LDC untied conditions or partially untied- Japanese companies and LDC companies can participate.
3. Tied conditions- exclusively Japanese companies can participate; recently this package of conditions has been rarely utilized by Japan, however sometimes it can be applied to grant aid and technical cooperation programs.

Japanese yen loans are characterized by a high percentage of loans conceded under a general untied conditions framework, and a small percentage belonging to the LDC untied conditions category. When a yen loan is granted, the OECF sign an agreement with the developing country government, clearly pointing out in the text of the agreement all the details about rights and obligations regarding the yen loan.

6. With the stage of procurement the implementation phase of the loan begins. The international bidding for the supply of services and goods is done by the recipient country, and at the same time another competition is held for the selection of the development consultants who will supervise the project implementation and support the recipient country in its efforts. These competitions have to respect a series of rules laid down by the OECF, as a consequence, even if the process of bidding is organized by the developing country's governmental agencies and held in its territory, the OECF can make suggestions and monitor the process of procurement controlling that the OECF environmental guidelines are respected. Generally in the biddings the highest share of contracts is won by the LDC companies and the second place is usually occupied by Japanese companies.
7. After the procurement biddings end the contracts are signed by the supplier, the recipient and the relative development consultant, as a result, the goods and services agreed on in the

⁸⁵ For WID Shimomura and Nishigaki intend: 1) if the position of men and women has been contemplated in the planning stage, 2) if the project will have any special impact on local women.

contract are provided. Next in time, the supplier of services receive its payment by the OECF, who pay in place of the recipient country, which is informed about the amount of the disbursement that constitutes the ODA loan. Naturally, before the payment is carried out, the OECF check that all the goods and services specified in the contract had been delivered.

8. Although the project supervision is namely assigned to the recipient country during the implementation of the plans, the OECF play a so called “intermediate supervision” role, that it exercise through providing advices and monitoring the correct development of the project. In the eventuality that problems arise during the implementation, or new necessities for further improvements are pointed out, a group of OECF’s specialists called Special Assistance for Project Implementation (SAPI) can intervene, in order to find a solution.
9. In the aftermath of project completion there is the last stage of the process (follow-up stage), which is divided into the “post-evaluation” and the “monitoring and advisory services”. OECF conduct post-evaluation reports for all the projects it implement, since through the post-evaluation it can assess whether the main objectives of the project had been achieved. Sometimes is possible that OECF conduct joint studies together with the recipient country’s governments in order to exchange views about the effectiveness of the completed project; OECF can also entrust this post-project evaluation to other organizations possessing the necessary expertise. In certain cases, the OECF do not limit its analysis to a single project, but make an overall survey of all the projects realized in an entire region or sector, for examining the impact of its interventions on the local development. In addition, OECF is aware that it is not always possible to see the results of a determined project immediately, because the efficiency of certain interventions display only over long periods of time. As a consequence, in order to verify the effectiveness of these long term projects and control the good functioning of the already completed ones, the OECF implement monitoring and advisory services. The monitoring and advisory services are important for the post completion management and the maintenance of appropriate effective conditions. Moreover, if the results of post evaluation and monitoring services reveal a need to make additional changes for enhancing the project efficiency, a Special Assistance for Project Sustainability program (SAPS) can be send to the developing country in order to furnish the necessary technological support and expertise.

The process described above is the procedure that was followed by the OECF for the concession and implementation of yen loans projects before the reforms of 1999 and 2008, however, the procedure followed nowadays by the section of JICA in charge for ODA loans is quite similar, even though simplified.

THE JAPANESE ODA RECIPIENTS

At the beginning of its ODA activities (the first Japanese ODA was considered as a form of war reparations, and it was conceded through the form of economic cooperation) Japan intervened almost uniquely in a group of countries belonging to its geographical neighborhood, in particular in East Asia, South East Asia and South Asia⁸⁶. However, in the 70s the Japanese economy

⁸⁶ The countries belonging to East Asia, South East Asia and South Asia that first received Japanese ODA were: Myanmar, the Philippines, Indonesia, South Vietnam, South Korea, Malaysia, Singapore, Thailand, Laos, Cambodia, Micronesia, India, Afghanistan and Bangladesh. In this framework, China started receiving ODA only after the 1978, after the reforms of Deng Xiaoping and the opening of the country to foreign investments.

experienced a large and quick growth, so that the economic resources that could be reinvested abroad by the Japanese government exponentially increased, as a result, new scenarios opened to Japan's ODA in the Pacific Islands (Oceania), in the Middle East, in Latin America and in Africa. Oceania started receiving ODA from Japan in 1975 with an ODA grant to Papua New Guinea, than in the following five years ODA grants were also conceded to Tonga, Samoa, the Solomon Islands, Fiji, Kiribati and Tuvalu as professor Tarte affirms⁸⁷. In the first years of Japan's intervention in this territory, the aid budget for the Pacific Islands was very small, but in the mid-80s it started increasing until today Japan is the major aid donor to Oceania, together with the USA. According to MOFA Japanese development assistance to the Middle East countries started at the time of the oil shocks of the 70s, and it was primarily due to the desperate need of raw materials that Japan required for its quickly growing economy. In this background Japan's ODA would have been utilized in order to establish friendly relationship with Middle East countries, thus guaranteeing a stable inflow of oil to Japan; the Middle East countries receiving ODA from Japan nowadays are: Afghanistan, Lebanon, Oman, Turkey, Egypt, Iran, Iraq, Jordan, Palestine, Syria, Yemen. Following what professor Warren⁸⁸ says about Japanese ODA to Latin America, in 1985 Japan became the largest bilateral donor of the region, and maintained this leading position until the economic crisis that hit Japan in the 90s; nowadays, Japan occupy the fourth place in the ranking of the largest DAC donors providing aid to Latin America⁸⁹. According to professor Warren, there are two main reasons for such a large Japanese intervention in this territory; the first one is the migration of large contingents of Japanese working force in Latin America at the beginning of twentieth century, especially in Brazil, Peru and Bolivia (following this theory ODA projects were implemented in order to support the local Japanese communities), and the second reason is economic interest, since the large amount of raw materials present in Latin America and a possible future export market for Japanese products represented a tempting occasion for the Japanese economy⁹⁰. The Latin American countries that received the largest quantity of Japanese ODA are: Brazil, Bolivia, Chile, El Salvador, Nicaragua, Mexico, Peru, etc. According to MOFA Japanese ODA to Africa started at the end of the 70s and kept growing until 1988 when Africa became the second largest recipient of Japanese ODA after Asia, a place in the total share of Japanese aid that still holds today. An important initiative concerning Africa launched by Japan after the end of the Cold War, in the period of the so called "aid fatigue", in order to refocus the international attention on the urgent poverty issues of Africa, is the Tokyo International Conference on African Development (TICAD). The first TICAD was organized in Tokyo in 1993, and starting from that date every five years a TICAD conference has been held in Tokyo, the next one will be in 2013. TICAD summits are dialogs at high level between African leaders and the leading aid donor countries, the main contents stressed by Japan in the past editions were the importance of Africa's ownership of its own development processes and the strong partnership that was created between

⁸⁷ Sandra Tarte, "Japan's ODA in the Pacific Island states", in *Japan's Foreign Aid: old continuities and new directions*, ed. David Arase (New York: Routledge, 2005), 237.

⁸⁸ Kay B. Warren, "An Overview of Japanese ODA to Latin America: comparative observations on social development initiatives", in *Japan's Foreign Aid: old continuities and new directions*, ed. David Arase (New York: Routledge, 2005), 95.

⁸⁹ "Net bilateral aid flows from DAC donors: total (US dollar) in Latin America and Caribbean", Trading Economics, accessed February 15, 2013, <http://www.tradingeconomics.com/latin-america-and-caribbean/net-bilateral-aid-flows-from-dac-donors-total-us-dollar-wb-data.html>.

⁹⁰ An example is the Brazilian steel industry, which represented a perfect occasion for Japanese factories to export hi-tech machines for the manufacturing of steel, and for importing cheap steel to Japan; another example is the cheap supply for the Japanese domestic seafood market of shrimp from Mexico and salmon from Chile.

Asia and Africa in the field of development cooperation. Moreover, in TICAD 4 three main objectives to be achieved in Africa in a near future were declared by Japan: Boosting economic growth, ensuring human security including achieving MDGs and consolidation of peace, and addressing environment and climate change issues. The main recipients of Japanese ODA in Africa are: Sudan, Ethiopia, Tanzania, Ghana, Kenya, Zambia, Zimbabwe, Mozambique, Mauritania, Malawi, Congo Democratic Republic, Uganda, Senegal, etc.⁹¹

Data from the 2012 annual report of JICA show that in fiscal year 2011 the main recipients of Japan's ODA were: in the first place Asia (including South Asia, Central Asia, East Asia and South East Asia) with ¥5,925 billion, in the second place Africa with ¥1,207 billion, in the third place Middle East with ¥695 billion, in the fourth place Latin America (including Central and South America) with ¥391 billion, in the fifth place Eastern Europe with ¥321 billion, and in the sixth place the Pacific Islands with ¥114 billion.⁹² The data clearly point out the critical importance of Asia for the Japanese aid strategy, since the aid budget dedicated to this region is the double of all the other regions put together; nonetheless, the continuously increasing aid dispatched to Africa, as well as the TICAD initiatives tell us that this region is going to play an important role in the future of Japan's aid strategy.

⁹¹ "Informing the future of Japan's ODA: Japan's ODA within an African context, October 2011", Overseas Development Institute, accessed February 15, 2013, http://www.jica.go.jp/uk/english/office/others/pdf/odi_201110.pdf.

⁹² "JICA Annual Report 2012", JICA, accessed January 19, 2013, <http://www.jica.go.jp/english/publications/reports/annual/2012/c8h0vm00002qe6vj-att/all.pdf>.

Chapter 3. Japanese ODA and FDI data in comparison with other countries

JAPANESE AND WORLD ODA TOWARD CHINA: DATA ANALYSIS

According to its own aid strategy and aid philosophy every country and international organization act in a peculiar way in order to implement ODA, through using the form of ODA they believe the most suitable, and investing in the sector which is considered most needed. In our case this is particularly clear, since the way foreign countries and international organizations intervened with ODA in China reflects the intentions of donor countries. In order to analyze the flows of ODA from the various aid donors to China, I collected data from the database of the Organization for Economic Cooperation and Development (OECD); OECD has a complete series of data about the amount of ODA (grants, loans, technical cooperation, total) conceded by foreign countries to China, furthermore, it has data describing the total amount of ODA invested in the various sectors by each donor country, however, the data concerning the amount of ODA invested in a determined sector by each donor in China are incomplete and start only from fiscal year 1995. For our analysis of data regarding ODA to China, I focused on the period 1978-2011, because before the opening of China's economy to foreign investments in 1978, there were no data concerning foreign aid activities in China. The countries I choose for the data analysis below, are Japan, the DAC member countries who conceded the largest amounts of ODA to China (Germany, France, The United Kingdom and the United States), and a group of important regional investors (Belgium, the Netherlands and Korea) who are characterized by a national economy which is intensely focused on exports⁹³. With respect to the international organizations, I choose the ones that are strongly influenced by Japan in their decisions, since they receive a large share of Japanese subscriptions, as well as the ones who conceded the greatest amount of ODA to China. The amounts of ODA provided in the charts below are aid net disbursements (millions of US dollars in constant prices related to year 2010); the numbers are round up or round down, depending on the first decimal number after the comma. Considering that the data below are given in the form of net disbursement, some numbers are negative, thus indicating that once the repayments of loan principles and the recoveries on grants had been deducted from the gross disbursement amount the net ODA amount became negative. In order to simplify the understanding of data, I preferred to use below a series of linear graphs, and placed the more elaborated tables of data in the appendixes of the thesis. in the linear graph we have the fiscal years on the x-axis and the amount of aid net disbursement (millions of US dollars in constant prices related to year 2010) on the y-axis, every country in the graph is symbolized by a different color and the list of the countries represented is written on the right part of the graphs.

ODA total

The first linear graph (chart 1) I propose here is about the total amount of ODA conceded by donors to China in the period that goes from 1978 to 2011.

⁹³ Due to their export-oriented economy (and also to its historical background in the case of the Netherlands) these three countries might have invested a lot in the regional development of East Asia, in particular they might have provided ODA for the improvement of Chinese exporting facilities, in order to increase their profits in the area; we will see if this is what happened or no.

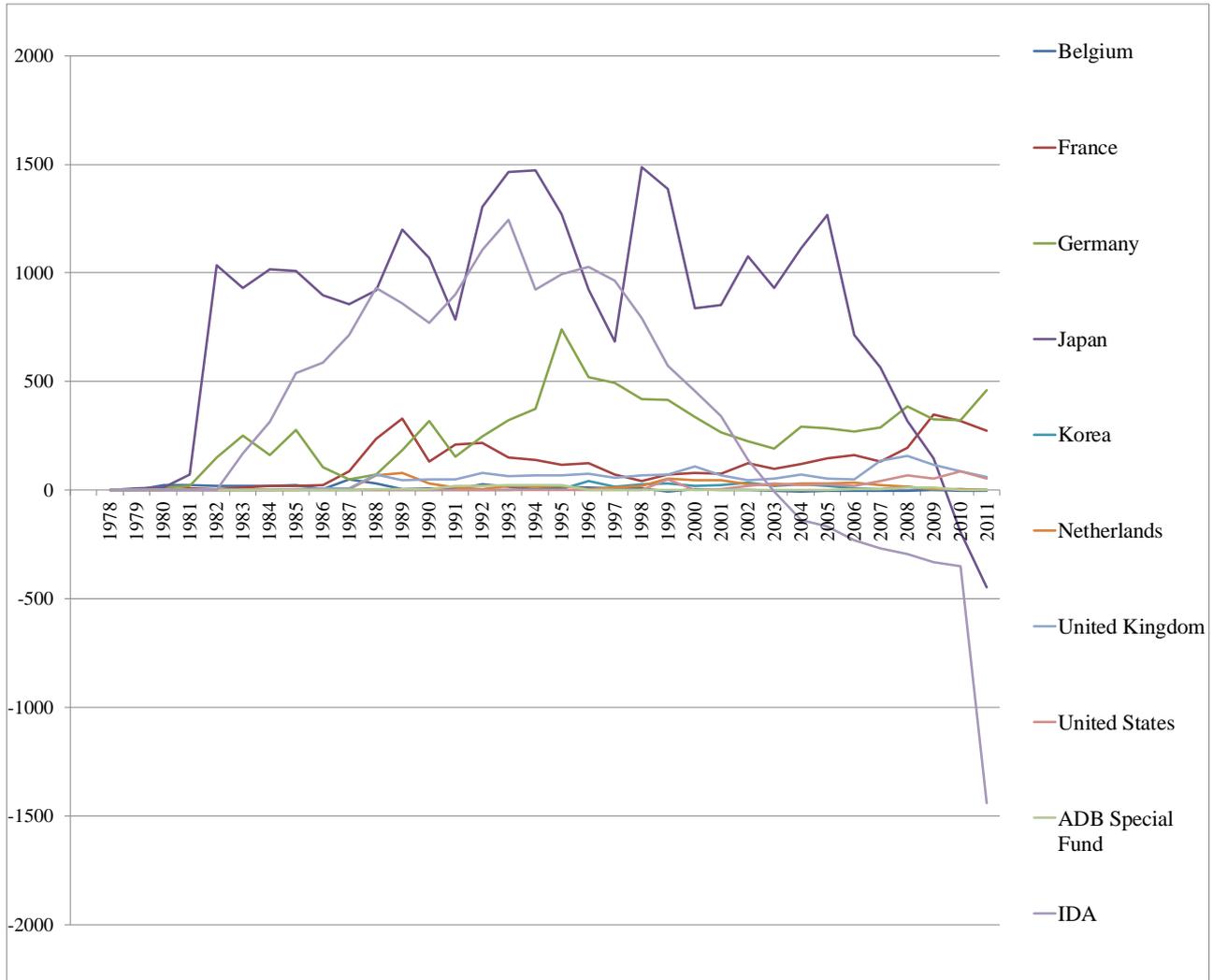


chart 1. ODA total amount toward China from 1978 to 2011, OECD

The first thing that we can notice from table 1 (see the appendixes) is that the first donor countries who started conceding ODA to China after the 1978 opening of the country were Japan, Germany, and Belgium; in 1979 Japan was the largest donor followed by Germany and in 1980 Belgium became the first donor followed by Germany and Japan. In 1981 France as well started to contribute with ODA to the Chinese development; however, while earlier donors maintained their ODA flows more or less stable, Japan suddenly increased of seven times its ODA budget for China in 1981, and implemented a further enhancement of fourteen times in 1982⁹⁴, thus jumping at the top of the ranking of China's largest bilateral aid donor, contributing in 1982 for more than 80% to the DAC countries total aid budget for China. Japan maintained the position of China's largest bilateral donor until 2008 when it officially declared the end of its ODA loan programs to China⁹⁵, leaving to Germany and France the top positions; during the period of Japan's leadership in Chinese aid

⁹⁴ The sudden growth of the Japanese ODA budget for China is a direct result of the "aid doubling plans" implemented by the Japanese government starting from 1978, as professor Söderberg explain in her book.

⁹⁵ The ODA loan disbursements represented the largest part of Japanese ODA total budget, thus when in 2008 the Japanese government decided to end its yen loans to China, due to the increasing good conditions of the Chinese economy, the total amount of Japanese ODA toward China suddenly fell. The presence of negative numbers in the Japanese ODA total amount starting from fiscal year 2010 is due to the money coming from the repayment of the loans conceded to China in the past years, which had been deducted from the ODA grants total amount, thus resulting in a negative number since the loans repayment sums are very high.

activities, the share occupied by Japanese aid in the DAC countries total aid budget never fell under 50% apart for fiscal year 2007 and 2008. The second largest aid donor among the DAC countries who had always maintained a high level of ODA to China, apart for the years 1987 to 1992 and the year 2009, is Germany; while France can be considered as the third largest donor (in fiscal years 1988, 1989, 1991 and 2009 France temporarily became the second largest donor), even if it did not maintain a stable flow of ODA toward China. The United Kingdom maintained an almost stable trend of ODA flows to China except for certain years when its aid budget peaked. On the other hand, the United States of America started its ODA programs to China only in 1998, after the visit of President Jiang Zemin to the USA in October 1997 and the consequent China-US Joint Statement, promoting the bilateral trade relationships between the two countries; nonetheless, the amount of ODA provided by the largest economy in the world is very tiny, if it is compared with the amount conceded by other smaller countries. In addition, Korea, Belgium and the Netherlands are characterized by different situations; Korea started to concede a low flow of ODA only in the middle of the 90s, while the Netherlands maintained almost a stable flow of ODA since the end of the 80s, on the contrary, Belgium that was one of the first to start aid activities in China almost cancelled all its ODA from the end of the 90s. The total amount of ODA provided by the DAC countries⁹⁶ started diminishing since the year 2007, due to the spreading of the world economic crisis and the increasing development of the powerful Chinese economy who no longer needed ODA.

Shifting to the ODA conceded by international organizations to China, we can see that the largest donor among the international organizations from fiscal year 1983 to 2002 had been the “Soft Window” of the World Bank, IDA, that is the part of WB group which is most influenced in its decisions by Japan, whose subscriptions to this organization are almost equal to that of the USA (largest contributor). Under this framework, the importance of China for the Japanese ODA policy is reflected as well in the aid strategy of IDA toward China; nevertheless, in 2002 the IDA’s ODA programs to China ended, possibly because of the increased standard of living conditions in China who did not meet anymore the fixed income threshold for poor countries who want to receive IDA financing, or because of the signing of the Shanghai Cooperation Organization treaty in 2001⁹⁷. As a consequence of the ending of IDA loan programs to China, the data concerning IDA starting from fiscal year 2003 became negative, due to the Chinese repayments of past IDA loans deducted from the IDA’s ODA total amount, which is entirely composed by ODA loans. The share occupied by ODA conceded by IDA in the multilateral organizations total aid budget between 1984 and 2001 had been always superior to 50%, with peaks of more than 80% between 1987 and 1997. An interesting data is that concerning the Asian Development Bank total ODA amount to China that is relatively small, if we take into consideration the fundamental role played by Japan in the organization.

⁹⁶ All the donor countries analyzed in the data belong to the Development Assistance Committee, moreover for DAC countries total amount, I mean the total amount of ODA provided to China by all the DAC members, including the countries which are not present in the data.

⁹⁷ The signatories of the Shanghai Cooperation Organization Treaty are China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan; the main objectives of the organization are economic development, energetic resources development and security.

ODA grants

Chart 2 is about the quantity of ODA grants conceded by foreign aid donors to China in the period between 1978 and 2011.

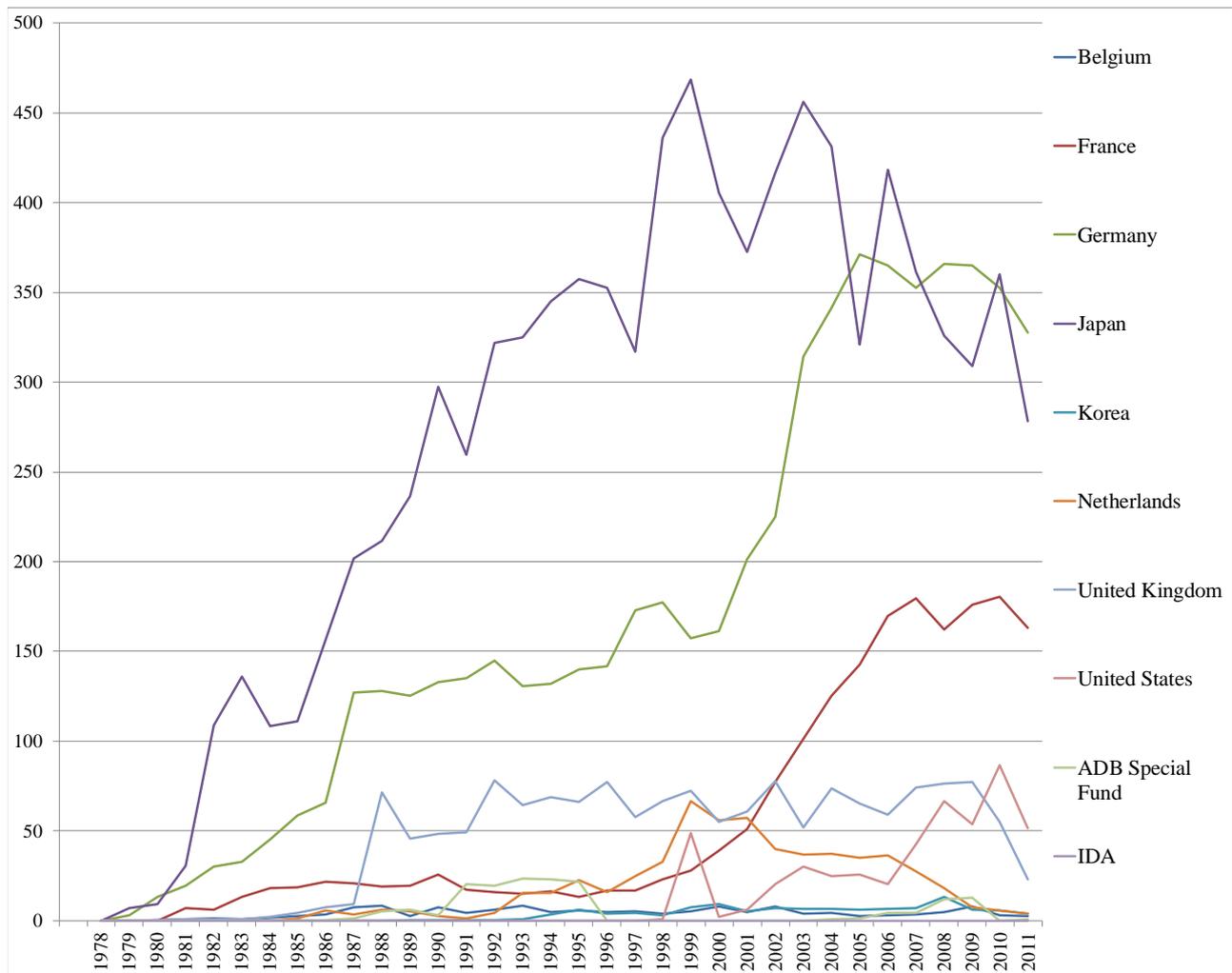


chart 2. ODA grants toward China from 1978 to 2011, OECD

Since technical cooperation is considered as a form of grant aid by the OECD, the data above contain a certain amount of money that although has been classified as grant aid, was practically used for technical cooperation projects.

In the field of ODA grants the primacy of Japan as the largest donor country is clearly visible from the graph, except for the years 1980, 2005, 2008, 2009 and 2011; however, if we make a comparison between the ODA grants conceded by Japan and the total volume of Japanese ODA of chart 1, we can notice that the share occupied by ODA grants (included the funds for technical cooperation) in the total volume of ODA conceded by Japan to China is not high. In the first half of the eighties the amount of ODA grants was around only 10% of the total, while starting from 1987 the ODA grants amount became to increase, fluctuating around 30% (with two peaks of 50% in 1997 and 2000) until fiscal year 2006 when the share occupied by ODA grants surpassed 50% of the total aid budget for China. When ODA loans to China finished in 2008, grant aid turned to be the only form of ODA implemented by Japan toward China. The increasing percentage of grant aid present in the Japanese total aid budget starting from the end of the eighties and especially through

the nineties is also a signal of the efforts of the Japanese government for the improvement of the Japanese aid system (the Japanese ODA Charter of 1992 is an example), raising the quantity of grant aid and technical cooperation to the detriment of yen loans. The second largest DAC donor in the field of grant aid is Germany, who also took the first place in the years Japan lost its supremacy, showing a greater enthusiasm for grant aid programs than Japan; as a matter of fact, in the years 1987, 1988, 2003, 2004, 2005, 2006, 2007, 2009 and 2010 Germany dedicated its total aid budget entirely to grant aid according to OECD data. Nonetheless, the percentage of grant aid compared with the total aid budget of Germany followed an irregular trend during the examined period, with peaks of more than 50% in 1989, 1991 and 1992 and fall of less than 20% in 1995. Making a comparison between Japan and Germany, we can see that the latter relied more on grant aid than Japan did, thus underlining an aid philosophy which has not the same confidence in the self-help model praised by Japan. The position of the third largest donor is occupied simultaneously by France and the United Kingdom who provided more or less the same level of grant aid to China, with minimum differences. One remarkable thing that we can notice from the data is the presence of some DAC countries whose grant aid toward China correspond to their total aid budget for this country, thus highlighting the fact that the aid philosophies of these countries do not contemplate ODA loans in their bilateral ODA programs, as happen for the United States of America. In addition, there are countries that had been characterized by very high share of grant aid in determined periods and very low share in others, such as France, the United Kingdom, and the Netherlands. Coming to Belgium and Korea, we can notice that they are both characterized by a low stable trend of grant aid to China. The DAC countries total aid budget for grant aid had continuously increased during the period analyzed in the chart, thus emphasizing the growing importance assigned to grant aid by donors, and involving a consequential improvement of the quality of DAC's ODA activities.

With respect to grant aid provided by international organizations, the first data in the graph which has to be taken in consideration is the absence of grant aid coming from IDA, since the unique form of ODA that this organization can concede, according to its internal rules, is ODA loans. On the other hand, the data about the ODA grant flows of the ADB show us that it has provided exclusively grant aid to China, indeed, the amount of ODA grants equaled the total aid budget of the ADB in every year of the chart. Moreover, looking at the multilateral organizations total grant aid amounts in the appendixes, we can argue that during the 90s there was a period of stagnation for multilateral aid activities toward China, since the data about the multilateral ODA grants total dropped down significantly in that period, with the lowest peak in fiscal year 1996, probably due to the Taiwan Missile Crisis of 1995-1996.

ODA technical cooperation

Chart 3 contains data concerning the technical cooperation programs to China from 1978 to 2011; as said before the technical cooperation budget is part of the grant aid total budget.

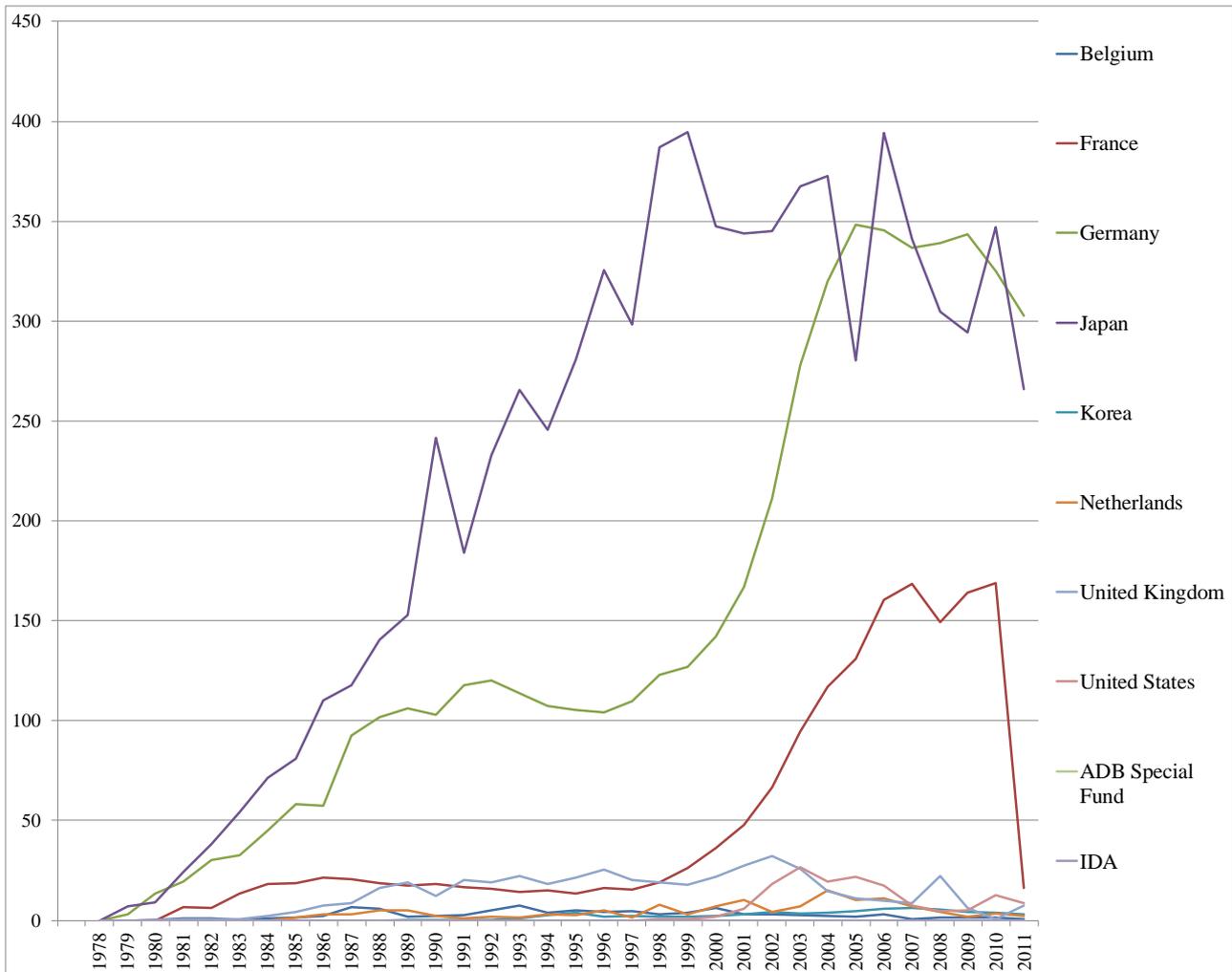


chart 3. ODA technical cooperation toward China from 1978 to 2011, OECD

In the field of technical cooperation Japan holds the position of largest bilateral donor to China, apart for the years 1980, 2005, 2008, 2009 and 2011, when Germany took its place as leading aid donor. Except for the years 1982-1983, the budget for Japan's technical cooperation programs had always been superior to 50% of the Japanese total grant aid budget, in particular starting from fiscal year 1995 the technical cooperation share had always been superior to 80% of the total, and it maintained a stable trend higher than 90% after 2005. These data told us that with the reforms of the Japanese aid system, implemented in the 90s, the importance of technical cooperation programs raised dramatically, especially in the field of human resources development and environmental development, according to the Japanese ODA Charter revised aid philosophy. The second largest donor is Germany, whose grant aid funds were entirely used for technical cooperation projects between 1979 and 1985, after this period the share occupied by technical cooperation remained constantly high (between 80% and 90%) relatively to Germany total grant aid amount, dropping down to 70-60% only from 1995 to 1999. The third largest donor position is occupied by France, who's technical cooperation share compared with its total grant aid budget is very high, always near 90%. Talking about the other bilateral donors, we can notice that the lowest level of grant aid funds dedicated to technical cooperation projects are that of the United Kingdom, the Netherlands, Belgium and Korea, who prefer to utilize different forms of grant aid instead of technical cooperation; on the other hand, according to data the United States utilizes a balanced mixture of

technical cooperation and other forms of grants. The DAC countries technical cooperation total aid budget has been continuously growing until fiscal year 2007, when it began to fall.

As said before, IDA do not provide ODA grants or technical cooperation, while the ADB that provide grant aid do not use at all the form of technical cooperation, as we can see from the data. From the data about the technical cooperation multilateral total we can see a continual descent in the total amount of technical cooperation directed to China in recent years, this is probably due to the increasing high level of development reached by the Chinese economy.

ODA loans

Chart 4 is about ODA loans provided to China from 1978 to 2011.

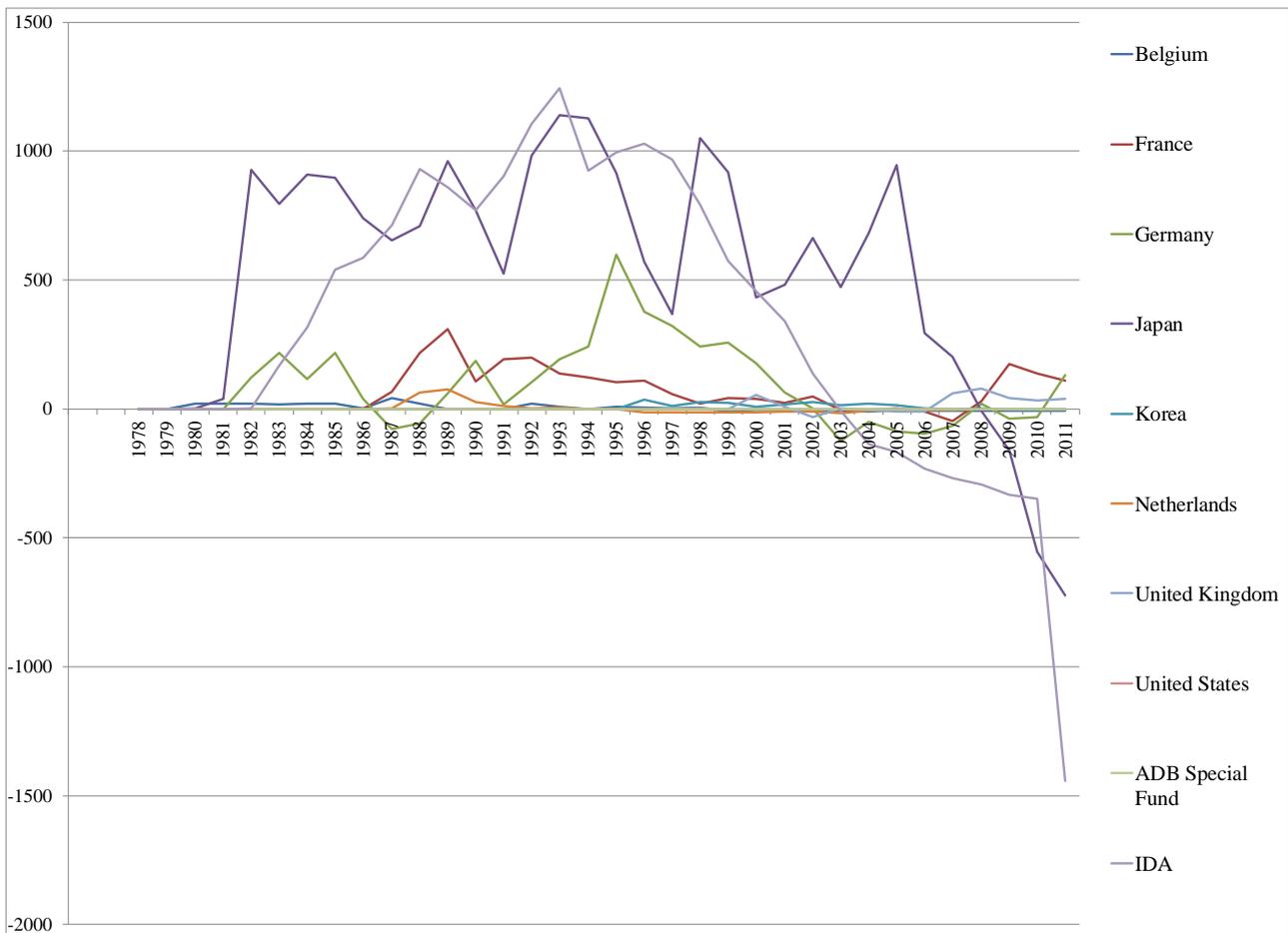


chart 4. ODA loans toward China from 1978 to 2011, OECD

With respect to ODA loans, we can notice in table 4 (see the appendixes) a large amount of data which are preceded by negative signs, this phenomenon is caused by the repayments of the principles and interests that ODA loans comport; as a matter of fact, when China make a repayment to the donors, the sum of money which enter in the ODA loans budget of a specific donor is detracted from the total amount, so that if the repayments are higher than the loans conceded the total amount turn into a negative number.

Japan was the largest donor of ODA loans to China starting from fiscal year 1981 until 2007, when after the end of the Japanese ODA loan programs to China, the United Kingdom took the leading position in 2008, followed by France in 2009-2010, and finally by Germany in 2011. ODA

loans were the main form of ODA through which Japan implemented its foreign aid activities toward China, indeed, the share occupied by ODA loans in the total amount of ODA provided to China by Japan had constantly been around 80% until 1996 when for the first time it fell to 60%, and then to 50% in 2000 and continued to diminish till ODA loan programs to China ended. The decreasing of ODA loans in the Japanese aid budget in favor of different forms of official development assistance is a consequence of the reforms of the Japanese aid system, which was criticized by other donors for its low number of grant aid and technical cooperation interventions compared with yen loans projects. A signal of the wide role still played by ODA loans in the Japanese foreign aid activities, despite the efforts for reforming the system, is clearly visible from chart 1, where in fiscal year 2008 there is a dramatic fall of the Japanese ODA total budget for China. An interesting data about Japanese ODA loans reflecting the history of Japanese economy is the very low quantity of ODA loans provided by Japan in fiscal year 1997, when Japan was hit by the Asian Economic Crisis. In the case of ODA loans, the country who can be placed in the position of second largest donor is difficult to identify, because there is not a donor who maintained the position for a stable period of time, however, Germany and France seems to be the leaders. The second largest donors were: Belgium in 1981, Germany from 1982 to 1985, France in 1988-1989, Germany in 1990, France in 1991, Germany from 1995 to 2001, France in 2002, Korea from 2003 to 2005, the United Kingdom in 2007, France in 2008, the United Kingdom in 2010, France in 2011. For the identification of the third largest donor of ODA loans the situation is even more complex, nonetheless, France is considered to be the best choices for this position. A comparison between the largest donors of ODA loans to China, that we can identify as Japan, Germany and France, show us that the quantity of loans provided by Japan are by far superior to that given by the other two donors, thus underlining the crucial importance for the Japanese foreign aid policy of the Chinese neighbor, as well as the faith in the self-help model emphasized by the Japanese aid philosophy through the ODA loans. Furthermore, Korea had provided a large quantity of loans as well, if compared to the total amount of ODA that he conceded to China starting from the middle of the 90s, while Belgium who was providing a high number of loans to China at the beginning of the period analyzed, ended this kind of programs in the middle of the 90s. On the other hand, there are donors who did not used ODA loans at all in their activities, such as the United States who do not believe loans are a form of foreign aid. There is also another kind of donor countries which conceded ODA loans to China only in the 80s and in the 90s, such as the Netherlands, this kind of behavior is probably related to the tremendous growth of the Chinese economy which became clearly visible after the 90s, thus suggesting that ODA loans conceded on favorable lending conditions were no longer necessary.

The unique international organization in the table that admit ODA loans as a form of foreign aid is IDA; as said before the Japanese influence on this part of the World Bank Group is very strong since Japan provide a large quantity of subscription to the institution, as a consequence, IDA provided large amounts of ODA loans to China until the time its internal regulations did not permitted it anymore. The data about the multilateral donors ODA loans total amount is entirely constituted by IDA funds.

ODA investment sectors

The linear graphs I am going to describe in the following pages concern the sectorial allocation of the total amount of official development assistance conceded to developing countries by the most important bilateral donors and multilateral donors. I retained that the most representative choices for

my study are Japan, Germany, France, the United States, the United Kingdom, and the group of regional investors composed by Belgium, Korea and the Netherlands, while for the multilateral donors I selected IDA. Starting with the country that is at the center of our study is the choice I preferred.

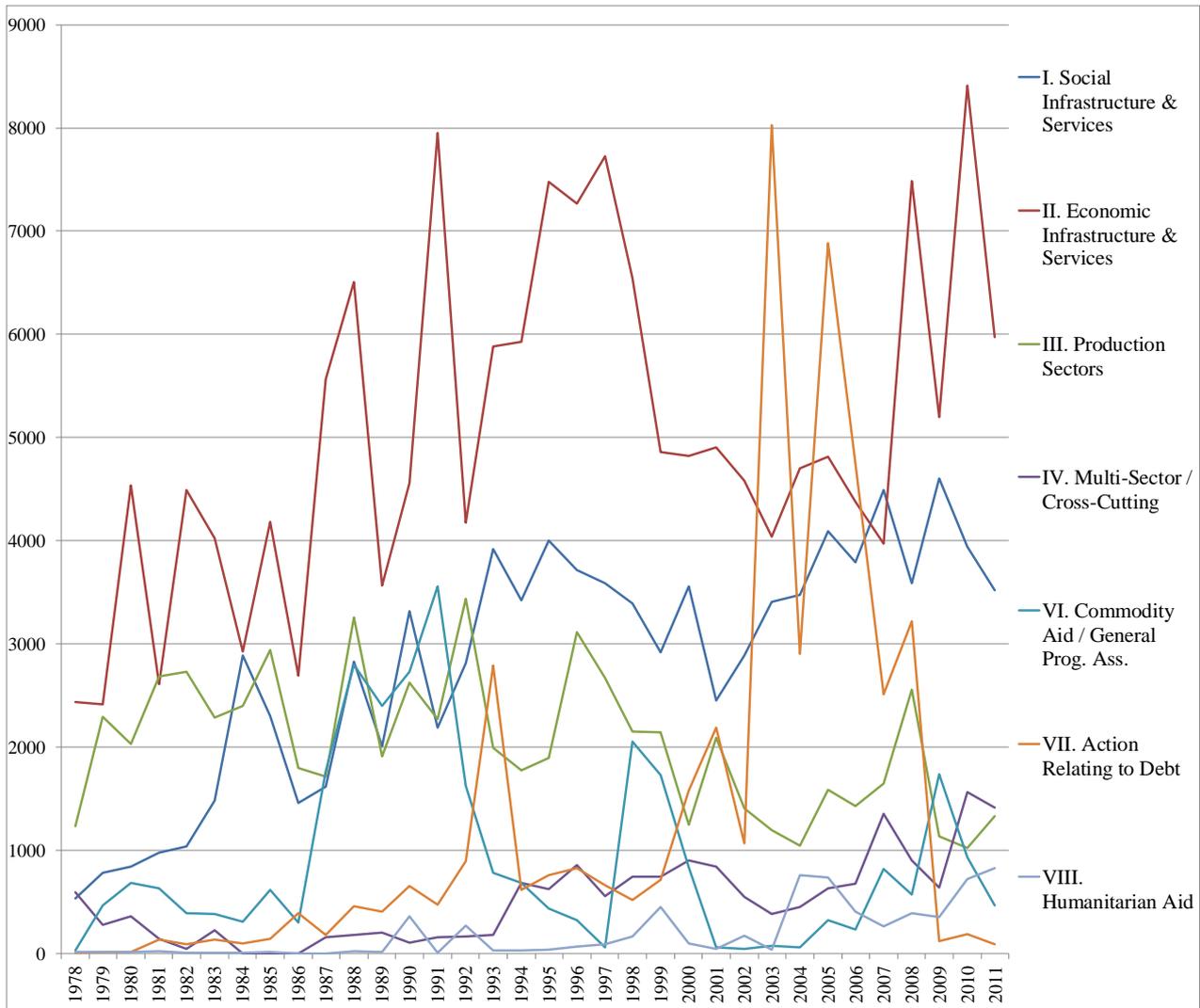


chart 5. ODA sectorial allocation of Japan from 1978 to 2011, OECD

The data in chart 5 show us that the sector which received most investments from Japan during the period of time analyzed in the graph is the economic infrastructures sector, followed by the social infrastructures sector and the production sector in the third place. The economic infrastructures sector had always received a large share of funds, frequently attesting around the 40% of the total ODA amount provided by Japan; the maximum peaks of investments in this sector were registered in fiscal years 1987, 1991 and 2010, while its lowest peaks were in 2003, 2005, 2006 and 2007. The subsectors⁹⁸ which received the greatest quantity of ODA are in the first place transportation & storage (holding a share often superior or around 50% of the economic infrastructure total budget apart for years 1984 and 2003), in the second place we have energy and in the third place communications, thus underlining the vital role performed by transportation

⁹⁸ All the data regarding the subsectors of the various sectors are not represented in the linear graphs, but are specified in the tables of the appendixes.

infrastructures in the Japanese aid strategy. The importance of economic infrastructure sector for the Japanese aid philosophy has been already highlighted when we talked about Japan's own experience at the times it was an aid recipient; indeed, according to Japanese aid thinking the economic infrastructures are the backbone of a functioning and modern economy, for this reason they are the first sector to improve in order to boost the economic development of a developing country. Another of the fundamental reasons for which the economic infrastructures are the largest sector of Japan's ODA interventions is that the economic infrastructures built with ODA funds in developing countries can also be useful to Japanese companies who want to invest or start businesses in the recipient country. For instance the construction of a new road, the enlargement of a seaport ships handling capacity, the building of a power plant, the amelioration of the telecommunication network, or the improvement of industrial facilities can provide to the recipient country new opportunities for economic development, and can at the same time facilitate the investments of Japanese companies in an otherwise difficult investment environment. In the ODA directed to China the process described above is clearly visible, as a matter of fact, the transportation infrastructures built with Japanese ODA played a crucial role in the economic development of some Chinese regions, and they had also eased the entrance of Japanese businesses, as we will see more carefully in Chapter 5. This double advantage for the recipient and the donor country that characterized the Japanese aid processes has been harshly criticized by other donor countries, who on the contrary think that foreign aid must regard exclusively an unilateral advantage for the developing countries; the critics in particular accused Japan of promoting its industrial lobbies private interests overseas, through the improvement of developing countries economic infrastructures, which are indispensable to Japanese private companies in order to start activities in the recipient countries. Passing to examine Japanese ODA interventions in the social infrastructures sector, we can notice that the trend of Japanese government ODA expenses for this sector was continuously increasing, with a share of only 10% in the first half of the 80s, it conquered and maintained a share of 20% along the second half of the 80s, the 90s and the first half of the last decade, and finally reached a 25-30% share in recent years; the highest peaks are in fiscal years 1984, 1994 and in the last five years of the graph. The intensified interventions in the social infrastructures sector are a direct consequence of the constant efforts of the Japanese government (MOFA in particular) for the improvement and modernization of the Japanese aid system and aid philosophy. Nonetheless, despite the reforms occurred in the Japanese aid system and the focus put by MOFA on the importance of the social infrastructure sector in recent years, the quantity of ODA funds destined to economic infrastructure is still predominant over that provided to social infrastructures, as shown by the data of chart 5. The social infrastructure subsectors that received more funds are in order of quantity water supply & sanitation, education, health, and government & civil society; from the major subsector of Japanese ODA intervention we can argue that one of the biggest problems involving social infrastructures, which affected most developing countries between 1978 and 2011, was the poor water supply system. Indeed, the presence of a functioning water supply system is a priority not only for the daily life of the recipient countries local population (water supply, sewerage), but also for the local industries and Japanese overseas companies which need wastewater treatment facilities as well. From this example we can see that the double advantage for the donor and the recipient is not typical of ODA destined to economic infrastructures alone, but, is something characterizing the whole Japanese aid philosophy. Moving to the next sector of investment, the production sector had received a large amount of ODA until the end of the eighties (between 20% and 30%), being second only to the economic infrastructure sector,

however, in the 90s and especially starting from fiscal year 2002, the interventions in this sector diminished a lot. The subsectors of the production sector that received the largest amount of funds are the two groups constituted by agriculture, forestry & fisheries and industry, mining & construction; looking at more detailed data about these two groups, we can notice that agriculture is the leading recipient among them, shortly followed by industry, while mineral resources and mining is curiously in a low position⁹⁹. Japan understood that the development of agriculture is one of the most urgent priorities for a developing country in order to have a stable supply of food for its population needs, thus it conceded abundant ODA funds to the agricultural subsector. The fourth sector we have to examine is the so called “Multi-sector”, which mainly consist in environment protection activities, gender focused projects, rural development and urban development. The share of ODA funds dedicated by the Japanese government to this sector (with the exception of 1978 when it was around 10%) had been almost near to 0% during all the 80s, until the beginning of the 90s when from fiscal year 1994 it started to increase reaching a 10% share in 2011. Some of the main factors that encouraged the growth of funds destined to this sector were the new foreign aid policy declared in the ODA Charter of 1992, which changed the main focus of Japanese aid activities into environmental development and development of social infrastructures, and the signature of the Kyoto Protocol by Japan in 1997. As a result, we can see that from 1995 to 2011¹⁰⁰ the share occupied by environment protection funds had been often over 50% of the multi-sector total amount, thus revealing the importance of general environment protection for Japan’s ODA. Commodity Aid, also called General Program Assistance, is another of the sectors which received many funds from the Japanese government, in particular during some determined historical periods, such as from 1987 to 1992, 1998-1999, and 2009; the two main subsectors of ODA intervention are general budget support and development food aid, however, we can argue from the commodity aid total amount that the data provided by the chart are incomplete, since the other subsectors composing the commodity aid total budget are not specified. On the other hand, the sector of humanitarian aid had received a medium share of ODA funds from the Japanese government in periods when humanitarian crisis occurred, such as in 1990 and 1992 in response to the First Gulf War, or in 1998-1999 in occasion of the Kosovo War, and especially during the period of the American occupation that followed the victory of the 2003 Iraq War, therefore starting in 2004 and lasting until 2011 when the American troops withdrew from Iraq¹⁰¹. The sector regarding actions relating to debt (debt forgiveness, debt rescheduling, debt refinancing) had obtained a large quantity of funds in 1993 and in the period from 2000 to 2008, with a share of more than 40% of the Japanese total ODA budget in fiscal year 2003 (US\$ 8000 million) and more than 30% of the total in 2005, thus emphasizing the Japanese government efforts for the reduction of the national debt of least developed countries. In conclusion, if we observe the data concerning the Japanese ODA total amount, we can notice that Japan was the second largest aid donor in the world during the period between 1978 and 2011, just after the United States.

The next country I am going to analyze is Germany.

⁹⁹ Due to the permanent shortage of raw materials affecting Japan, mining should be the subsector receiving the largest quantity of ODA funds, nonetheless, the data deny this theory; this is one of the proofs showing that the accusations of pursuing only its own private interests through aid activities moved by some donor countries to Japan are false.

¹⁰⁰ The data provided by the OECD about the general environment protection subsector are incomplete, given that they start from fiscal year 1995.

¹⁰¹ Atsushi Kusano, *Why Japan helps developing countries?* (Tokyo: Asahi Shinsho 083, 2007), 28-31.

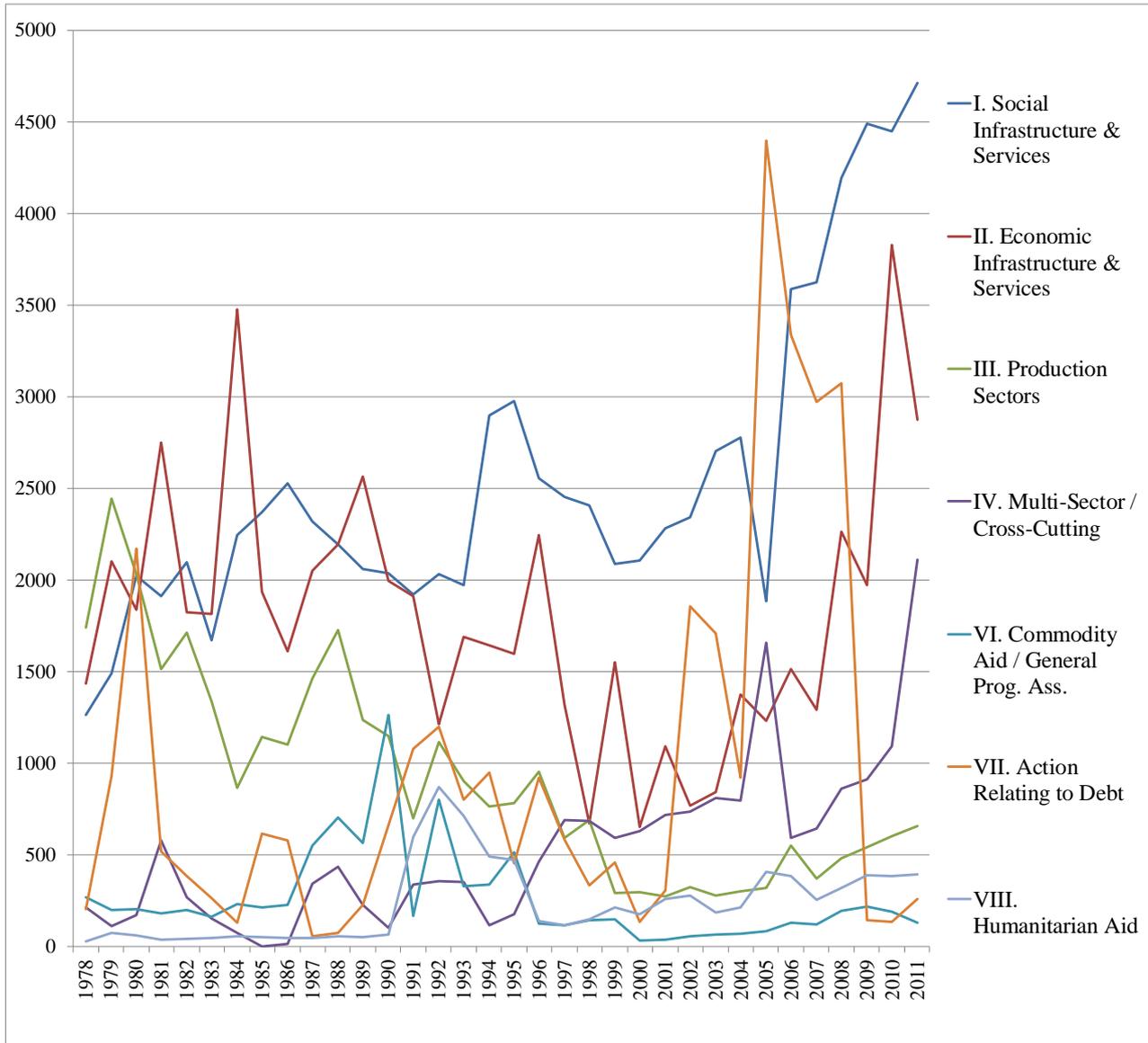


chart 6. ODA sectorial allocation of Germany from 1978 to 2011, OECD

The sector that received the largest share of Germany's ODA is social infrastructures, while economic infrastructures is in the second position, and the production sector together with the multi-sector in the third. The predominance of the social infrastructures sector has not been constant as the predominance of economic infrastructures for Japan, indeed, at the end of the 70s the production sector was the leading sector and during all the 80s the social infrastructures sector and the economic infrastructures sector had received more or less the same amount of ODA funds from the German government; the real supremacy of social infrastructures started only since fiscal year 1992, and reached its highest peaks in the last years analyzed in the chart (45% in 2000, 50% in 2009 and 45% in 2011). The main subsector of investment is education (with post-secondary education as the largest recipient), which occupied a share superior to 50% of the social infrastructures total until 1993, and after this date started declining, attesting between the 20% and 30% of the total in the second half of the last decade. The subsector of water supply & sanitation is the second largest recipient of Germany's ODA, while government & civil society is the third, other social infrastructures and services is the fourth, and health the fifth in the last position (except for the period from 2006 to 2011, when it climbed the fourth position). The high relevance given to

education in the developing countries by Germany is clearly visible from the data, in particular the attention paid to the post-secondary education is a sign that reveal the development strategy of German foreign aid policy, which through the formation of a highly qualified working force in the recipient country universities aim to foster the future development of the developing countries. The importance assigned to water supply & sanitation by the German ODA strategy is another sign of the high quality of Germany's aid, however, the last position occupied by health in the ranking for the largest share is unexpected, considering that Germany's aid policy is strongly focused on social infrastructures. Shifting to the economic infrastructures sector, we can notice that during the eighties the percentage of funds dedicated to economic infrastructures and social infrastructures were almost the same (fluctuating between 25% and 35%), while starting from fiscal year 1992 the share occupied by ODA directed to economic infrastructures begun to decline, reaching its minimum peak in 2002 with only 10% of the total ODA budget; after this fall the ODA funds for economic infrastructures restarted to grow attesting on a 28% share in 2011. The leading subsectors are alternatively transport & storage and energy, followed by banking & financial services, and finally by communications. As seen in chart 5 about Japan before, in the case of Germany as well the subsectors of energy and transport are considered the most vital subsectors to improve in order to boost the economic development of developing countries, thus showing that the aid philosophies of Germany and Japan have something in common; however, nobody criticized Germany or accused its aid officials of promoting the interest of German private companies, as happened in the Japanese case. The sectors of production and the multi-sector were the third largest recipients of ODA funds during two different periods, the production sector from 1979 until 1996, and the multi-sector in the period between 1997 and 2011, nonetheless, the share of total funds conceded to these two sectors was quite small, if compared with the social and economic infrastructures sector. The group of subsectors belonging to the production sector which received the largest amount of funds are firstly agriculture, forestry and fisheries, and secondly industry mining and construction; among the first group, agriculture was the activity which obtained more funds, while among the second group industry and mining (for a short period, 1984-1989) had received the greater attention of Germany. Regarding the multi-sector, we do not have complete data, but according to what we can see from table 6 (see the appendixes), general environment protection which is the main subsector of the multi-sector obtained only a medium percentage of the total ODA budget, if compared to the large quantity of funds dedicated to this subsector by Japan. From these data we understand that until 1996 the main concerns of Germany's ODA were linked to production, with a particular focus on agricultural development and industrial development of the developing countries, whereas starting from 1997 environment protection and other subsectors of the multi-sector became the main aim of the German foreign aid strategy. The signature of the Protocol of Kyoto in 1997 and the revision of the Protocol of Montreal also in 1997 might had influenced Germany to change its main focus into environmental protection, instead of production related activities. With respect to the sectors of commodity aid and humanitarian aid, Germany provided inconstant flows of funds depending on the events occurred in certain years, the highest peak for the sector of commodity aid is registered in 1990 after the fall of the Berlin Wall and the consequent increase of aid activities directed to ex-East Germany, while the peak for humanitarian aid was reached in 1992 after the end of the First Gulf War. In addition, Germany's ODA contribution to the sector of action relating to debt was relatively high, more or less on the same level of Japan, with amounts superior to 1000

million dollars in fiscal years 1980, 1991, 1992, 2002, 2003, 2005, 2006, 2007, 2008¹⁰²; making a comparison with its ODA total budget, we can say that Germany provided a significant amount of funds for the debt related activities. In conclusion, looking at the data about the total amount of ODA funds provided by Germany, we can argue that Germany was the fourth largest ODA donor in the world during the period between 1978 and 2011.

Chart 7 is about the ODA sectorial allocation of France.

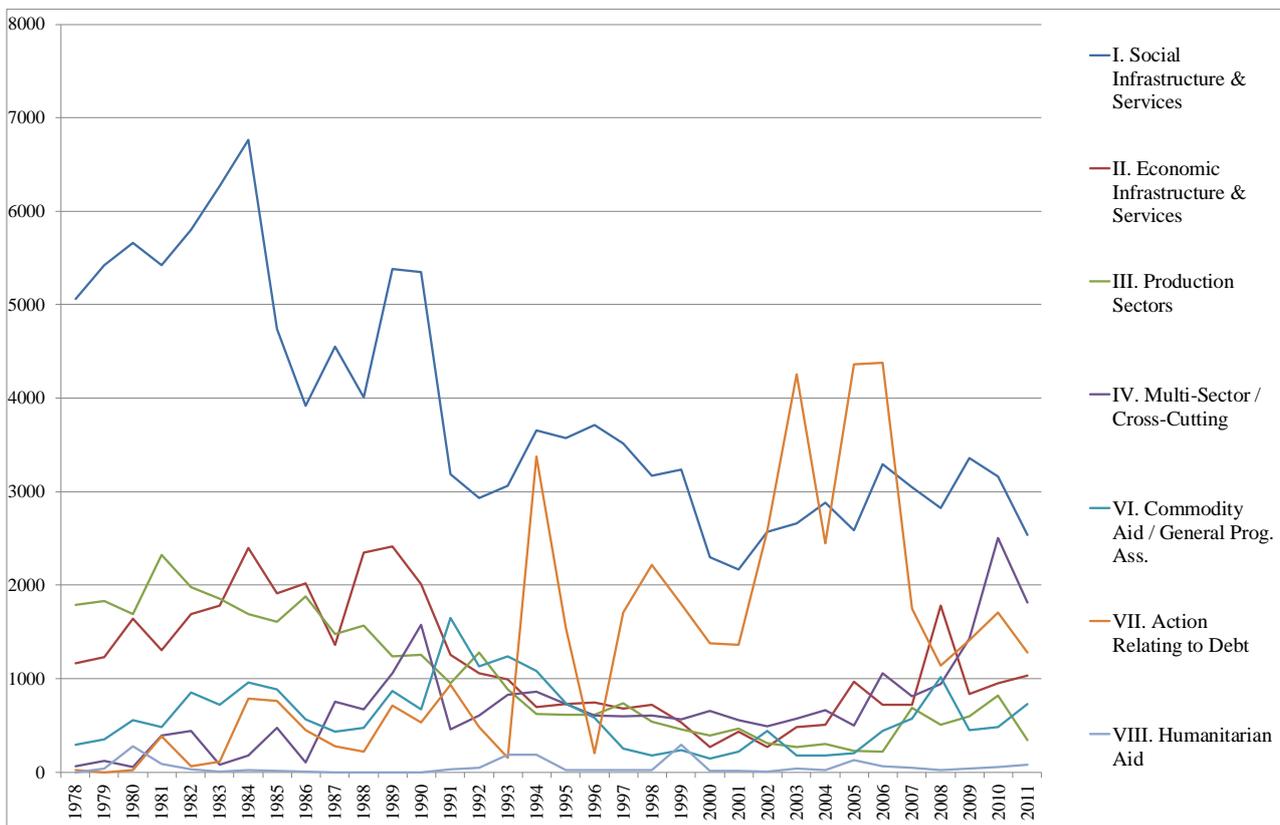


chart 7. ODA sectorial allocation of France from 1978 to 2011, OECD

The largest recipient of France's ODA is the social infrastructures sector, while the economic infrastructures sector is in the second position and the production sector in the third, finally we have the multi-sector which occupy the fourth place. The social infrastructures sector constantly absorbed a very large share of France's ODA respect to the other sectors, especially during the period between 1978 and 1984 when the share dedicated to social infrastructures overcame the 50% of ODA total budget (reaching 60% in 1978, 1979 and 1983), after this period the quantity of ODA funds stabilized around 40% of the total until fiscal year 2001, when the decline of ODA conceded to the social infrastructures began, attesting on a 28% share in the last year of the table. The main subsector of investment was education, which held a stable quota of funds superior to 50% of the total during all the years analyzed in the data; In this case as well, the segment of post-secondary education had been the one receiving the widest attention of France. Among the subsectors of social infrastructures, the second largest recipient of France's ODA had been health and other social infrastructures the third, whereas we can place water supply & sanitation in the fourth position and government & civil society in the fifth. One of the main characteristics of the French aid philosophy

¹⁰² In fiscal year 2005 the share occupied by action relating to debt compared to the total ODA budget was more than 40% while in fiscal years 2006, 2007, and 2008 was around 30%, thus underlining the high quality of German aid.

is the high focus on the Francization of the developing countries population through the promotion of French style education programs, this is clearly visible by the quantity of funds conceded to the subsector of education. Another feature of the French aid activities is that they are concentrated in the territories belonging to the ex-colonies of France in the Africa; some of the biggest problems of this area are the poor health conditions and the lack of infrastructures, as a consequence, this is probably the reason why the subsectors of health and other social infrastructures are respectively in the second and third position as subsectors that receive more money from the ODA programs. Unusual is the fourth position occupied by the water supply and sanitation subsector that according to common knowledge should be the one receiving the widest attention in the situation of Africa. The sector of economic infrastructures had received a modest quantity of ODA, reaching peaks of almost 20% of the total in fiscal years 1985, 1985, 1986 and 23% in 1988, until the beginning of the 90s when the ODA budget dedicated to this sector started declining and attested on an average of 10% in recent years, with one peak of 20% in 2008. The subsector that received the largest quantity of money can be considered transportation & storage, followed by the communications subsector that collected big flows of ODA as well in determined years, with its peak in 1989, and in third position the subsector of energy, which was one of the largest recipient during the period that goes from 1990 to 1998, with its peak in 1990. The subsector of transportation & storage is as usual considered as the most vital one also by France, while unexpectedly the energy subsector is the one that received the lowest level of investments, apart for the beginning of the 90s when this subsector became the one receiving the largest quantity of ODA finances, probably due to the energetic crisis provoked by the First Gulf War. The production sector received a modest quantity of ODA flows as well, with an average fluctuating between 15 and 20% of the total, until the 90s when its financial resources started to diminish attesting on an average of 6% in recent years. The subsector that received the greatest part of financing is the agriculture, forestry & fisheries, with agriculture as the most important activity, as we can argue from the need of improvement of Agriculture in the African region. On the other hand, the industry mining & construction subsector received only a small part of the total budget dedicated to the production sector, with the activity of mining in the leading position until the end of the 80s (possibly due to the exploitation of mineral resources in Africa), and from the 90s onward with the activity of industry in the leading position. The resources destined to the multi-sector were usually low, with an average lower than 10%, but in recent years the ODA flows conceded for this purpose started to increase, surpassing the 20% of the total ODA budget, thus underlining a stronger commitment to the environmental protection related activities. Speaking about the commodity aid sector we can see that there is a peak in the graph in 1991, probably in occurrence of the First Gulf War; Furthermore, for the humanitarian aid sector there are three peaks registered, one again in correspondence with the First Gulf War, one in correspondence of the Kosovo War in 1998-1999, and one in the years that goes from 1979 to 1981. The ODA flows destined to the action relating to debt sector are impressively high, especially from 1994 onward when the ODA financing to this sector never went down 1000 million dollars per year. The total ODA flows of France toward developing countries had always been quite high and stable (except for the years 2000 and 2001 when a fall is visible from the data), this make of France the third largest ODA donor in the world for the period analyzed in the data.

Chart 8 is about the ODA sectorial allocation of the USA.

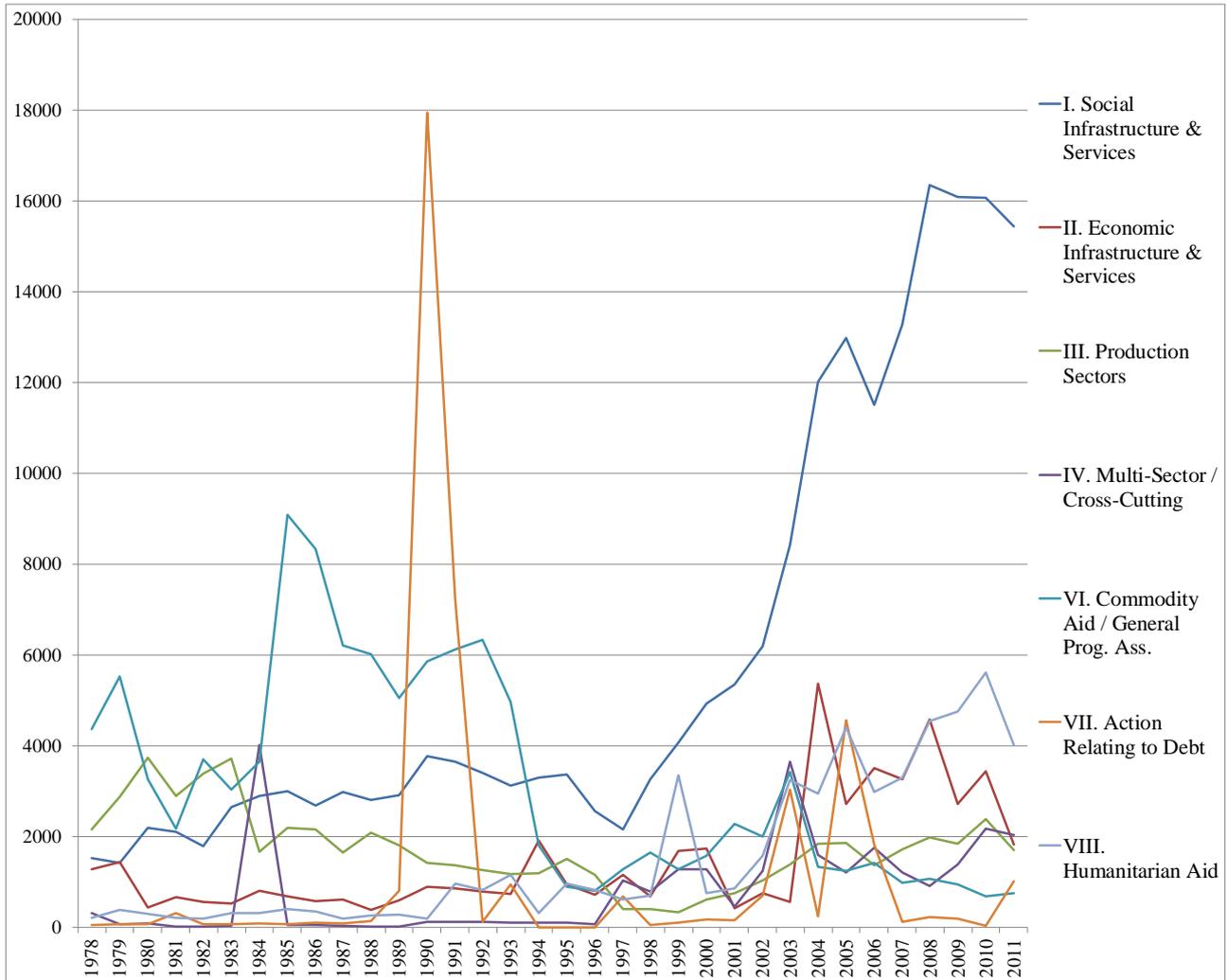


chart 8. ODA sectorial allocation of the USA from 1978 to 2011, OECD

The largest recipient of US ODA is the social infrastructures sector, shortly followed by the commodity aid sector, and in the third position by the production sector, surprisingly the economic infrastructure sector is only in the fourth position, thus already explaining us something about the aid philosophy of the USA. The main characteristic of the US aid philosophy, which is the great attention paid to the social factors of aid, is reflected in the data above, the social infrastructures sector is the leading recipient of ODA with a share of the total budget of funds that had continuously grown during the years analyzed in the graph, and attested on an average of 50% in recent years. The subsectors that received the largest share of ODA funds are first of all health and the population program & reproductive health, then we have the subsectors of government & civil society and other social infrastructures & services, while on the third position we can collocate education and water supply & sanitation subsectors. The US aid philosophy underline the fundamental role played in a modern society by an efficient healthcare system together with a good population policy in order to promote these values in the developing countries that receive US aid. Of course, being the United States the major country sustaining structural adjustment programs, in the second position for the largest recipient of ODA flows we can find the subsectors of government & civil society and social infrastructure & services, indeed, through the intervention in these fields the US try to develop and expand its economic model (full scale privatization of national companies and annihilation of the state interventions in the national economy) to the developing countries.

Education and water supply & sanitation even if are the subsectors receiving the lowest quantity of ODA flows are not neglected, given that they still receive a large quantity of money due to the big flows of ODA that the US donate. The commodity aid sector is the second largest recipient of ODA, it has collected big quantities of ODA flows during the first period analyzed in chart 8 until fiscal year 1993 when the funds destined to this sector started to decline, but never went down the 700 million dollars. According to the data in table 8 (see the appendixes) a large part of this commodity aid went to the development food aid and food security assistance programs, while the remaining part of these funds went to the general budget support program. The production sector registered good results in the first six years examined in the graph with values attesting on the 30% of the total, but then after 1983 started to decline relentlessly, with the sole exception of fiscal year 1988 when it collected the 47% of the ODA total budget, in recent years its average value went down to the 6% of the total. The economic infrastructures sector had received a very low share of ODA total budget, if compared to the other donors, however, starting from 2004 the share of funds dedicated to this sector seem to be enhanced, since this sector conquered a 20% of the total budget, and it registered other peaks in the following years. The small quantity of funds collected by the economic infrastructures sector is representative of the bad reputation that characterize this sector in the US aid philosophy, indeed, US aid officials think that the ODA assigned to this sector are only an alternative way of promoting the interests of the donor's main industrial lobbies in the developing countries. The subsector that received the largest share of funds is that of energy, followed by business & other services, communications and transport & storage in the last position, even if starting from fiscal year 2007 this subsector became the leading one. The great importance assigned by the US government to the energetic sector development in the developing countries is in accordance with the US foreign policy as well, which is endlessly in search of new energetic resources to exploit, in order to find a replacement to the almost exhausted old ones. The second place occupied by business & social services is another signal of the importance given by the US to the expansion of their economic model in other countries through the instrument of ODA, while the last place among the largest recipients of US ODA funds occupied by the transportation & storage subsector is quite unfortunate, due to the vital importance of this sector for the developing countries, even if in recent years this tendency seem to be reversed. The multi-sector, which mainly concerns activities linked with protection of the environment, had been almost ignored until fiscal year 1997, year of the issuing of the Kyoto Protocol and the Montreal Protocol (even if the USA did not ratified the treaty), when we have the first amounts ODA funds dedicated to these kind of activities. Speaking about the sector of action relating to debt, we can see how the US provided a large quantity of ODA to this sector, in particular during certain periods, as for example from 1989 to 1991 with a peak of almost 18000 million dollars in fiscal year 1990, probably due to the Economic crisis that burst out in Japan in that year, and in 2003 and 2005 possibly due to the reconstruction of Iraq after the war. On the other hand, the sector of humanitarian aid received a modest quantity of ODA especially during the periods the US was involved in foreign conflicts, as we can see from chart 8, peaks of aid in this sector are registered in 1990-1991 (The Gulf War), in 1998-1999 (The Kosovo War), and from the start of the Afghanistan invasion in 2001, continuing with the outburst of the Iraq War in 2003, and ending with the retirement of American troops from Iraq in 2011. The total ODA budget of the USA is remarkably high during all the period analysed in the graph, thus showing us that the US is the largest ODA donor in the world. Furthermore, in the data of table 8 (see the appendixes) we can notice some determined periods in which the total quantity of ODA provided is clearly outstanding; these periods correspond to the biggest wars the US fought during

the years examined in the graph, which are the Gulf War and the Iraq war and military occupation, thus suggesting us that a large part of the US ODA went in support of the war operations of the United States.

Chart 9 is about the sectorial allocation of the ODA conceded by the United Kingdom.

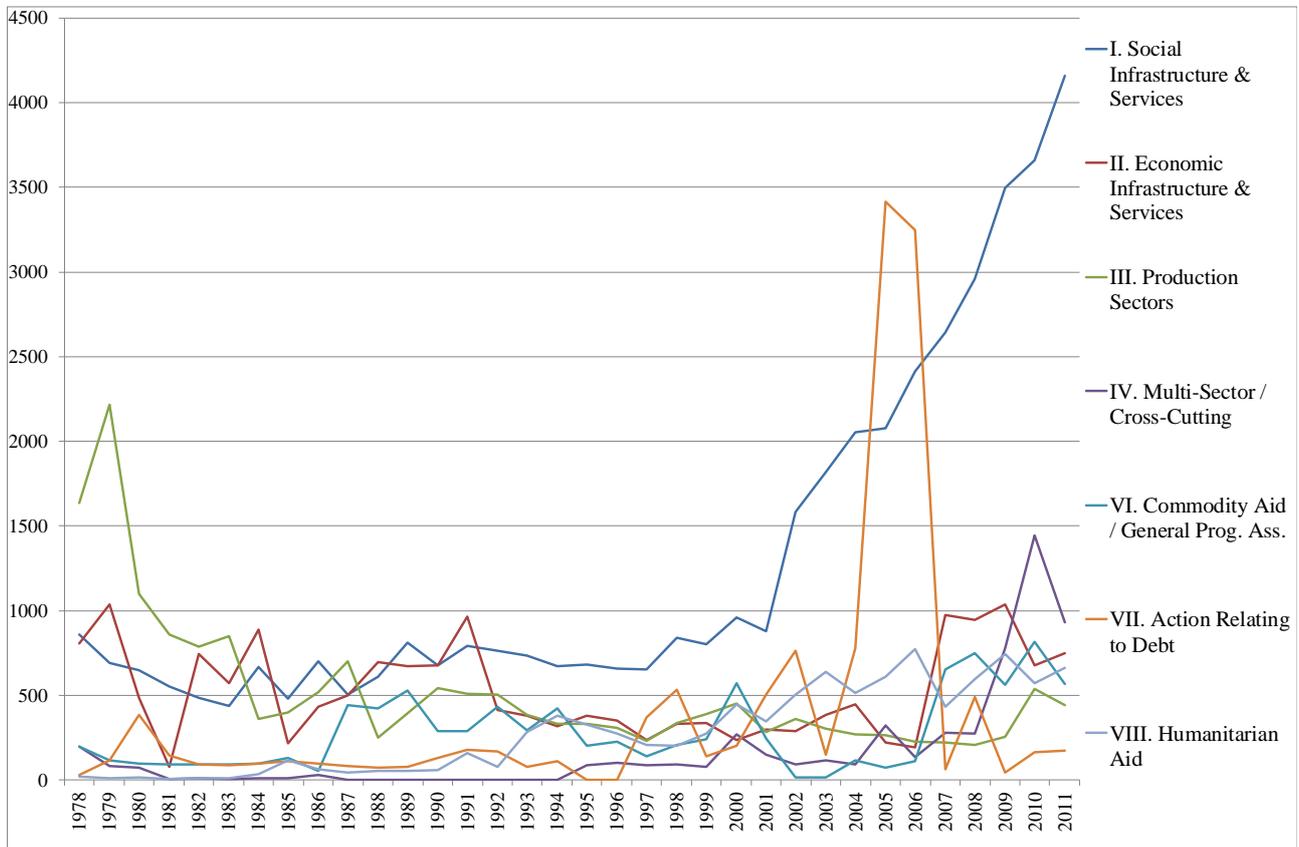


chart 9. ODA sectorial allocation of the United Kingdom from 1978 to 2011, OECD

The largest recipient of British ODA is the social infrastructures sector, however, this sector did not maintain a stable trend of investment, since at the beginning of the period analysed in the graph the production sector was in the leading position of largest recipient and for all the 80s the leadership of the social infrastructures sector was contrasted by the economic infrastructures sector, the social infrastructures sector became predominant only in the 90s. The second largest recipient of British ODA can be considered the economic infrastructures sector, shortly followed by the production sector, and in the fourth position by the action relating to debt sector; for the first time in our analysis we have a country who do not invest almost nothing (apart the last three years of the graph) for the environment protection, or in other words the multi-sector. The principal objective of the British aid philosophy is the reduction of world poverty and the establishment of a “good government” in developing countries (democratization and human rights) as Professors Shimomura and Nishigaki affirm in their book¹⁰³, as a consequence, the emphasis on the social infrastructures sector is a must. During the end of the 70s and the beginning of the 80s this sector was receiving only a modest quantity of ODA, while during the 80s its budget started to grow, reaching its peak in recent years when in 2011 it conquered a 50% of the ODA total budget; the interesting thing to note is the continuous effort of the British Government for increasing the funds destined to the social

¹⁰³ Nishigaki and Shimomura, *The Economics of Development Assistance*, 134.

infrastructures sector, that is quite in accordance with the aid policy of the United Kingdom. The subsector that earned the largest share of British funds is that of education, followed by health, and in third position by government & civil society, while the population policy program & reproductive health is the fourth; the water supply & sanitation sector which had always occupied a high position in the previous cases, is only fifth. The subsector of education together with that of government & civil society are fundamentals in order to improve the so called “good governance” of one country, that’s why these two sectors are among the three largest recipient of ODA share among social infrastructures; in addition, the health subsector and the population policy program & reproductive health are vital for the enhancement of living conditions and reduction of poverty in a developing country, indeed, they receive a big quantity of funds, in accordance with the above spoken British doctrine about foreign aid. The economic infrastructures sector received a modest quantity of ODA in the 80s and had been in the leading position of largest ODA recipient in 1984, 1988 and 1991, however, during the 90s and at the beginning of the 2000s it collected a quite small amount of money, and it recovered an acceptable flow of investments only in the second half of the 2000s. Energy is the subsector that earned the largest share of ODA funds, while transportation & storage is the second, nonetheless, the most interesting data is that about the subsector of banking and financial services which occupy the third position; indeed, in a country such as the United Kingdom, where the most part of the financial operations in the world take place, is normal to find out that this subsector is kept in such an high consideration. The subsector of energy is vital for the United Kingdom, that is a country characterized by a permanent lack of energetic sources, so that through ODA intervention in the developing countries it try to earn favourable conditions for its own energy supply; in this subsector peaks of funds are registered in the years 1979, 1982, 1984 and 1991. The transportation & storage subsector as usual has here a modest importance; on the contrary, the data about banking and financial services are really interesting, since the highest peak of ODA investments in this subsector are registered precisely in the worst years of the world economic crisis of 2007, 2008 and 2009. In the linear graph we can see how the production sector started as the largest recipient of ODA funds with peaks of almost 50% maintaining this position until 1983, when it slowly started to decline, attesting in recent years on an average of 5% of the total. The subsector that received the largest quantity of ODA is that of agriculture, forestry & fisheries, with the activity of agriculture in the leading position, while the industry, mining & construction sector is second, with mineral resources & mining and industry as the principal activities. The sector of the action relating to debt generally did not received high quotas of the ODA budget, except for some determined period of times such as 1980, 1997-1998, the period from 2002 to 2006, and 2008. Coming to the commodity aid sector, we can see that since fiscal year 1986 an almost stable but low trend of ODA investments begun, with a fall in the period that goes from 2002 to 2006, whereas in the sector of humanitarian aid we can notice a continuous enhancement of funds starting from the period of the First Gulf War onwards. The general trend of the ODA total budget of the United Kingdom is characterized by an excellent start in 1978-1979 which were years of high investments, but were followed by a long period of “aid fatigue” or aid stagnation that lasted until fiscal year 2000, when a renewed emphasis on world poverty alleviation relaunched aid activities, so that a new positive trend of ODA investments begun, registering very high peaks of investment in recent years.

The following linear graphs concern the sectorial allocation of ODA by the group of regional investors composed by Belgium (chart 10), The Netherlands (chart 11) and Korea (chart 12). In this

case I will just analyze the data regarding the subsector of transportation & storage, that is the most important one for us in order to understand if the three countries examined relied on the development of economic infrastructures for the promotion of their exports or no.

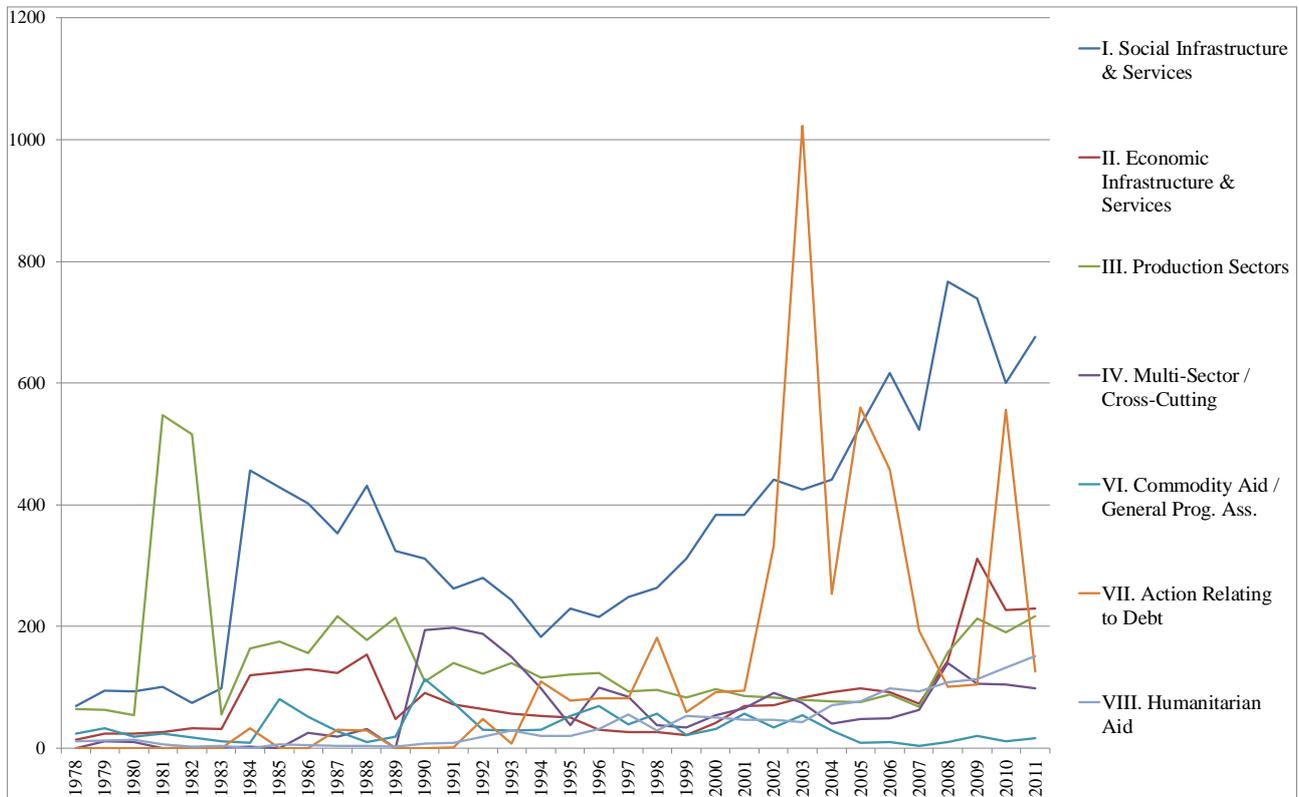


chart 10. ODA sectorial allocation of Belgium from 1978 to 2011, OECD

Chart 10 is about the ODA sectorial allocation of Belgium, the first thing that we can notice from the graph is the low relevance of the economic infrastructures sector that is only in fourth position among the sectors that received the largest quantity of ODA. The production sector seem to have been a leading sector in the beginning of the 80s, but then the social infrastructures sector took the lead and maintained it until the end of the period analysed in the graph, even if between fiscal year 2002 and 2003 the action relating to debt sector was the largest recipient. The investments in the subsector of transportation & storage which should be the most vital one for a regional investor such as Belgium are surprisingly small if compared to the economic infrastructures total budget, while the subsector of banking & financial services is the leading recipient for all the period analysed. Therefore, we can say that Belgium do not consider the development of economic infrastructures as one of its main priorities for its ODA policy, thus suggesting us that its role of regional investor is not that relevant.

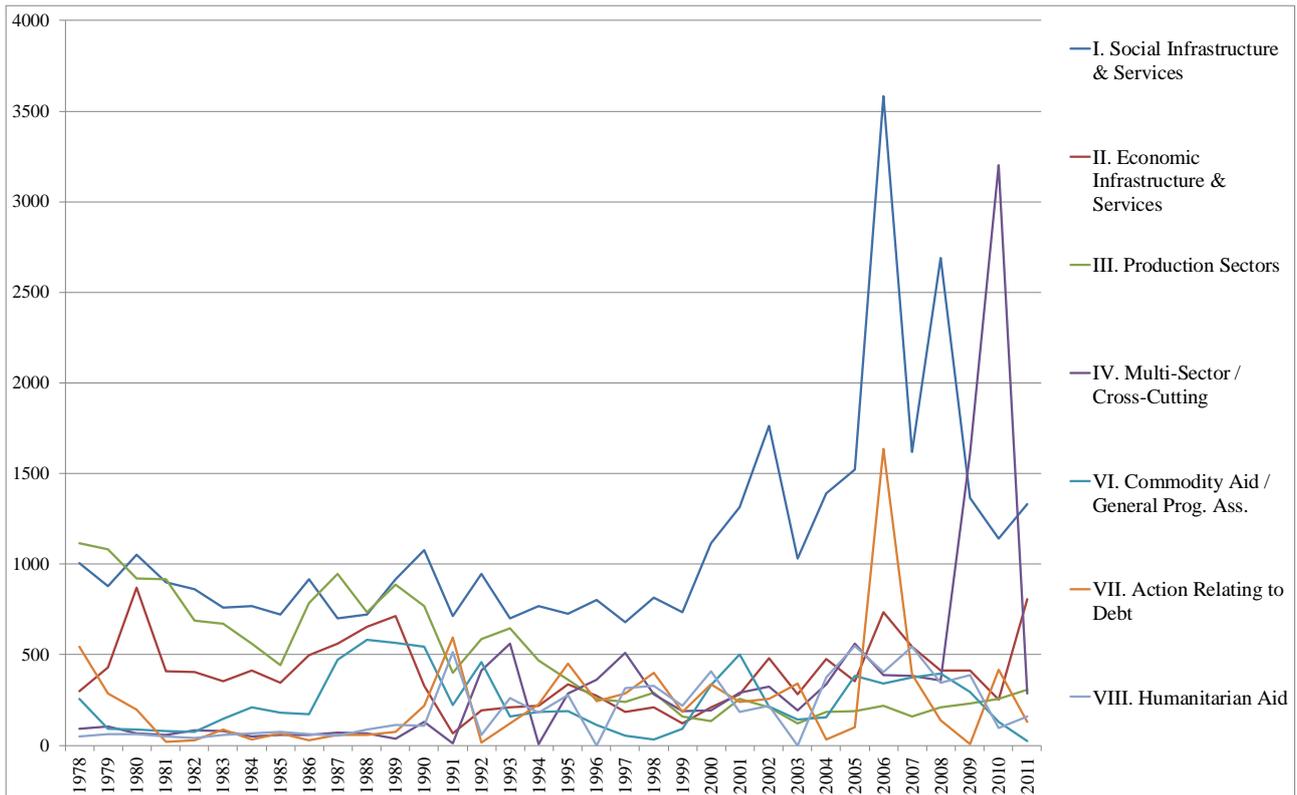


chart 11. ODA sectorial allocation of the Netherlands from 1978 to 2011, OECD

For the Netherlands we have a quite similar situation, the sector of economic infrastructures was only the third largest recipient of ODA during all the period of the graph, while the social infrastructures sector was the first, and the second position was occupied by the production sector in the 80s and by the action relating to debt for the rest of the time; one interesting thing is the high peak of investment registered in the multi-sector between 2009 and 2010. The subsector of transportation & storage received in this case a large share of the investments dedicated to the economic infrastructures sector, but only until the end of the 80s, since after this period the quantity of ODA assigned to this subsector sharply declined. As a consequence, we can argue that the ODA policy of the Netherlands does not consider the development of economic infrastructures among its main targets; therefore, this country does not use ODA for the promotion of its exports, as in the case of Belgium.

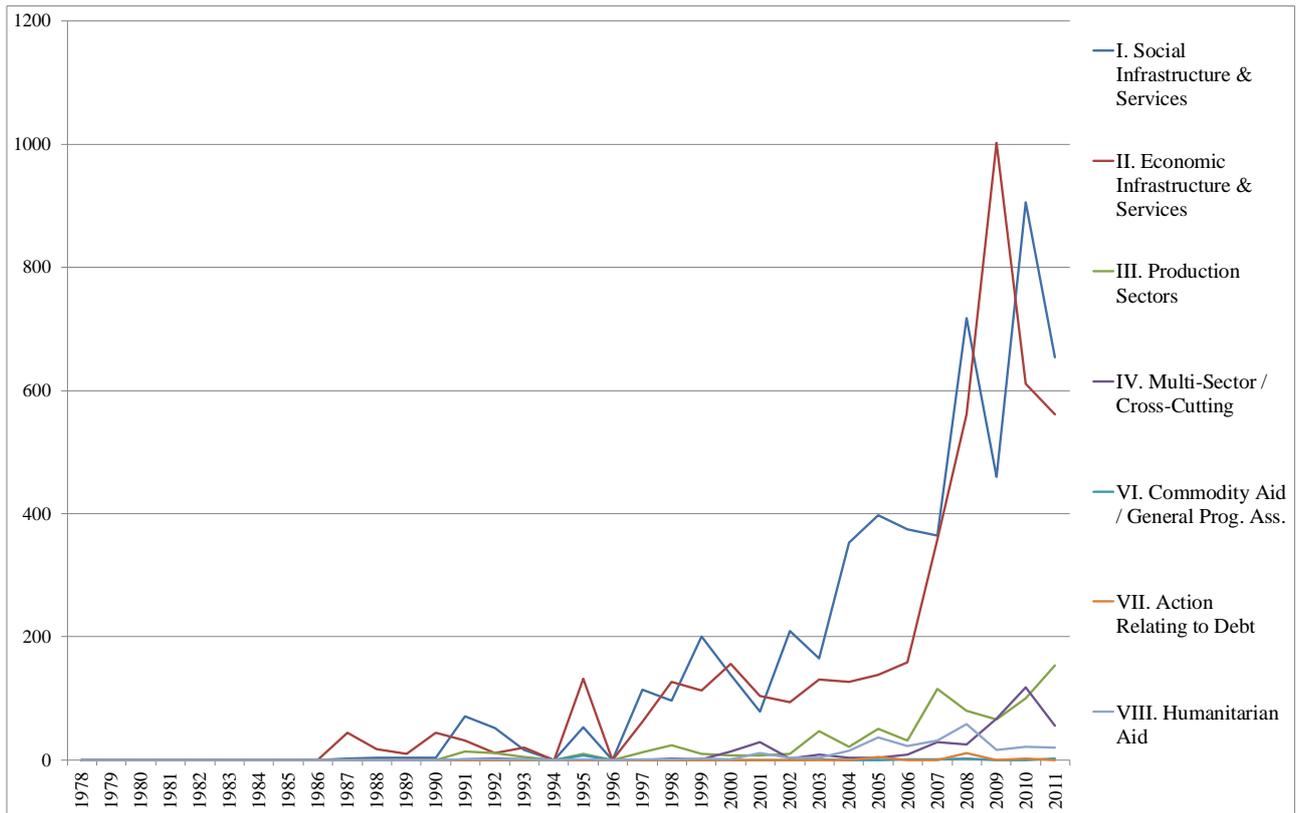


chart 12. ODA sectorial allocation of Korea from 1978 to 2011, OECD

In the Korean case, we can see how the leading recipients of ODA investments are the economic infrastructures sector and the social infrastructures sector, with the production sector in the third position. However, the most interesting data for our study is the one about the subsector of transportation & storage, which received a very large share of the ODA investments if compared to the other two countries analyzed above, thus showing us the importance of this subsector for Korea, and consequently suggesting us that this country is characterized by a strong export oriented strategy. As a consequence, we can say that only Korea can be considered as a regional investor in the group of three countries, in particular for the geographic area near to its national territory which mainly consist in China; from this point of view, we can notice that the ODA investment strategy of Korea is very similar to the Japanese one, indeed, Korea as well consider the development of economic infrastructures as the main priority for developing countries in the East Asian Region.

Chart 13 is about the ODA sectorial allocation of IDA, the unique international organization I will treat in this paragraph.

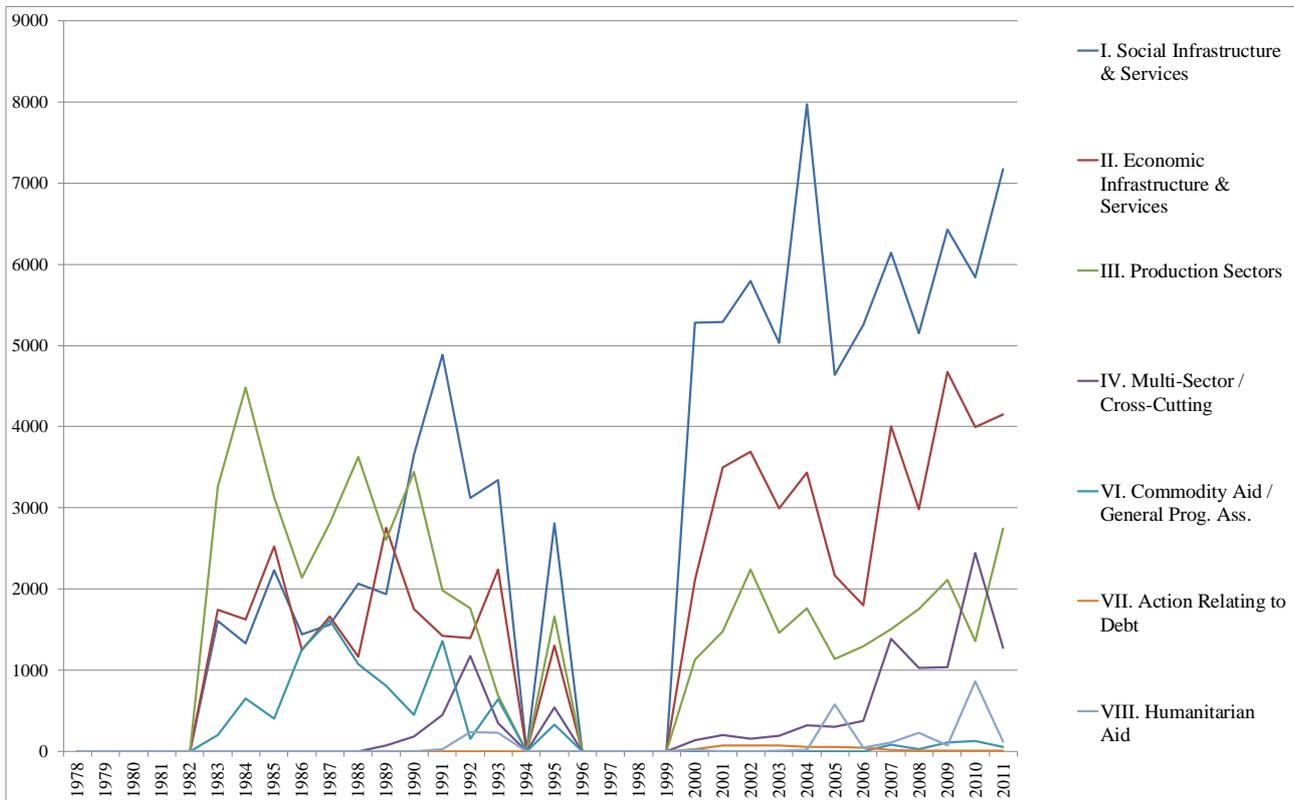


chart 13. ODA sectorial allocation of IDA from 1978 to 2011, OECD

The International Development Association as said before is one of the international organizations where Japan occupy a predominant role after the US, since it is the second largest contributor to the organization funds. As we can see from chart 13, the leading recipient of IDA's ODA is the social infrastructures sector (apart from a short period that goes from 1982 to 1988 when the production sector had been the leader), while in the second position we have the economic infrastructures sector and in the third the production sector. We can argue that since the US are the largest contributor to the organizations they can determine which is the priority sector to invest in, that according to the US aid philosophy must be social infrastructures; however, since the weight of Japan in the organization is considerable as well the second largest recipient of aid is the economic infrastructure sector, even if this sector is considered by the US as the worst one to invest in for aid activities. The two highest peaks of investment for the social infrastructures sector in chart 13 are registered exactly in the years of the First Gulf War and the Iraq War; one additional curiosity is about the absolute lack of data in the graph during the periods between 1978-1982 and 1996-1999.

ODA Investment sectors in China by country

The data about country's ODA sectorial allocation in China are quite incomplete if compared to the previous ones, since the OECD provide us with data only starting from fiscal year 1995, however, these data are important in order to see the undisputed primacy of Japan as the principal ODA donor to China, a position that Japan maintained until 2008, when the ODA loans program to China ended. In order to see this, I chose the four sectors of social infrastructures, economic infrastructures, production and multi-sector, which I retain the most representative and important

for the purpose of my thesis; even if from these data we cannot see what was the trend in the years that are not represented in the graph, we can argue from the data of the previous paragraphs that more or less the aid tendency was the same. Regarding these data one important preview that must be done is that a shift is registered in the Japanese foreign aid activities, which slowly started to change from an economic infrastructure centered system toward a more social infrastructure oriented one, since the publication of the ODA Charter in 1992 and other official documents in the following years, all concerning the new efforts that the Japanese Government had to do in order to improve the quality of its aid system.

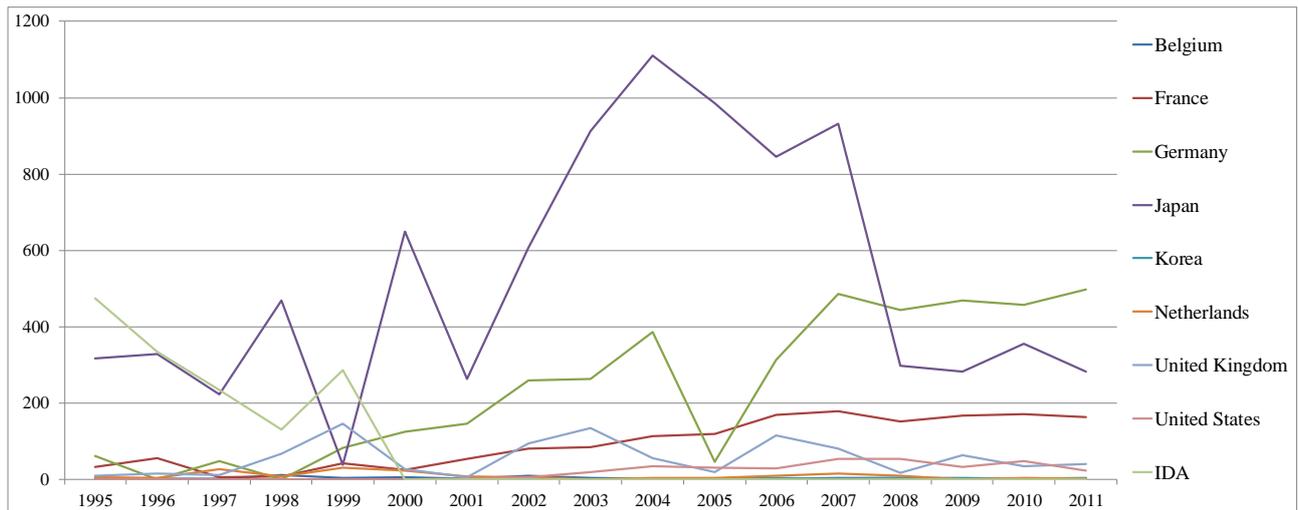


chart 14. ODA dedicated to the social infrastructure sector in China from 1995 to 2011 by donor country, OECD

Chart 14 is about the social infrastructures sector, we can immediately notice that the quantity of ODA conceded by Japan to this sector is overwhelmingly superior to that of the other donor countries, while the second largest investors in this sector is IDA until fiscal year 2000 and Germany for the rest of the period analyzed in the graph, France is the third largest donor. It is interesting to note that the trend of IDA investment in this sector was possibly higher than the Japanese one in the years before 1995, given that IDA is strongly influenced by Japan in its decision-making process, so that the importance of providing aid to China for Japan is reflected in the actions of IDA as well. Moreover, we can see from chart 14 how after the beginning of the 2000, and in particular in 2001 (year of publication of the Economic Cooperation Program for China) the quantity of funds destined by Japan to the social infrastructures sector increased, owing to the decrease in the same years of the Japanese ODA flows conceded to the economic infrastructures sector, as we can acknowledge from chart 15.

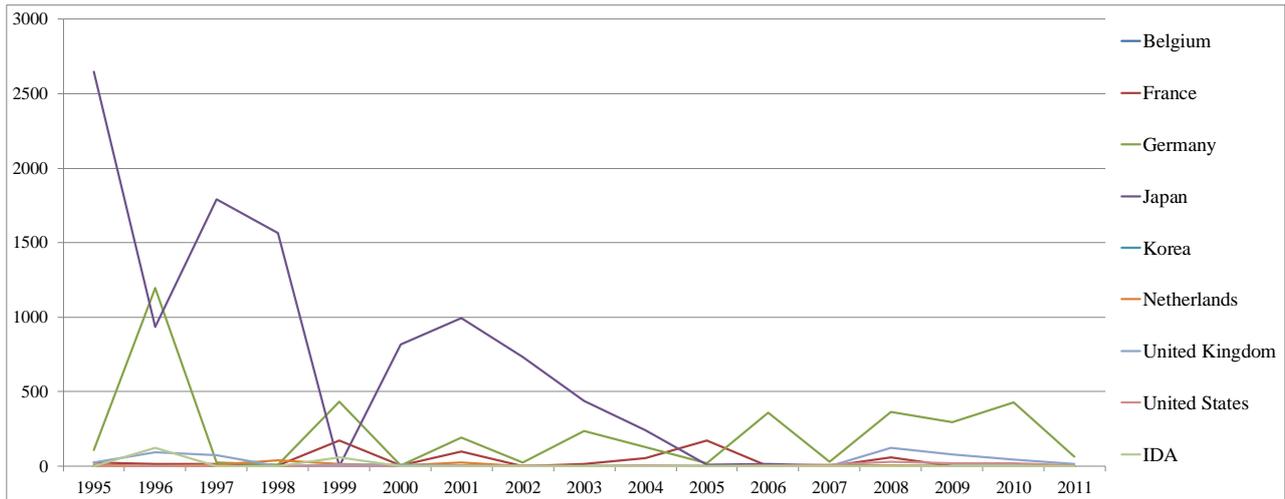


chart 15. ODA dedicated to the economic infrastructure sector in China from 1995 to 2011 by donor country, OECD

In the case of economic infrastructures Japan has been the leading donor to China until 2005, when Germany took its place, whereas in the second position of largest donor we find again Germany and in the third France. The economic infrastructures sector which was always the most important sector for the Japanese aid philosophy in the past, since the publication of the ODA Charter in 1992 begun to lost its relevance as we can see from the graph, where a sharply decrease of the ODA funds dedicated to this sector is clearly visible. After a last peak in fiscal year 2001 the economic infrastructures sector totally lost its importance, this event is directly connected to the 2001 shift in the foreign aid policy of Japan toward China, due to the issuing in October 2001 of the “Economic Cooperation Program for China” by the Japanese Ministry of Foreign Affairs. Indeed, the “Economic Cooperation Program for China” underlined the necessity of developing only the social infrastructures through Japanese ODA, whereas the economic infrastructures had to be developed by China itself, considering that the Chinese economy had already achieved an high degree of advancement at that time.

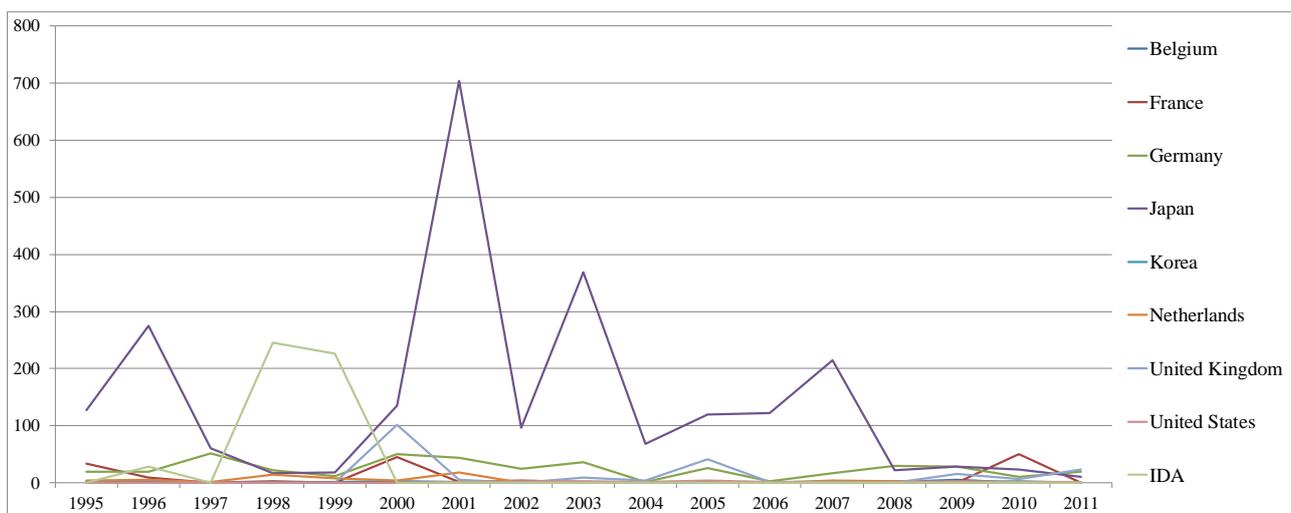


chart 16. ODA dedicated to the production sector in China from 1995 to 2011 by donor country, OECD

The first place of Japan as the largest investor in the sector of production is also clear from chart 16, except for the period between 1997 and 1999 when IDA was the leader; the second largest

donor is Germany and the third seem to be France. The peak registered in the Japanese investments in 2001 followed by a sharp decline in the subsequent years is another data showing us the big change produced by the Economic Cooperation Program for China in the Japanese foreign aid policy toward China, thus confirming the resolution of the Japanese government to foster the development of the social infrastructures sector.

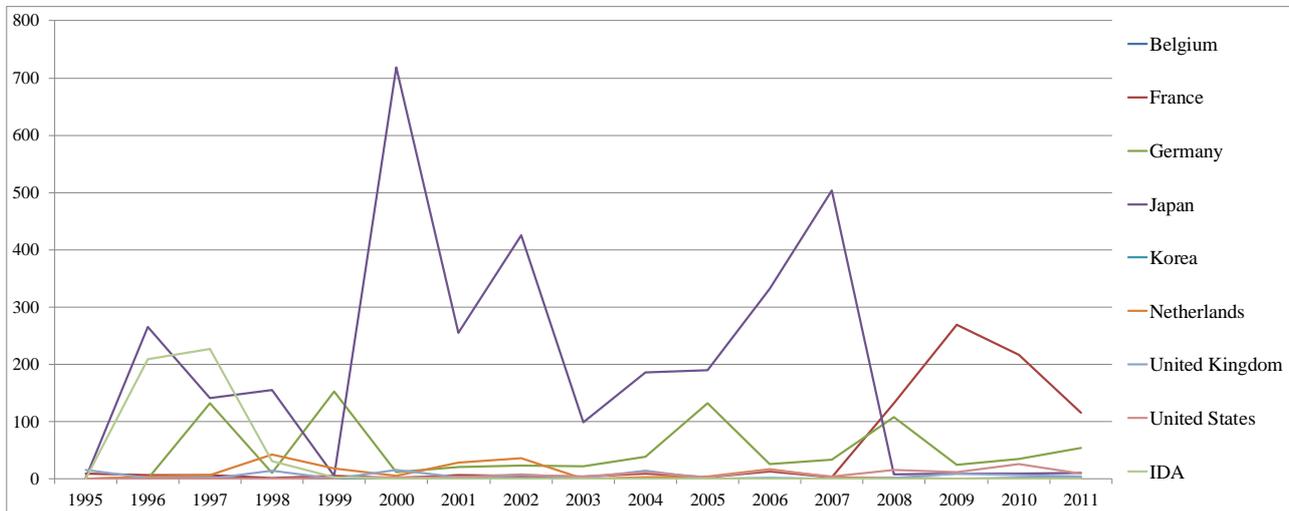


chart 17. ODA dedicated to the multi-sector in China from 1995 to 2011 by donor country, OECD

Japan is also the largest donor in the multi-sector, as we can see from chart 17, followed by Germany and then by France in the third position. Due to the issuing of Kyoto Protocol in 1997, and especially to the publication of the Economic Cooperation Program for China (that have among their main objectives that of sustainable development) Japan had invested large sums of money in China for the improvement of the Chinese environmental situation until the end of ODA loan programs in 2008. The low trend of Japanese investments between 1997 and 1999 is obviously caused by the Asian economic crisis of 1997.

Summarizing the conclusions extracted by the data above we can say that Japan was the largest provider of ODA to China (until 2008), while Germany was the second largest donor and France the third. Furthermore, we can see from the graphs the fundamental role performed by the ODA loans in the Japanese foreign aid toward China, as a matter of fact, in fiscal year 2008 there is a sharp decrease in the aid activities concerning every sector of Japanese ODA, which is due to the end of Japan ODA loan programs to China. On the other hand, the social infrastructures sector still continue to receive an acceptable quantity of ODA after 2008, because its finances also come in the form of grant aid.

COMPARISON BETWEEN THE JAPANESE ODA AND WORLD ODA IN CHINA

The Japanese way of investing its ODA funds in China is different from that of the other donor countries in the world, as a consequence, in this paragraph we are going to examine the conclusions that can be extrapolated from the data we saw in the previous paragraphs about the ODA of Japan and other countries in China.

The peculiarities of Japanese ODA

The main feature of Japan's ODA to China is that the largest quantity of funds was dedicated to the development of the economic infrastructures sector, and in particular to the subsector of transportation & storage, which according to the Japanese aid philosophy is the most vital one to ameliorate, since a developing country without a good transportation infrastructures system is blocked in the situation of underdevelopment. The efforts of the Japanese government in this field are clearly visible from the ODA projects realized in China by Japan during the period between 1978 and 2008, indeed, some of the largest project concerning transportation and storage development were implemented thanks to Japanese ODA. For instance, Shanghai Pudong International Airport, Beijing Capital Airport Terminal Area expansion, Beijing subway construction, Hangzhou-Quzhou expressway construction, Qingdao Port expansion, Dalian Port Dayao Bay construction, Shanghai Baoshan infrastructure improvement, etc. From the data below in chart 18, which are about the ODA funds invested in the subsector of transportation & storage by the countries analyzed in the previous paragraphs, we can see that Japan was the leading donor country in this subsector, except for a small period of German predominance in the year that preceded the Asian economic crisis of 1997.

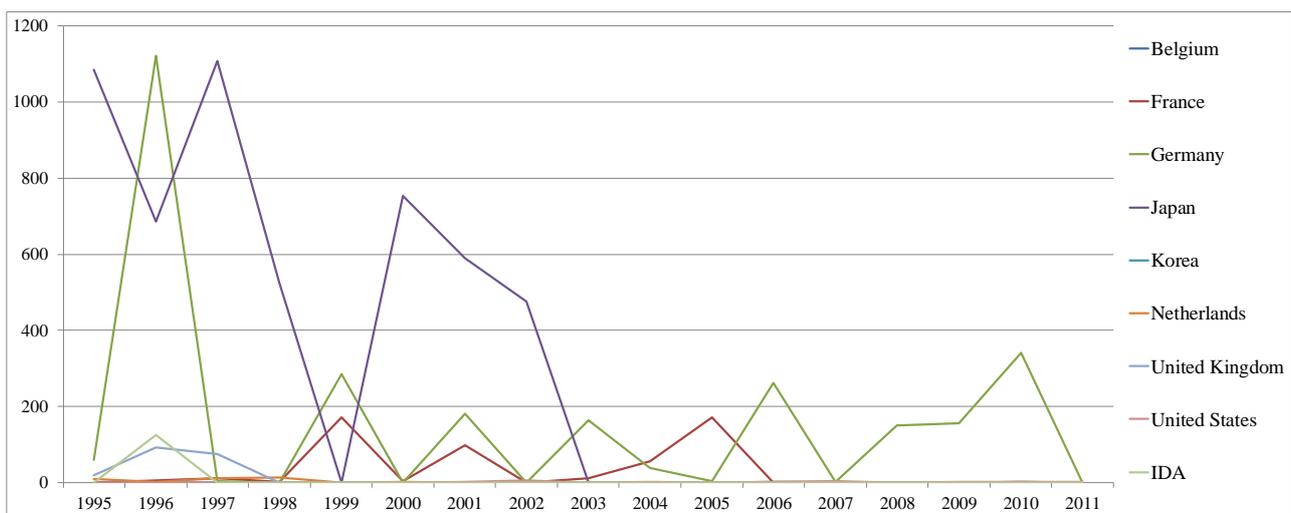


chart 18. ODA dedicated to the subsector of transportation infrastructure in China from 1995 to 2011 by donor country, OECD

The development of transportation infrastructures can be also directly connected with the needs of the Japanese industrial lobbies, who have an important role in the process concerning the concession of foreign aid, since the decision of Japan's industrial lobbies can influence the approval of an ODA project. Until 2001 the main objective of the Japanese industrial lobby in China was the creation of a series of exporting platforms in the Chinese ports through which the Japanese companies, who were producing in China or had delocalized one of their processes of production in China, could re-import their products to Japan or export them directly from China to Europe or the US. In this context, the existence of good transportation and storage infrastructures was a must for the operations concerning the transportation of goods from the Japanese factories to the Chinese seaports, the storing in the port's warehouse facilities and finally transportation to the overseas markets.

On the other hand, in 2001 China entered the WTO, thus providing an unique opportunity to the Japanese companies who wanted to enter in the Chinese internal market. In this framework, the Japanese government approved a revision of its ODA policy to China, the 2001 “Economic Cooperation Program for China”, promoting the development of Chinese social infrastructures, with an high focus on the development of human resources and environment protection, and a large support for the provision of assistance to China for the implementation of reforms concerning the marketization of the Chinese economy and the market related institutions building; thus, simplifying the procedures of access and establishment of the Japanese companies in China, and promoting the protection of the Japanese private sector activities. As consequence of these two events, the economic infrastructures sector lost its importance in favor of the multi-sector and the social infrastructures sector (as we can see from the previous graph about ODA sectorial allocation to China), that became the most relevant sector in order to support the Japanese private companies entering in the Chinese domestic market, an objective specified also in the guidelines for priority issues of the 2001 Economic Cooperation Program for China.

The Japanese Government continued to provide significant amounts of ODA to China in the sectors of social infrastructures and multi-sector until 2008, when after the abolishment of ODA loan programs to China, the quantity of ODA directed to this country reduced sharply.

The peculiarities of world ODA

The first thing we can notice about the ODA provided by the nations analyzed in the previous pages is that their ODA budget total amount is extremely inferior to the one provided by Japan, the unique donor who can stand a confront with Japan is the multilateral organization IDA, whose funds are quite relevant as well. Among the countries that were providing ODA to China in the period analyzed, the second largest foreign aid donor is Germany, while France is the third; this is a sign of the importance assigned by these two European countries to China for their future overseas businesses expansion strategy. Furthermore, is interesting to note that Korea had provided large amounts of ODA to China as well in recent years, even if compared to the budget of other bigger economies its contribution do not appear relevant.

Generally, we can see that the main peculiarity of almost all the nations that were providing ODA funds to China in the period between 1978 and the present has been the focus on the development of social infrastructures, with the sole exception of Japan and Korea.

According to their own aid philosophies, every country concentrated its aid activities in the sector it retained the most suitable. Germany considered the economic infrastructures sector and the social infrastructures sector both important, so that it invested large quantities of money in both. On the contrary, France emphasized the importance of French style education and alleviation of poverty in developing countries, so that it had utilized many of its ODA funds for the development of the sector of social infrastructures, and in particular education; as well as the UK did, with an additional emphasis on the role played by the instauration of a so called “good government” in aid recipient countries. On the other hand, the USA wanted to highlight the importance of health, population policies, food development aid and structural adjustment programs, so that it conceded the largest share of its ODA to the sector of social infrastructures and commodity aid. In the group of regional investors, Belgium and the Netherlands had preferred an action more focused on the development

of the social infrastructures sector, whereas Korea had adopted a model that resemble more to the Japanese one, granting most of the funds to the economic infrastructures, and in particular to the transportation & storage sector, thus following a logic that is typical of an export oriented economy.

JAPANESE AND WORLD FDI TOWARD CHINA: DATA ANALYSIS

There is one fundamental characteristic of the opening of the Chinese economy to foreign investments in 1978 that must be stressed, this is the fact that the process of opening of the economy was not instantaneous, but slow and highly gradual¹⁰⁴. The process of opening to foreign direct investments truly started in 1979 with the Equity Joint Venture Law, that consecrated the Sino-foreign joint venture as the only form of corporation through which it was possible to enter in China for foreign companies, however, since the Chinese partner had overwhelming advantages over the foreign partner, many companies were not satisfied about this form of FDI instituted by the Chinese Government. A second important step toward a more open FDI environment was the publication in 1986 of the Wholly Foreign Owned Enterprise Law, through which it became possible to constitute a foreign company in China without a Chinese partner¹⁰⁵; nonetheless, the form of foreign investment most utilized at that time was still the Equity Joint Venture, given that the favorable tax system and the low capital requirements for the constitution of this type of companies was quite affordable also for small and medium enterprises. In 1988 a further improvement of the joint venture system was implemented across the promulgation of the Cooperative Joint Venture Law, which resulted in the creation of a more free form of joint venture, since the cooperative joint venture was not considered by law a legal entity. Moreover, in 1994 a reform of the tax system applied to FDI generated a more advantageous environment for FDI, thus fostering an additional entrance of foreign capitals. Finally, with the entrance in the WTO of 2001, China started to align with the international standard concerning international trade and foreign investments.

The data concerning FDI flows from Japan and other countries to China, that we are going to analyze in these paragraphs are incomplete, considering that a large part of foreign investors entered (and still enter) in the Chinese market through falsified affiliate companies constituted in Hong Kong¹⁰⁶, in order to obtain more economic benefits, as Professor Cassidy affirms in his book:

FDI inflows are characterized by round tripping and overbidding. Round tripping FDI relates to the setting up of shell companies (usually poorly performing companies) through which FDI is channeled back into China to exploit policy benefits. Huang (1998) estimates this to be as much as

¹⁰⁴ Before the opening of the Chinese economy in 1978 only a few companies, mainly from Japan and the US, tried to do business in China, but, with poor results and sometimes even with losses, given that the investment conditions were extremely disadvantageous for foreign companies before the economic reforms of the end of the 70s.

¹⁰⁵ Even if the 1986 "Wholly Foreign Owned Enterprises law" permitted the creation in China of a foreign company wholly owned by foreigners, there were some restrictions concerning the size of the company, that had to have a very large stock of assets in its home country and a conspicuous capital to utilize in China, and limits regarding the tax exemption regimen which was usually granted to other foreign invested enterprises who entered China through a joint venture. As a consequence, only Multinational companies that can frequently satisfy these requirements were able to constitute a WFOE company in that period.

¹⁰⁶ In Hong Kong the legislation about the constitution of foreign enterprises is more permissive than the Chinese one, in addition, many investors think that entrusting their businesses in the hands of Chinese from Hong Kong (who are considered a bridge between the western and the eastern cultures) is more reliable in order to overcome the cultural barriers which can influence the success of a business transaction in China; thereby, many companies decide to enter through Hong Kong corporations in China.

32 per cent of Hong Kong inflows of FDI and 22.5 per cent of China's total FDI inflows in 1992. Overbidding means that because there is an excessive demand for FDI in China, the profits go disproportionately to the foreign partner, as they are negotiable.¹⁰⁷

Due to this phenomenon, some of the data that we are going to analyze in the following pages may present some ambiguities, given that a part of the FDI flows toward China coming from foreign investors are registered as FDI flows coming from Hong Kong:

Much of the FDI coming from Hong Kong in fact originates elsewhere in Asia (Lardy 1994). In 1997 Hong Kong's re-exports to the Mainland from the Asia-Pacific region amounted to HK\$ 358,6 billion (US\$ 46,3 billion) at current prices, representing 80,8% of Hong Kong's total re-exports to the Mainland. Major sources of re-exports to the Chinese Mainland from the region in 1997 were Japan (HK\$98,7 billion or US\$ 12,7 billion), Taiwan (HK\$ 75,8 billion or US\$ 9,8 billion), United States (HK\$ 46,2 billion or US\$ 6 billion) and the Republic of Korea (HK\$32,4 billion or US\$ 4,2 billion), all at current prices.¹⁰⁸

The collection of data concerning the total amount of FDI flows toward China divided by country has been easy, given that these data are present in the database of many international organization and government institution; on the contrary, data regarding the FDI flows toward China divided by sector and country of origin has been very difficult to collect due to the confidentiality of the data. As a consequence, for the total amount of FDI flows I can exhibit an almost complete series of data, while for the FDI flows divided by sector and country I can only present some data about Japan, gathered from the Japanese Ministry of Finance, and some observations concerning the other countries deduced from the considerations of experts.

FDI total amount by country

The data I cite below in chart 19 are about the total amount of FDI flows conceded by Japan, USA, France, Germany, UK, Belgium, the Netherlands and Korea¹⁰⁹ to China in the period between 1985¹¹⁰, and 2011. The data are taken from the electronic database of the OECD, and they are expressed in the unit of millions of US dollar, however, the year of reference is not specified by the OECD. In this case as well, I preferred to use the form of linear graph in order to make the data more comprehensible, situating the data tables in the appendixes; on the x-axis are represented the years of investment and on the y-axis the amounts of the investment flows, while on the right part of the graph we have the list of the countries present in the graph, which are symbolized by the use of different colors. In chart 19 there are some negative data, this is due to the phenomenon of disinvestment that characterized some of the countries examined; as a matter of fact, when the

¹⁰⁷ John F. Cassidy, *Japanese Direct Investments in China: locational determinants and characteristics* (New York & London: Routledge, 2002), 43.

¹⁰⁸ Cassidy, *Japanese Direct Investment China*, 54.

¹⁰⁹ The International Development Association and the Asian Development Bank, which I examined in the previous paragraph concerning ODA's data, do not provide FDI, considering that they are International Organizations; consequentially, I did not included them in the FDI data analysis.

¹¹⁰ Before the publication of the WFOE law in 1986 the quantity of FDI directed to China by the majority of foreign investors was quite modest, however, there was a group of countries (Japan, France, Germany, USA) who were already investing significant amounts of money in China; thereby, in order to see the quantity of FDI invested by these first investors, I also took in consideration fiscal year 1985 in the series of data above.

disinvestments of a country are higher than its investments the amount of FDI flows conceded in a specific year became negative¹¹¹.

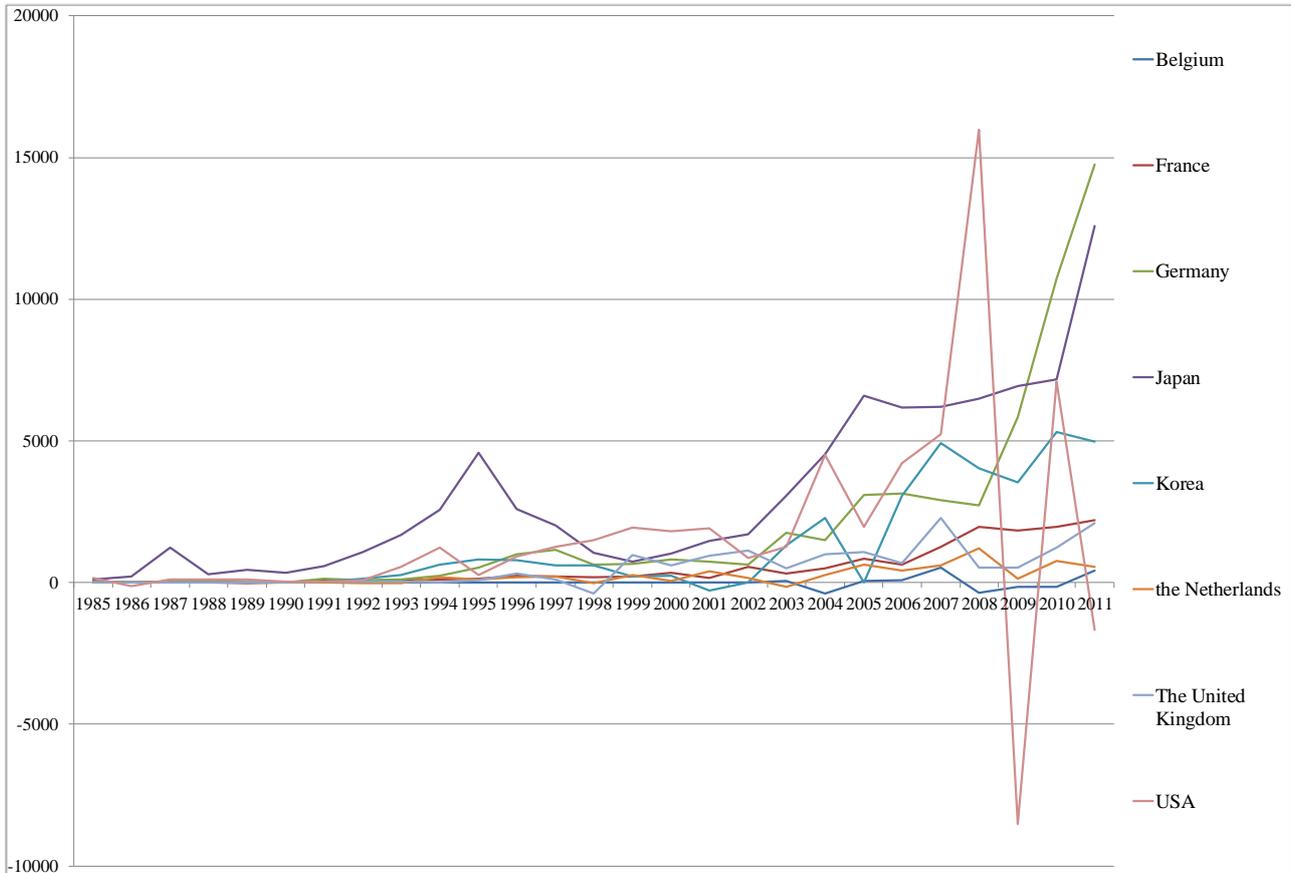


chart 19. FDI total amount invested in China from 1985 to 2011 by country, OECD

The first thing we can notice from the graph is the predominance of Japanese investments to China¹¹², except for the periods between 1997 and 2001 and from 2007 onward, when Japan became the second largest investor in China; in these periods the USA climbed up to the leading position and maintained it till the beginning of 2009, when Germany became the largest investor in China again followed by Japan. As a consequence, the second largest investor in China was the US, shortly followed by Germany in the third position; in addition, we can see that Korea also played a relevant role investing large sums of money in China, thus being the fourth largest investor, while the United Kingdom can be considered as the fifth largest investor and France the sixth.

The trend of Japanese FDI flows in chart 19 is characterized by four main peaks which are connected with some important events that strongly influenced Japanese investments in China. The first peak of investment is registered in fiscal year 1987, this peak is a consequence of the appreciation of the Japanese yen provoked in 1985 by the Plaza Accord; as a matter of fact, Japanese companies lost their competitiveness in favor of US companies in the international

¹¹¹ In the appendixes there is the detailed chart from which the data have been taken, with the precise amounts of FDI flows invested every year by the countries examined.

¹¹² Actually the largest investor country for all the period analyzed is Hong Kong, however, considering the phenomenon of “round tripping” explained above, I preferred to ignore data about the FDI of Hong Kong toward China, and concentrate more on the real investor countries.

markets¹¹³, as a result they decided to cut their production costs, thus allowing their products to be more competitive, through the delocalization of a part of their production processes in China (the direct consequence is the increase of FDI investment flows to China). The continuing devaluation of the US dollar implemented through the Plaza Accord was stopped in 1987 by the signature of the Louvre Accord, which temporarily ended the large overflow of Japanese FDI to China, as we can see from the graph with the fall down of Japan's FDI flows soon after 1987. The second peak of investments flow is in fiscal year 1995; this time again it is due to the appreciation that characterized the Japanese yen during the 90s, and in particular 1995 when the Japanese yen reached its highest level of appreciation, as Professor Cassidy noted:

Fundamentally, one of the main reasons for increased Japanese FDI over the period was the loss of competitiveness of Japanese products in export markets as a result of an appreciating currency. Japanese FDI inflows into China peaked in 1995 ahead of China reinstating tariffs on imported parts in 1996.¹¹⁴

As Professor Cassidy affirms above, in 1996 there was a new fall down of Japanese investments due to the end of the preferential tax system that had been applied by China since the opening of its economy to foreign companies, this is confirmed by the linear graph as well. Hereafter, the trend of Japanese FDI flows remained low for all the period of the Asian economic crisis, and restarted to grow only when China announced its entrance in the WTO; indeed, the peak of investments between 2004 and 2005 is a consequence of the renewed confidence of Japanese investors in the Chinese market that since 2001 has been regulated by WTO rules, thus providing to foreign companies a more transparent market and many profitable opportunities. From the beginning of the 2007 world economic crisis onward, the Japanese FDI flows to China did not diminished, on the contrary they continued to grow, and in 2010 they suddenly jumped up; this expanding trend of investment in the years of the world economic crisis was caused by the large number of Japanese investors that were abandoning Japan and the other foreign countries knocked down by the crisis in order to invest in China, as we can see from the great quantity of FDI flows this country received after the first period of the world economic crisis. Thereby, the main reasons for such a large flow of Japanese FDI to China starting from 2010 were costs cutting, in order to be more competitive on the international markets, and the possibility of earning large profits coming from sales in China, whose domestic market and purchasing power had not been undermined by the world economic crisis.

Even if in 1985 the FDI flows to China of the USA were higher than Japan, in the following years the quantity of American investments attested on a very low level, this negative trend lasted until fiscal year 1992 when the FDI flows toward China restarted to grow. From 1992 onward the US FDI are characterized by an unstable flow of funds, especially during the years of the world economic crisis; this is clearly visible in the period between 2008, 2009, 2010 and 2011, when FDI flows from a peak of 16000 million dollars in 2008 collapsed to minus 8500 million in 2009, and then again sharply rose to 7000 million dollars in 2010, only for dropping another time to minus 1600 million in 2011. The escape of US capitals from their national territory toward China in 2008

¹¹³ One important premise that must be done in order to understand the matter is that Japan has an economy which depend deeply from exports of Japanese products to foreign countries, so that the loss of competitiveness in the international market represented a great danger for Japan, and for this reason it had to be avoided.

¹¹⁴ Cassidy, *Japanese Direct Investment China*, 100.

and 2010 is quite arguable, once more time on the base of the pattern of a costs cutting strategy and on the base of the attractiveness of the Chinese domestic market; nonetheless, the large disinvestments that characterized fiscal years 2009 and 2011 are also a sign of the bad economic conditions of many US companies who had to retreat from China, possibly owing to the bankruptcy of their parent companies or to the further delocalization in less expensive developing countries presenting an extremely low cost of labour. Another reason that could have forced US FDI to retreat is the problem that American companies producing in China had only exported one of their processes of production in the Chinese territory, such as assembling or manufacturing one specific part, while other foreign companies (who did not disinvested) had transferred their whole production system in China (most notably Japanese, and Korean companies), so that they were more competitive and more prepared on the economic front to face the world economic crisis of 2007. On the contrary, the US companies that were still reluctant to move all their production to China were bankrupted by the crisis, and compelled to withdraw a part of their FDI from China.

Germany is one of the first four countries that were investing in China in 1985, as we can see from the data in the appendixes, thus revealing the importance that China has been performing in the German economic expansion strategy already in the 80s. Nevertheless, the quantity of German investments was quite small at the beginning, indeed, the amount of German FDI flows started to distinguish for its magnitude only from fiscal year 1994, registering a peak in 1997. After a period characterized by a stable trend of FDI flows, we can see a new increase in German investments corresponding to the entrance of China in the WTO in 2001; the direct result was that the regulations of the WTO concerning the prohibition of the imposition of discriminatory taxes on German products (and more generally on foreign products, in order to promote Chinese national products) permitted German goods to acquire more competitiveness in the Chinese domestic market, thus augmenting chances for profitable opportunities. Consequentially, from 2002 to 2008 there had been a continuous growth of German FDI toward China, interrupted only by a soft decline at the beginning of the world economic crisis; in addition, in fiscal year 2009 a real outburst of German FDI flows to China was recorded, probably for the same reasons concerning the cutting of labour costs and the possible profits coming from the penetration of the Chinese domestic market, that we saw for Japan as well. As a matter of fact, being Germany a country whose economy is strongly export oriented (as the Japanese one), it is arguable that the Chinese domestic market represented a unique opportunity with its immense purchasing power for the expansion of German products in Asia. The absence of peaks of disinvestment in the data about German FDI flows tell us that Germany has adopted a better approach for its entrance in the Chinese market than the US did. Furthermore, we can notice that the tendency of the German FDI flows is quite similar to the Japanese one in the last period of the graph, thus adding one more affinity to the already spoken ones.

The first thing that we have to say about Korea is that as Japan and Germany its economy intensely rely on exports, as a consequence, China has become one of its main exporting platform to Europe and the US, as well as one of its main target markets:

One of the basic features of Korean FDI to China has been the focus of Korean affiliates in processing trade and international production fragmentation. It suggests that Korean firms are

utilizing China as a production base for processing trade apart from local market potential of China (Lee and Lee, 2002).¹¹⁵

Indeed, many Korean Multinational companies produce in China and lay a great emphasis on the Chinese domestic market. Nonetheless, Korea started to invest in China only from 1989, according to data from the OECD, which is a bit late if compared with the other countries analyzed in the graph. At the beginning Korean FDI flows were not large, but, we can see that starting from 1992 until the outburst of the 1997 Asian economic crisis, the investments made by Korea in China increased a lot, sometimes reaching almost the same level of the US and German ones. In the years of the Asian economic crisis the investments of Korea were sharply declining, but, in 2003 after the entrance of China in the WTO they suddenly burst up to 1300 million, for then falling again in 2005. After 2005 the Korean FDI flows to China restarted to expand, attesting more or less on the same level of the second and third largest investors in China, but then they fell again during the first three years of the world economic crisis of 2007, for then rising one more time in 2009 and stabilizing on an average of 5000 million in 2011. According to these data the tendency of Korean FDI flows to China can be described as rather unstable, given that Korean FDI flows are strongly influenced by external economic factors; this feature make the trend of Korean FDI flows resemble to that of the US, even if the irregularity in the flows of investments is more critical for the USA during the years of the world economic crisis.

The United Kingdom and France started to invest substantial amounts of money in China only since the end of the 90s, then after the 2001 WTO turning point they further enhanced their FDI flows to China, taking advantage from the new investment environment instituted by the regulations of the WTO. Moreover, we can say that the trend of French and British investment flows to China is rather similar after the entrance of China in the WTO, apart from a more stable flow of FDI that characterize the French investments against an irregular British one. One interesting thing to notice is that if we compare these two countries with the largest investors, we can see that the FDI flows of France and the United Kingdom are relatively small, despite the large size of their economies; this is possibly due to the tendency of these two ex-colonial empires to concentrate most of their investments in their ex-colonies rather than in China.

From table 19 (see the appendixes) concerning the data illustrated in chart 19 above, we can notice that before the 1986 WFOE law, only France, Germany, Japan and the USA were investing in China, but, while France and Germany were throwing just small amounts of FDI in China, the US and Japan were already dedicating a significant amount of funds to this market, thus showing us the relevance of this developing country for them.

In the period analyzed in chart 19 are registered four main peaks of Japanese investments, in fiscal year 1987, 1995, 2005 and 2011, while for the US peaks of investment are present in 1994, 2004, 2008 and 2010; Germany FDI peaks are visible in 1997, 2003, 2005 and 2011, whereas for Korea are in 2004, 2007, 2010, for the UK in 1996, 1999, 2002, 2005, 2007, 2011 and for France in 2002, 2005, 2008, 2011. The largest number of investment peaks for all the countries in the data is recorded after the entrance of China in the WTO, which is a vital turning point for the

¹¹⁵ Nimesh Salike, *Determinants of Foreign Direct Investment Inflows in Asia: the impact of China on FDI attracting ability of other Asian economies-an analysis of pre & post crisis Japanese FDI-* (Saarbrücken: LAP LAMBERT Academic Publishing GmbH & Co. KG, 2012), 116.

improvement of investments conditions in China; as a matter of fact, when China implicitly admitted it was ready to respect the international regulations concerning the foreign investments and foreign trade, and thus adapting to the international standard, many companies acquired more confidence within the Chinese market and increased their investments in China, as we can see from the outburst of FDI that followed to fiscal year 2001. We can observe that for all the countries represented in chart 19, excluding the US and Belgium, the trend of FDI investment has been continuously growing from fiscal year 2001 onward, in particular after the outbreak of the 2007 world economic crisis, the level of FDI directed to China begun to increase even more rapidly. This is probably a consequence of the delocalization realized by many companies operating in the countries hit by the economic crisis, who decided to cut on labor costs and other fields exporting a large part of their production processes in China, in order to acquire more competitiveness. The irregular trend of investment and disinvestment that distinguish the US and Belgium from the other countries, in particular after the beginning of the world economic crisis of 2007, is quite interesting, indeed it may be a sign that these two economies had been hit harder than the others by the crisis.

FDI sectors of investment by country

As said before, the data about the FDI flows by sector and country of origin are quite difficult to collect, due to the problem of data confidentiality; for this reason I have been able to collect only a bundle of data on Japan, while for the other countries I will borrow some considerations of experts on this argument.

Starting with an analysis of the sectors most invested in by Japan, Professor Cassidy affirmed that in the first years soon after the opening of the Chinese economy of 1978, the main sector of Japanese investment was the service sector, shortly followed by others manufacturing sectors. Indeed, the first three Japanese companies that were operating in China in 1981 were a leasing company, a shoe manufacturing company and a TV manufacturing plant¹¹⁶. Furthermore, Professor Cassidy noted that in the 80s even if the service sector was continuing to attract the largest part of Japanese investments with Beijing as its main pole, the construction, the electric & electronics and the textile sectors were enjoying as well many FDI, concentrating in particular in the zone of Shanghai and in the region of Guangdong. From fiscal year 1989 until fiscal year 2004 I found the data showed in chart 20 below, concerning the sectorial investments of Japan in China, which are taken from the Japanese Ministry of Finance; the unity utilized for representing the amount of investments correspond to 100 million yen (the year of reference is not specified).

¹¹⁶ Cassidy, *Japanese Direct Investment China*, 103.

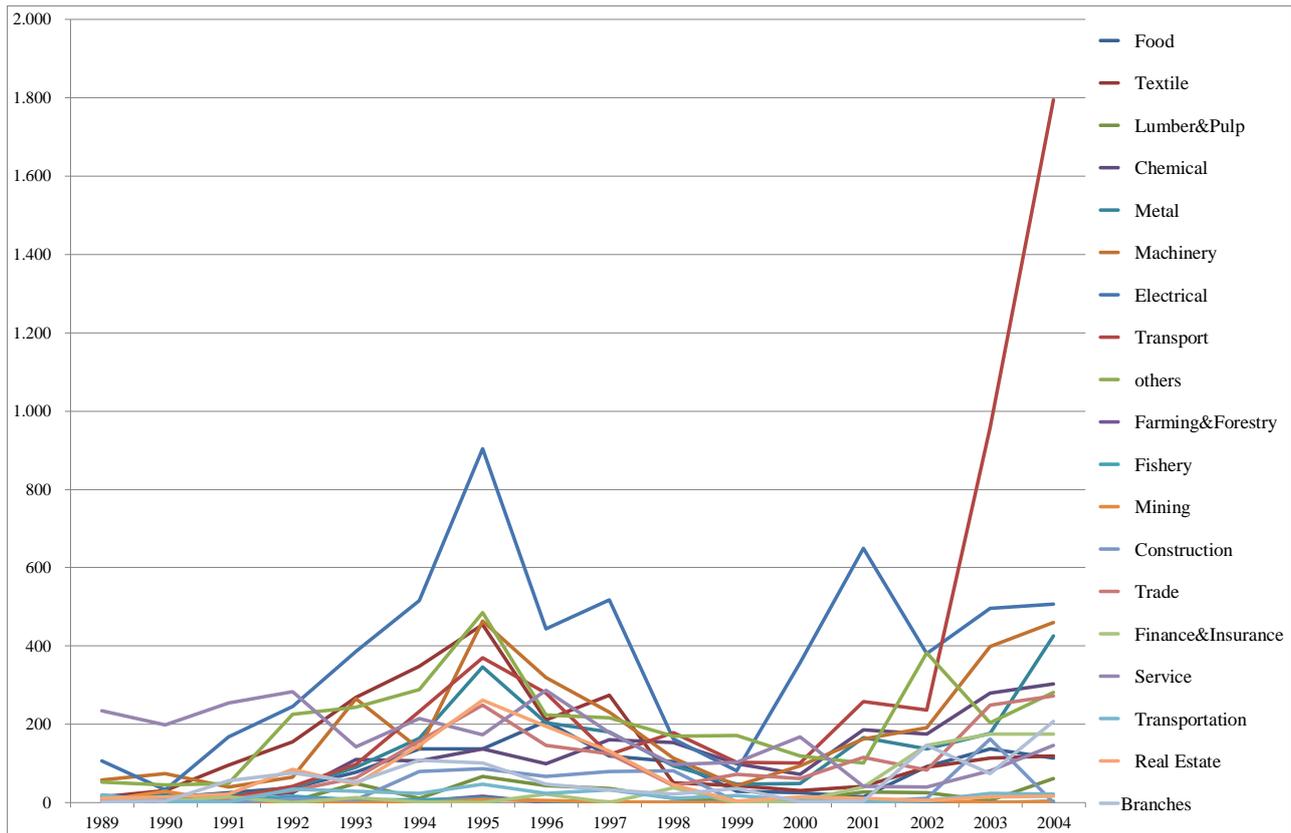


chart 20. FDI sectorial allocation of Japan in China from 1989 to 2004, MOF

As we can see from the first part of the graph until fiscal year 1992, the service sector as said before has been predominant, followed in the second position by the electric & electronics sector and in the third by the machinery and the textile sectors. The 90s and the first three years of the 2000s until 2002 were the years of the supremacy of the electric & electronics sector, apart from a small period of predominance of the transport sector between 1998 and 1999; till 1998 the place of second largest recipient of Japanese FDI in China was occupied by the textile sector, even if its position was challenged by the machinery sector and the transport sector in the second half of the 90s. In this framework, the service sector continued to maintain a high share of FDI for all the 90s attesting more or less on the position of fourth largest recipient of Japanese FDI, but, after fiscal year 2000 investments in this sector declined a lot. Starting from fiscal year 2002 the transport sector, which is mainly composed by the automotive industry, jumped up to the position of first recipient of Japanese FDI, thanks to the large investments made by the three biggest automobile producers of Japan in China; in particular, Toyota in Tianjin¹¹⁷, Honda in Wuhan, and Nissan in Zhengzhou. The automotive sector maintained this highly positive trend of investment until the end of the period analyzed in the graph and during all the 2000s:

...in 2000s, automobile industry became a major industry for Japan's outward FDI.¹¹⁸

Furthermore, the transport sector is probably still receiving many FDI in the present days as well, given that the automotive sector is one of the biggest sector of investment for Japan in China. The

¹¹⁷ In 2002 Toyota signed a strategic cooperation agreement with Tianjin FAW, one of the three biggest state-owned automobile companies of China, acquiring a large part of the company share holdings and giving life to the Tianjin FAW Toyota Motor Company Limited.

¹¹⁸ Salike, *Determinants Foreign Direct Investments*, 111.

sector of electric & electronics gathered the second largest share of FDI from 2002 till the last year of the graph, whereas the machinery sector climbed up to the third position again; on the contrary, the textile sector lost much of its importance in favor of the two sectors of metal and chemical that became the fourth largest recipients of Japanese FDI in the last part of the graph. The sector belonging to the manufacturing activities classified as others always received very large shares of FDI in the period analyzed in chart 20, but, given that we do not know the composition of this sector I preferred to ignore it in the above analysis, even if it is one of the largest recipients. From an overall analysis of the data I found, we can see that the 80s had been the years of predominance of the non-manufacturing activities, with the sector of service in the leading position, while starting from the beginning of the 90s until 2004 (and still nowadays) the manufacturing activities have been prevalent on the non-manufacturing activities, with the sector of electric & electronics, textile, machinery and transport in the highest positions. For data concerning the period between 2005 and the present I couldn't find data in any of the Japanese institutions or international organizations that I examined, however, it is arguable from the type of investments made by Japanese companies in China that the main sectors of investments are still concentrated in manufacturing related activities, because of the comparative advantage that the manufacturing sectors present in China, due to the lowness of the costs of labour. According to my researches the main sectors of Japanese investments for the manufacturing sector in recent years have been the automotive industry, the pharmaceutical industry, the chemical industry, the food processing industry and the IT industry; whereas for the non-manufacturing sector the main sectors of investments have been finance & insurance, trade and real estate.

Regarding the other countries for which I was not been able to collect any data, I try to report here some observations about their investment sectors in China. Generally, according to professor Cassidy, the sectors that received the largest quantity of investments in China were usually connected with the exploitation of natural resources (especially in the first two decades after the opening of the Chinese economy) and with manufacturing activities, given that this is one of China's biggest comparative advantages, owing to the lowness of its costs of labour. As a matter of fact, as professor Cassidy say in its book:

...the main investments based on contracted FDI for 1992 were in the electronics and electrical machinery sector, which was the main sector for investment by Hong Kong, Taiwan, United States, and Europe. ...De Bruijn and Jia (1993) also note that US and European companies have in the main invested in automotive, chemical, machinery, and coal industries.¹¹⁹

One fundamental aspect of the investments of US and European countries in China is that their FDI had always been mainly concentrated in the manufacturing sectors; indeed, their investment strategy usually relied on the exploitation of the cheap Chinese cost of labour, in order to produce a more competitive product to be exported or re-exported (in case of assembly) and sold in their domestic markets, as a result, their investments in the non-manufacturing sector are very low. On the contrary, the sectorial investments of Japan and Korea has been different from the majority of the other investors, given that these two countries have an economy strongly focused on the exports market, thereby, they pay more attention to the international markets than their own domestic one. As a consequence, the investment strategy of Japan and Korea was quite peculiar, since through their FDI they also promoted the development of non-manufacturing sectors in China, in order to

¹¹⁹ Cassidy, *Japanese Direct Investment China*, 57, 58.

improve the Chinese infrastructures and services, thus creating a more favorable environment for the management of their exporting platforms in China.

COMPARISON BETWEEN THE JAPANESE FDI AND WORLD FDI IN CHINA

As seen from the data above, the FDI of Japan and the other countries tend to concentrate in the manufacturing sectors, exploiting the cheapness of the Chinese costs of labour, however, the investment strategy of Japan present many differences from the other countries.

The peculiarities of the Japanese FDI

The Japanese economy depends deeply from its exports, so that Japanese investors had been constantly forced to try to maintain the competitiveness of their products on the export markets; as a consequence, Japanese companies delocalize their production in countries where they have comparative advantages. In this framework, China is one of the best choice for Japan's FDI, since it present many advantages such as: low cost of labour, low cost of transportation, geographical proximity, richness in natural resources, good percentage of the population who can speak Japanese, increasing percentage of qualified workers, etc. The investment strategy of Japan in China had changed much since the opening of the country in 1978, indeed, at the beginning Japanese foreign invested enterprises were entrusting only the production of components to China (as for the electric & electronics components), for then re-exporting their products in Japan and sell them in the international market; but, following the continuous improvement of the Chinese investment environment as well as the increasing high level of qualification of the Chinese working force, Japanese companies slowly started to move their entire production process to China, at the beginning maintaining Japanese suppliers, and later supplying locally. In this background, China, and in particular Chinese seaports were transformed into exporting platforms for Japanese products toward Europe and the US. This type of investment strategy is advantageous not only for the Japanese investors, but also for the host country's economy, since it generates a process of transmission of knowhow to the local labour force and to the local companies, especially if, as in the Japanese case, the FIEs (Foreign Invested Enterprises) adopt local suppliers and delocalize the entire process of production. Therefore, this kind of FDIs are not merely seeking to exploit low costs of production in China, but they also aspire to improve the Chinese investment environment, through the enhancement of Chinese economic infrastructures and the further development of the Chinese human resources.

The same strategy had been followed by all the countries that rely on an export oriented economy, and are geographically near to China or maintain good economic relationships with China, which mainly are Korea and Germany in part.

The peculiarities of World FDI

The FDI of the other countries analyzed in the data present many similarities with the Japanese investment strategy of the first times, but, while Japanese FIEs in a second time changed direction in favor of a more complete process of delocalization, the other countries continued just to produce components or exporting the assembling processes in China. This kind of investments cannot produce the effect of transmitting knowhow to the hosting economy (or at least can only partially transmit knowhow), given that only one of the processes of production is implemented in loco,

while the most vital and important parts are done in the country of origin of the FDI. As a result, we can say that this type of FDIs are aiming at the sole exploitation of cheap labour costs in China and no more.

FOCUS ON THE CHARACTERISTICS OF THE JAPANESE INVESTMENTS: FROM THE EXPORT ORIENTED STRATEGY TO THE CHINESE INTERNAL MARKET PENETRATION STRATEGY, THE ROLE OF ODA AND FDI

In the previous paragraphs we saw data about the ODA and the FDI that Japan and the other countries had provided to China in the period that more or less goes from the opening of the Chinese economy in 1978 to 2011; now I would like to say something more specific on the main topic of this paper, which is the relations between the ODA and the FDI that Japan invested in China during the same period.

The ODA investments of Japan in the economic infrastructures sector has been vital for the construction of a good and functioning investment environment in China, able to accommodate Japanese foreign direct investments that followed. The primary objective of the official development assistance dedicated to economic infrastructures was that of building an efficient transportation network that could allow Japanese products or raw materials to be transported from the production facilities or the extraction sites to the nearest seaport, in order to be imported to Japan (in the first period), or to be exported to third countries (in the second period). Under this background, the construction of transportation infrastructures (railroads, express highways, seaports, airports, warehouse facilities, etc.) was intensely implemented by Japan for all the 80s and the 90s, then it started losing its importance during the 2000s, until 2008 when the ODA loan programs to China (which mainly concerned economic infrastructures) were abolished. The intervention of the Japanese government in these sector facilitated the entrance of Japanese capitals which were utilizing the Japanese ODA built infrastructures, in particular Chinese seaports, as exporting platforms to Japan or third countries; these types of ODA and FDI investments were producing benefits not only for the Japanese private sector and Japanese economy, but also for the Chinese private sector and Chinese economy. Indeed, the transmission of knowhow operated by the Japanese FIEs together with the possibility of utilization of the Japanese built infrastructures gave to the Chinese economy a great incentive for a faster and better economic development. The entrance of China in the WTO in 2001 provoked an important shift in both the FDI and ODA policies of Japan; as a matter of fact, in 2001 the Japanese Ministry of Foreign Affairs published a document called “Economic Cooperation Program for China” that established the future trends of Japanese investment to China. Among these recommendations for the future, the support that ODA had to provide to the Japanese private companies that want to enter in the Chinese domestic market was strongly underlined, as well as were stressed the main targets of the future ODA policy for China, which were the development of activities connected with the protection of the environment, the development of human resources, the institution of a market economy etc. These two events (WTO entrance & MOFA document) are considered the turning point for the Japanese investment strategy in China; as a matter of fact, ODA, which until that time was principally directed to the economic infrastructures, was reoriented toward the development of social infrastructures, whereas FDI, that till 2001 were mainly focused on the export market, were redirected to the penetration of the Chinese domestic market. The main objective of the Japanese private sector passed from the export toward third countries, through the Chinese exporting platforms, to the exports and sales toward

China itself; this shift was mainly instigated by the new rules concerning the non-discrimination of foreign products that China had to respect as a member of WTO. In effect, these regulations allowed Japanese products to be sold in China with a more competitive price than the past, when a flood of taxes were raising up the price of Japanese goods; as a consequence, given that China had an enormous market potential and it was geographically close to Japan, many Japanese companies sensed the opportunity for large economic earnings (indeed China is today the largest trade partner of Japan). In relation to these changes, the Japanese foreign aid officials in agreement with the Japanese Industrial Lobbies and the Japanese Government started to provide to China more ODA directed to the improvement of the Chinese industrial environment (human resources, anti-polluting infrastructures, urban development, water supply systems, etc.) in order to simplify the establishment of Japanese companies and Japanese nationals in the Chinese territory, that was still characterized at that time by an high level of underdevelopment, and build a functioning market economy, in which Japanese companies could have expanded their businesses. In conclusion, we can say that the coexistence of a new ODA policy pushing for the development of social infrastructures together with the needs of the Japanese industrial lobbies who wanted to make profits in the Chinese internal market produced a big deviation in Japan's China policy. Nonetheless, it has to be said that even if the main target of Japanese FDI changed into the Chinese domestic market, the market of exports to third countries conducted through the Chinese exporting platforms continued to play a vital role in the Japanese investment strategy as well.

The successful cooperation between FDI and ODA investments led to the formation of a series of Japanese industrial clusters in some of the most important cities of China, such as Tianjin, Shanghai and Dalian, where Japanese companies produce for both the international markets and the Chinese national costumers.

ODA Donor Countries	Logics of ODA Investment	Characteristics of ODA to China
Belgium		-Focus on the development of social infrastructures and partially of economic infrastructures
France	-Being an Ex-Colony of the French Empire -Focus on the promotion of the French culture and French style education for the population of the recipient countries	-Focus on the development of social infrastructures
Germany	-Balanced geographical and sectorial distribution of foreign aid, with a light tendency to favour the countries providing economic advantages to	-Focus on the development of economic infrastructures in the first period and on the development of social infrastructures in the second

	Germany -Focus on the development of economic & social infrastructures and environment protection	period
Korea	-Being a functional location for the production outsourcing of Korean companies -Focus on the construction of economic & social infrastructures	-Focus on the development of economic infrastructures, in particular for the creation of a modern investment environment in China, in order to favour the entrance of Korean companies
The Netherlands		-Focus on the development of social infrastructures and partially of the production sector
UK	-Being and Ex-Colony of the British Empire -Focus on the alleviation of world poverty, instauration of a “good government” in developing countries, and promotion of education and democratization	-Focus on the development of social infrastructures
USA	-Importance of the developing country for the USA Global Strategy, as a supporter of American political ideals of freedom and democracy -Focus on the promotion of structural adjustment reforms, marketization of the recipient economy, food aid and health	-Focus on the development of social infrastructures, and partially on commodity aid

Chart 21. ODA general investment logics and characteristics of ODA to China of the donor countries analyzed in Chapter three

Chapter 4. Japan's contribution to Chinese development

HISTORY OF JAPANESE INVESTMENTS TO CHINA

Through an analysis of the history of Japanese investments (ODA and FDI) in China is possible to see how Japan's interventions improved the investment environment of China, and accelerated the process of economic development of this country, bringing at the same time advantages to Japanese investors as well. In the following pages I will try to reconstruct the history of Japan's investments from the point of view of ODA and FDI, collecting examples from foreign aid projects implemented by the Japanese Government and from the investments made by the Japanese private companies in China.

Official Development Assistance

According to different Chinese scholars¹²⁰, the foreign aid projects of Japan for China started in the 70s (after the 1972 normalization of Japan-China diplomatic relations), with a series of meetings involving the highest officials of the two governments, who in 1974 signed the first of a series of commercial accords concerning the trade relationships between the two countries. The main theme of these agreements was the Chinese supply of oil and coal to Japan in exchange of the procurement of extracting and refining facilities and transportation infrastructures to China, who was very poor in it. Thanks to these first trade dealings, Japan was able in 1977 to import the 42% of its oil national demand directly from China and a consistent part of its coal demand as well; furthermore, in 1978 an additional accord was signed between the two governments planning a future expansion of Japanese energetic sourcing from China, and a consecutive Japanese provision of economic infrastructures to China. The Chinese scholars of whom I spoke at the beginning of the paragraph say that these requests of China for the development of its national economic infrastructures, in order to provide raw materials to Japan, are the starting point of the Japanese ODA programs to China.

An important turning point of the history of Japanese ODA to China is fiscal year 1982, when the Japanese Prime Minister Suzuki Zenko paid an official visit to Chinese leaders in occasion of the celebration of the ten years of the normalization of diplomatic relations between China and Japan (1972). At his return to Japan, Prime Minister Suzuki issued a document concerning the directions for the future development of Japan's investments in China during the 80s. The main objectives for the future investment policy of Japan were: first of all, the construction of a series of exporting platforms in Chinese seaports, secondly, the increase of the export capacity of China, thirdly, the enhancement of the number of Japanese FDI in China, and lastly, the development of Chinese industrial infrastructures through Japan's ODA projects. As seen in the previous chapters this Japanese investment policy remained valid for all the period that goes from the beginning of the 80s to the entrance of China in the WTO in 2001.

In correspondence to the publication of the ODA Charter by MOFA in 1992, a study mission to China was organized by JICA in order to improve, through a field study, the quality of the Japanese ODA interventions in China; the mission was led by the famous Japanese economist and politician

¹²⁰ I refer to the authors of three of the books that I used for my thesis, in particular to Jin Xide, Lin Xiaoguang and Wang Kun.

Okita Saburo. According to what Chinese officials illustrated to JICA experts, the most negative phenomenon affecting China at that time was the large gap existing between the economic prosperity of the Chinese coastal cities and the extreme poverty that characterized the Central and Western provinces of China; under this background, Chinese officials solicited a larger commitment by Japan to develop the economy and improve the living conditions of the Central and Western regions of China. After different months of study, the mission returned to Japan and published a report which established the guiding principles for the implementation of ODA projects in China. The fundamental guidelines expressed in the report were that Japanese ODA projects in the Chinese coastal cities had to concentrate on the development of economic infrastructures, through the instrument of ODA yen loans; while Japanese ODA interventions in the Central and Western provinces of China had to focus on the development of social infrastructures, in particular agriculture, health, human resources, environmental protection, etc., through the instruments of ODA grants and ODA technical cooperation. Since its publication in 1992, these guidelines were applied for all the period Japan conceded Official Development Assistance to China. However, the need for reducing the development gap between the Chinese coast and the hinterland, promoted in China's seventh and eight five year plan, provoked a shift in the Japanese ODA doctrine illustrated above; so that, starting from the fourth yen loan to China, ODA loan projects for both the development of economic and social infrastructures in China's Central and Western regions began to be implemented as well.

Being inspired from the Kyoto Protocol, the 1997 "Japan-China environmental cooperation toward the 21st century" marked an important step in the Japan's history of official development assistance toward China, since it established the "environmental information network" and the "environmental development model city" programs for China. The former is a system to gather information about the pollution of the environment and draw the measures necessary to control and reduce the phenomenon; while the latter is a project for the reduction of contamination in some of the most polluted but economically important cities of China (we are going to see an example in the following pages). These projects were implemented with the help of Japanese technical cooperation, and through ODA loans funding; so that, they can be considered as a special type of environmentally related ODA loans designed on the basis of Chinese requests.

The "Earnest Talks for the reform of ODA facing the 21st Century" is another fundamental passage in the history of Japanese ODA to China; indeed, during these meetings held in 1998 in Tokyo by the new Cabinet of Prime Minister Obuchi Keizo, was stated the need for reforming the Japanese ODA system after the 1997 Asian Economic Crisis, in order to improve the transparency and efficiency of Japanese ODA. One of the direct consequences of these talks was the 2000 shift in the Japanese ODA policy toward China, with the so called "China soft containment" policy¹²¹, which was aiming at controlling the uncontrollable Chinese development through the instrument of official development assistance. This shift in the old Japanese ODA policy toward China was due to the changed economic situation that characterized Japan at that time; as a matter of fact, while China had a fast developing economy, the Japanese one was stagnating due to the 1997 Asian Economic Crisis, so that, China was transforming into a competitor for Japanese products in the Asian as well as in the international markets. As a consequence, Japan decided to use ODA as a

¹²¹ This concept and the related theory are taken from: Kun Wang, *The strategic thinking of Japanese ODA to China, and its influence on the Sino-Japanese Relations* (Beijing: Zhongguo Shehui Kexue Chubanshe, 2005), 135-137.

weapon for limiting Chinese economic development; first of all, by partially cutting the ODA budget for China in the 2000s, and second, by promoting a stronger support for Japanese private companies operating in China. The process of transformation of ODA toward China was further accelerated by the election in 2001 of the extreme right wing Prime Minister Koizumi Junichiro, who urged for an additional reduction of the Japanese ODA funds destined to China, calling for a general revision of the China ODA policy; the 2001 Economic Cooperation Program for China was the direct result of this new ODA policy for China. These changes in the Japanese ODA policy toward China were a consequence of the new climate surrounding the Japanese economy and the Japanese ODA system, that bring to the 2003 Japanese ODA reform, which was also an answer to the Japanese population discontent, lamenting a carelessness of the Japanese government about the Japanese national problems, in favour of an exaggerated attention to developing countries.

After the 2001 shift in Japan's ODA policy toward China, the new objectives of Japanese yen loans for China until 2008 become the development of social infrastructures, the protection of the environment, and the support for Japanese companies operating in China; so that new ways of supporting Japanese private companies came out from this situation, in alternative to the old way of fostering the development of local economic infrastructures. As a matter of fact, starting from the issuing of Kyoto Protocol in 1997, China had guaranteed favourable investment conditions to foreign companies helping her to reduce the carbon dioxide emissions; as a result, Japan implemented many ODA project for the improvement of China atmospheric environmental conditions, so that Japanese companies could use the ODA built environmental infrastructures in order to operate in the Chinese market, thus obtaining a more favourable tax treatment from the Chinese government. Concerning the development of social infrastructures, is interesting to see the example provided by the sector of education; indeed, the development of Chinese human resources, through ODA loan projects for higher education, was fundamental for Japanese companies in order to acquire a cheap but skilled working force, thus improving their products competitiveness.

Finally, in fiscal year 2008, the Japanese Government definitively cut yen loans to China, on the basis that China had already reached a high level of economic development, transforming in Japan main adversary in the international markets, so that it no longer need any economic support from Japan. The intention of entirely cutting the ODA loans to China was suggested before by Prime Minister Koizumi in 2004 for the first time, however, the precise date of ending was not specified at that time. In this background, the various events that took place between 2004 and 2008, such as the 2005 violent Anti-Japanese demonstrations in China, the ascending role of China as an ODA donor country, the 2008 Beijing Olympic Games, and the presence of a radical right government in Japan in 2007 with the first Cabinet of Prime Minister Abe Shinzo, had strongly influenced the decision of Abe's Foreign Affairs Minister Machimura Nobutaka, who announced the definitive cut of ODA loans to China starting from fiscal year 2008¹²². On the other hand, Japanese technical cooperation and ODA grants to China continued after 2008, also thanks to the victory in the Japanese elections of 2009 of Prime Minister Hatoyama Yukio of the Democratic Party of Japan, great supporter of Japan-China friendly relations; nonetheless, due to the small amount of money that characterize these projects, their effect on the recipient economy compared to yen loans programs was very small.

¹²² The possible causes that provoked the end of Japanese ODA loans to China are taken from: Kusano, *Why Japan helps Developing Countries*, 206-215.

Japan, according to its ODA system described in chapter four, decided to develop the Chinese economy through the provision of yen loans; in this framework, according to the Chinese state planned economy, that is centered on the succession of five year plans, Japan at the beginning started to provide yen loans basing on a five year plan criteria as well. The first yen loan was scheduled for fiscal year 1979, and it was followed by three more yen loans conceded every five years (1984, 1990, 1995) until the publication in 2001 of the “Economic Cooperation Program for China”, which established that yen loans had to be conceded on an annual basis, given that the changes in a fast developing economy such as China were too radical to be predicted five years in advance.

In the following pages I will list all the ODA loan projects implemented by Japan in China until the end of yen loans to China in 2008; in addition, I am going to make a brief analysis of the most representative ODA loan projects for China.

The first yen loan

The major projects approved in the first yen loan were: Qinhuangdao port expansion project, Beijing-Qinhuangdao railway construction project, Shijiusuo port construction project, Yanzhou-Shijiusuo railway construction project, Wuqiangxi hydroelectric power project, Hengyang-Guangzhou second railway tracking & electrification project, and a commodity loan.

Qinhuangdao port expansion project. Qinhuangdao is a port city located East of Beijing and North of Tianjin, it is one of the major ports of the Bohai Gulf¹²³, and one of the most important ports in China for the distribution of coal, oil and iron ores coming from the hinterland. At the time of the first ODA intervention Qinhuangdao port facilities were too backward, consequentially were not able to accomplish to the export of large quantities of raw materials to Japan; in this framework, the yen loan improved the port infrastructures facilities through the construction of a bulk berth, the deepening of the seabed (thus allowing heavy bulk carrier to use the port), the procurement of naval transportation equipment and port equipment, etc. The new port facilities started the process of transformation of Qinhuangdao into one of the main Chinese ports for the exportation of coal, oil and iron ores to Japan and to the other regions of China.

Beijing-Qinhuangdao railway construction project. The Beijing-Qinhuangdao railway connects Qinhuangdao with the important coastal cities of Tangshan and Tianjin, in addition, through Beijing this railway line is connected with the Beijing-Baotou railway line, that passes across the city of Datong, in Shanxi, where the third largest coal mine of China is located. Moreover, Tangshan, which is one of the main station on the Beijing-Qinhuangdao line, was also at the time of the ODA project a major area for the extraction of coal, metal ores, and oil, so that it was included in the ODA railway line project. The construction of this railway implemented thanks to the Japanese yen loan enhanced dramatically the quantity of raw materials that could be transported to Qinhuangdao port, and then from this seaport to Japan.

¹²³ The Bohai Gulf is located in the North of China in front of Beijing, its coast is included between the provinces of Liaoning, Hebei, Shandong, and the municipality of Tianjin; there are many large and important seaports located in this area, such as Tianjin, Dalian, Qinhuangdao, Yingkou, Tangshan, Huanghua, so that this gulf played an outstanding role in the international trade between China and Japan.

Shijiusuo port construction project. Shijiusuo (old name of nowadays Rizhao) is a port city located in the South of the province of Shandong between the two seaports of Qingdao in the North and Lianyungang in the South, Shijiusuo faces Japan and Korea to the East; the port is an important center of distribution for coal and iron ores coming from the hinterland, in particular from the area of Yanzhou. Before the Japanese ODA intervention the port was very poor in infrastructures, as a consequence, we can say that the actual seaport was principally built through the Japanese ODA project. In the first phase of the project, the ODA funds were utilized for the construction of bulk berths and miscellaneous berths, provision of cranes, deepening of the seabed, provision of port equipment (tug boats, trucks, port devices), construction of port offices, etc. In the years following the first phase of construction works at the beginning of the 80s, two more yen loan were conceded to Shijiusuo, in order to further improve the handling capacity of the port, so that its exporting potentiality could be fully exploited for the export of coal and iron ores to Japan and Korea.

Yanzhou-Shijiusuo railway construction project. The Yanzhou-Shijiusuo railway line connects the port of Shijiusuo with the city of Yanzhou, which is located in the South-West part of Shandong; in the area around Yanzhou there are many coal extraction sites, these mines are the reason why Japan conceded an ODA loan for the construction of this railroad. The new railway allowed the transportation of large quantities of raw materials to the port of Shijiusuo, dramatically improving the export capacity of the new ODA built port. In addition, in the years following the construction of the railway it became possible to transport coal and ores also from other extraction sites situated in the hinterland of Henan province (on the border with Shandong province), thanks to the construction of new railroads connected with Yanzhou station.

Wuqiangxi hydroelectric power project. Wuqiangxi is the name of an area of Hunan province situated on the downstream of the Yuan river, one of the affluents of the Yangtze river; the area is rich in metal ores, especially in Lengshuijiang city, where the largest antimony mine in the world is located (producing more than 50% of the antimony in the world). The need of electric power in Wuqiangxi area, together with the necessity of reducing the floods and improving the navigation of the river are the reasons why the ODA loan was conceded by Japan, however, is difficult to believe that these were the only causes, when in an adjacent area is present such a large source of profits. The Japanese ODA project consisted in the construction of a large dam on the downstream of the Yuan river with an annexed hydroelectric power plant, plus the procurement of navigational equipment for the improvement of shipping navigation, considering that the Yuan river before the intervention was hard to navigate due to its impetuous waters. After the completion of works, the new dam and Hydroelectric power plant not only were producing 15% of the electric energy need of the entire Hunan province, but also eliminated the problem of floods in the downstream of the river. Furthermore, it became possible to navigate the river up to Shanghai through the Dongting lake and then the Yangtze river, thus providing to local and Japanese investors a new waterway for transporting raw materials from the caves in the mountains around the Yuan river bed to Shanghai, where the raw materials could be used by Japanese and Chinese factories, or exported to Japan or elsewhere.

Hengyang-Guangzhou second railway tracking & electrification project. The city of Hengyang is located in the South of the province of Hunan, it is nowadays one of the most important transportation centre of the South of China and Hunan as well, given that many of the most important railway lines of China intersect there. At the time of the ODA project for the construction

of the Hengyang-Guangzhou second railway, the main aim was that of connecting the two cities through a modern railroad, in order to rapidly transport metal ores and coal, extracted from the numerous mines situated around Hengyang, to Guangzhou, where raw materials could be processed or refined by the numerous local industries, and then sold or exported elsewhere, through the seaports present in the Guangzhou area.

Commodity loan. As said before, a Japanese commodity loan is conceded in order to stabilize the economy of the recipient country; it consist in an amount of funds provided for importing necessary and urgent goods for the developing country economy, which is usually experiencing a foreign currency crisis, or have serious economic difficulties. The commodity loans are used to import commodities such as industrial & agricultural machineries, raw materials, chemicals, fertilizers, etc.; the goods that have to be purchased with the commodity loan money are decided in advance by Japan and China (in our case) via a previous accord¹²⁴. In this case, due to the problems occurred in 1981 during the construction of Baosteel steelworks in Shanghai, caused by the so called “Baosteel contract alteration”, the Japanese ODA funds were utilized for supplying to the foreign currency shortages of China, who could not pay the Japanese machineries imported from Japan, that were necessary for the construction of Baosteel.

The projects belonging to the first yen loan are all rotating around the transportation of raw materials (mainly coal, oil, and iron ores) from the interior regions near the coast to seaports, in order to export them to Japan. Indeed, the project for the expansion of Qinhuangdao port is connected with construction of the Beijing-Qinhuangdao railway, while the Shijiusuo port project is connected with the Yanzhou-Shijiusuo railway; on the other hand, Wuqiangxi dam construction was necessary in order to improve the navigability of the river, so that mineral resources extracted in Hunan could be transported through waterway to Hengyang and then through the ODA built railway to the port of Canton. Finally, the commodity loan was necessary in order to provide all the means necessary for the implementation of the above spoken projects; given that China at that time did not possess the technology required for the planned constructions. As we can see, in the first yen loan Japanese private interest play an important role, as a consequence, the ODA interventions were all directed at the development of economic infrastructures necessary to Japan.

The second yen loan

The projects inserted in the ODA plan for the second yen loan (starting from 1984) to China were: Qinhuangdao port C and D berths construction project, Qingdao port expansion project, Lianyungang port expansion project, Zhengzhou-Baoji railway electrification project, Hengyang-Guangzhou railway transportation reinforcement project , Datong-Qinhuangdao East section railway construction project, Tianshengqiao hydroelectric power project, Guanyinge multipurpose dam project, Tianjin Shanghai & Guangzhou telecommunications expansion project, urban water supply project, urban gas project, export industries promotion program, Beijing water supply project, Beijing subway construction project, Beijing sewage treatment plant construction project, state economic information system project, and a commodity loan.

¹²⁴ The details regarding the procedures of granting a commodity loan, and the composition of Japanese commodity loans are taken from: “Types of ODA loans”, JICA, accessed June 18, 2013, http://www.jica.go.jp/english/our_work/types_of_assistance/oda_loans/overseas/types.html.

Qinhuangdao port C and D berths construction project. The Qinhuangdao port C and D berths construction project further contributed to the modernization and expansion of this port; the main infrastructures built during the second ODA loan were located in the Western area of the port. The main works planned in the second phase of Qinhuangdao expansion project were a bulk berth for handling grain and Timber & pulp, a general berth, the deepening of the seabed, the construction of new port facilities and warehouse facilities (silos for grain), the provision of new port equipment (cranes, tug boats, trucks), etc. The newly added infrastructures most improved the port handling capacity and reduced the ships congestion in the port; in addition, the new bulk berth increased the port export capacity of grain and timber, thus enhancing the quantity of grain and timber that could be exported to Japan.

Qingdao port expansion project. The port of Qingdao is one of the most important ports of all China, it is situated on the Southern area of the tip of the Shandong peninsula; due to its strategic position, Qingdao had always played an important role in the history of China-Japan relationship. The port even before the Japanese ODA intervention was already in possession of quite acceptable infrastructures, owing to the works for the modernization of the port facilities conducted by Japan during the Japanese military occupation of the Shandong peninsula, and to the works done by China during the Communist period. However, at the beginning of the 80s due to the increasing volume of exports (especially coal, ores and oil), and to the growing number of ships that were crowding the port, there was a high need for the extension of port facilities. The first Japanese ODA project for Qingdao was implemented in the area of Qianwan and consisted in the construction of six new berths (two for coal, one for ores, one for timber, one for general cargo, and one for sand), the procurement of cranes, the construction of different railroads inside the area of the port, the construction of the Jiaozhou-Huangdao section of the Jinan-Qingdao railway line, the expansion of the power capacity of the Huangdao power plant and relocation of the Xinan power plant, the construction of water supply facilities, and the provision of consultant services. After the completion of the works (1993), the volume of handled cargo of the Qianwan port area increased dramatically, shifting from 2.660.000 ton in 1994 to 18.760.000 ton (of which 66% coal and 27% ores) in fiscal year 2000¹²⁵; furthermore, the problem of ships congestion in the port was solved, and the effectiveness of transportation services grown as well.

Lianyungang port expansion project. Lianyungang is located in the Chinese province of Jiangsu, 450 km North of Shanghai, it is one of the largest container port of all China, and occupy an important position in the Chinese seaport development strategy; as a consequence, the Chinese government is making continuous efforts in order to expand its container handling capacity. Another reason for which this port become famous is the New Eurasian Land Bridge, a railway line that virtually connect the port of Lianyungang with the city of Rotterdam in Holland. The presence in the area around the port of mines producing iron ores (especially nickel) and timber forests, the railway connection with the coal mines situated in the hinterland, and the local high production of grains are some of the reasons why a Japanese ODA was provided for the expansion of the port in the area of Miaoling in the first half of the 80s. The Japanese ODA project included the construction of two Timber & pulp berths (also usable for ores and coal), a grain berth, two container berths (one of which convertible in a general cargo berth), different piers, port internal roads, water supply

¹²⁵ Data taken from the JICA post evaluation report of the project: “Qingdao port expansion project, 1-6”, JICA, accessed June 22, 2013, http://www2.jica.go.jp/ja/evaluation/pdf/2001_CIX-P11_4_s.pdf.

facilities, and a provision of cranes, forklifts, trailers, and other port equipment. The works for the enlargement of the port most improved the port cargo handling capacity and the quality of port services.

Zhengzhou-Baoji railway electrification project. The Zhengzhou-Baoji railway connect Baoji, that is the second largest city of Shaanxi, with the most important city of the province of Henan, which is Zhengzhou; this railway line is one of the section that compose the New Eurasian Land Bridge, as well as a section of the Lianyungang-Lanzhou railway, that link the Chinese coast to the outer region of Gansu¹²⁶. The Japanese ODA project provided all the necessary for the construction and electrification of the new railway, such as electric devices, railroad construction works, power supply facilities, electronic and communication systems, railway facilities, electric locomotives and train carriages, consultant services, and old railway sections repair works. The new railway line allowed raw materials to be transported more efficiently and more quickly to Lianyungang and the other Chinese seaports from Gansu, thus increasing the export capacity of North China ports, and consequentially boosting Japanese coal, oil, grain, and rare earths imports from China.

Hengyang-Guangzhou railway transportation reinforcement project. The Hengyang-Guangzhou railway is a section of the of the Beijing-Guangzhou railway line (Jingguang railway), which was one of the most congested railway line of all China at the time of the Japanese ODA intervention, due to its enormous passengers flow¹²⁷ and to the large volume of goods and raw materials transported through this railroad from the North to the South of China. Short after the completion of the first phase of the ODA project for the Hengyang-Guangzhou railway construction, the limited capacity of this section of the Jingguang railway become immediately clear. In this framework, the Japanese yen loan for the reinforcement of the Hengyang-Guangzhou railway transportation system aimed at the doubling of the railway lines, in order to improve the transportation volume capacity, efficiency, and fastness for both passengers and goods. The plan for the second phase of this ODA project included the doubling of the railway line, the electrification of some of the old sections of the railway, the construction of the Dayaoshan tunnel, the repair and enlargement of shunting facilities, the procurement of trains, and the provision of consultant service. The expansion of the railway lines most improved the transportation network efficiency and quickness; as a consequence, the passenger congestion was relieved, and the raw materials and industrial goods extracted or produced in the hinterland became able to reach the seaport of Guangzhou or the Shenzhen Special Economic Zone in a shorter time, thus increasing the competitiveness of local industries.

Datong-Qinhuangdao East section railway construction project. The construction of the Beijing-Qinhuangdao railway at the time of the first Japanese ODA loan to China already made possible to transport coal from Datong to Qinhuangdao across Beijing South railway station; however, the construction of a direct railroad between the coal supplier and the port was considered a more quickly and efficient solution. As a consequence, an ODA project for the construction of a railway line that went directly from the port of Qinhuangdao to Datong was approved in the second Japanese yen loan to China; this project represented an important step in order to foster coal exports

¹²⁶ The province of Gansu is very rich in deposits of rare earths (Chromium, cobalt, mercury, platinum, tungsten, nickel, etc.) and other minerals (coal, copper, iron, zinc, lead, etc.), in addition, some of the largest oil fields of China are located in this region as well, in the areas of Yumen and Changqing.

¹²⁷ At that time, railways were the unique means of transportation that everyone could use for moving in China, given that the cost of air transport was too high and only a very small percentage of the population can afford it; as a consequence, the volume of passengers using railways was extremely high.

from Qinhuangdao to Japan, as a matter of fact, after the completion of the new railway line the coal export capacity of Qinhuangdao rose dramatically.

Tianshengqiao hydroelectric power project. Tianshengqiao is an area located on the upper stream of the Hongshui river in the Southern province of Guangxi; the Hongshui river born in the province of Yunnan with the name of Nanpan, and only after it join the Beipan river that born in the province of Guizhou it became the Hongshui river, which at the end of its course flows into the Pearl River Delta. The three provinces of Guangxi, Guizhou, and Yunnan are all very rich in deposits of minerals and rare earths, in particular Yunnan, which according to the Chinese estimates possess some of the largest mines of China; in addition, these three regions are all crossed by many rivers, so that they are most suitable for the construction of hydroelectric power plants. The need for electric power coming in particular from Guangdong is one of the principal reason why the hydroelectric power plant in Tianshengqiao was built, according to the post evaluation analysis of the project implemented by JICA. The Japanese ODA project included the construction of a dam, the procurement of power transformers, power generators and cables for the transfer of electric energy, and all the necessary equipment for the building of a hydroelectric power plant. The works were repeatedly delayed due to problems of the river basin and construction instability; nonetheless, after the completion of works the quantity of energy produced was higher than expected, so that not only Guangdong, but also Guangxi and Guizhou started to receive electric power supply from this hydroelectric power plant. Another consequence was that Japanese companies operating in these three provinces had many of their power supply problems solved, and could operate more efficiently.

Guanyinge multipurpose dam project. Guanyinge is an area of the river Taizihe, located near the city of Xiaoshi in Liaoning province forty kilometres East to the city of Benxi, one of the largest steel and iron producers of China; indeed, this part of Liaoning is famous for its steel mills and large ores and coal mines, situated in proximity of the cities of Anshan, Benxi, and Liaoyang. The ODA project for the construction of the dam in Guanyinge had several objectives, however, the first and most important was the prevention of flooding of the Taizihe river; as a matter of fact, during the past floods of 1960, 1975, and 1985 the river caused huge damages to the steel producing district, inundating all the area of the factories in Benxi and Anshan, making useless transportation infrastructures (railroads and roads), and destroying a large part of local crops. Additional purposes of the project were: provision of electric power supply to the Taizihe area, provision of water supply for the steel producing district and local communities, provision of water supply for local agricultural activities, fostering the activity of aquaculture in the zone of the dam. The infrastructures built through the yen loan were the dam, the annexed hydroelectric power plant, a flooding control system, and part of the new railway necessary for the relocation of the old railway that was passing across the territory of the dam basin. After the completion of the project the problem of floods was solved, and the agricultural and industrial activities in the zone improved a lot; moreover, thanks to the new water supply system and power supply system, which are essential in order to create a better investment environment, the Taizihe area became more attractive for foreign direct investment, so that a further development of this iron and steel district became possible.

Tianjin Shanghai & Guangzhou telecommunications expansion project. The Tianjin, Shanghai, and Guangzhou telecommunications expansion project was included in the second Japanese yen

loan to China in order to improve the telecommunications systems of some of the largest cities of China, where the most important economic development zones of that time were located. Indeed, the level of development of telecommunications infrastructures in China at the beginning of the 80s was one of the lowest among the Asian developing countries. Under this background the Japanese ODA project provided the necessary modern materials (fibre optics cables), the telecommunication infrastructures facilities, and a consultant service in order to update the obsolete Chinese telecommunication system. It was estimated that the 35% of the modern telecommunications system of Tianjin, Shanghai, and Guangzhou had been built through the funds provided by this ODA loan. One of the most important consequences of this project was the possibility for the Japanese companies operating in the areas characterized by this intervention of eliminating communications problems due to the lack of Chinese telecommunications infrastructures, thus improving their local organization system and consequentially their profits.

Urban water supply project. Starting with the economic reforms of 1978, the Chinese population begun to concentrate in the most important industrial cities of China, where the largest industrial complexes were located; this phenomenon bring out the immediate necessity for the improvement of the old and malfunctioning water supply facilities. Answering to this question, a Japanese ODA loan for the modernization of the urban water supply facilities of ten of the most important Chinese industrial cities of the time (Anshan, Tianjin, Xuzhou, Zhengzhou, Hefei, Nanjing, Xiamen, Chongqing, Chengdu, Kunming) was conceded. The ODA project consisted in the construction of water depurators, water pumps, water dispensers, water pipes, water storage facilities, and the provision of consultant services. The new water supply systems most enhanced the living conditions of local people, eliminating the previous problems regarding water supply; in addition, the companies operating in these cities were provided as well with an efficient water supply system, which improved their industrial activities.

Urban gas project. The urban gas project concerned the furniture of gas to the four cities of Harbin, Fuzhou, Ningbo and Guiyang, in order to provide a new cleaner form of energy to local people (who mainly relied on coal) and possibly enhance the gas supply to local industries as well. The ODA project planned the construction of coal functioning gas plants, gas distributing stations, and gas pipelines; these new infrastructures make possible the distribution of gas to the local population and to the local factories, that could since then use a new form of energy for implementing their production processes. The main advantages earned by China through this Japanese ODA project were the increasing of gas furniture in the four cities involved in the project, and the reduction of air pollution, due to the availability of a new source of energy less polluting than coal, which represented until the implementation of the ODA project the main energy source in these four cities. On the other hand, the advantages obtained by Japan were mainly linked to the improved investment environment resulting from the Japanese ODA intervention in these four cities, that became more attractive for Japanese FDI.

Export industries promotion program. One of the largest problems of China at the beginning of the 80s was the absence of export facilities and modern production technologies, as a consequence, a ODA loan for the promotion of export industries was conceded by Japan, in order to improve the export capacity of China. The target sectors of this project were the textile, the light industry, the agrochemical, and the dairy sector; for instance, the JICA post evaluation report of the project quotes three examples of target industries in China, which are a button factory in Guangzhou, a shirt

factory in Beijing and a juice factory in Guangdong¹²⁸. On the other hand, the physical destination of the project funds were the so called “bases for production and export of goods”, which can be considered the first exporting platforms that Japan built in China through ODA interventions, in order to start importing Chinese goods to Japan. As specified in the data provided by the JICA post evaluation report, after the implementation of the project, the production in the target sectors generally rose a lot, with a very high percentage of the produced goods (varying between 50% and 80%) destined to the export markets; thereby, we can say that the project was very important for the creation of the first export processing zones of China.

Beijing water supply project, Beijing subway construction project, Beijing sewage treatment plant construction project. During the second yen loan three ODA projects were dedicated to Beijing, in order to improve its urban infrastructures and its quality of life, one project was for the construction of water supply facilities, one for a sewage treatment plant, and one for the first phase of the construction of Beijing subway. The project for the construction of water supply facilities was necessary in order to enhance the quantity of clean water that could be used by the local population, thus improving their sanitary conditions, and by the local factories, for the further development of their production. The project was divided in two periods, in the first period, it was planned that an increase of the quantity of water, that could be utilized in the city, up to 500,000 cubic meters per day was sufficient; however, in the second period of implementation of the project a new target of 1,000,000 cubic meters per day was considered more suitable, given that the previous evaluation resulted mistaken. The new water supply facilities built through the Japanese ODA funds most improved Beijing water supply, doubling the quantity of water available for every citizen per day. The second project for the construction of a sewage treatment plant in Gaobeidian, a district situated in the East part of Beijing city, was considered necessary for the depuration and recycling of rainwaters and dirty waters coming from Beijing, and from the streams and ponds located around Beijing suburbs. The Japanese ODA project provided water treatment facilities, water pumps, water pipelines, and consultant services, in order to make the plant functioning; furthermore, it was planned that part of the recycled water had to be used for the production of electric power (the annexed power plant was not built with Japanese ODA funds), for the irrigation of cornfields, and for the production of fertilizers. The Japanese ODA project make possible the treatment of 500,000 cubic meter of dirty water per day, of which 380,000 cubic meter were reused for irrigation and production of electric power, while the sludge coming from the recycled water was used for the production of fertilizers, generating 38 ton of fertilizer per day; in addition, thanks to the depuration facilities the water pollution in Beijing was reduced by 25%, according to the BOD criteria¹²⁹. The successfulness and eco-sustainability of this ODA project is proved not only by the diminishing of Beijing water pollution, but also by the results of the process of recycling dirty water, that provided clean water, electric power, irrigation water, and fertilizer. The project for the construction of Beijing subway was answering to the need of reducing the traffic congestion on Changanjie, which was Beijing main arterial road linking the West districts to the East districts of the city; as a consequence, the construction of Beijing subway line 1 was approved by Japan. In the Japanese project, subway line 1 should had functioned as an alternative way of transportation to buses, private cars and bicycles that were crowding Changanjie, causing traffic jams. The predicted

¹²⁸ Data taken from the JICA project post evaluation report: “Export Industries Promotion Program”, JICA, accessed July 1, 2013, http://www2.jica.go.jp/ja/evaluation/pdf/1992_CX-P23_4_f.pdf.

¹²⁹ The Biochemical Oxygen Demand (BOD) is an evaluation criteria used for the determination of water pollution.

volume of passengers for subway line 1 at the time of the project appraisal was rapidly surpassed short after the opening of the subway line, thus showing that many citizens were utilizing this new way of transportation; as a result, the traffic congestion on Changanjie slightly diminished, therefore proving the successfulness of this ODA project. The implementation of these three projects in Beijing increased the number of modern urban infrastructures present in the capital of China, thus improving the standard of living conditions in the city and enhancing the level of urban development of Beijing.

Commodity loan. The commodity loan conceded during this second yen loan had more or less the same characteristics and objectives of the one conceded during the first yen loan to China; indeed, it was partially used for supplying to foreign currency shortages of China, and partly utilized for purchasing industrial & agricultural machineries, chemicals, and fertilizers, in order to foster the process of economic development in China.

The main target sectors of the second yen loan were still port and railroad infrastructures, followed by energy and telecommunications, thus highlighting the importance of developing transportation infrastructures in order to improve the Chinese export facilities. The second yen loan is characterized by a wider collocation on the Chinese territory of the Japanese ODA projects, that however still remain focused on the development of coastal regions of China. Indeed, the projects for the construction of seaports, railways connecting the hinterland with the coast, telecommunications systems between three of the most important seaports of China, and dams providing electric power or flood prevention to two of the largest coastal production areas of China, represent the largest investments in the second yen loan. Nonetheless, the three projects for the development of economic infrastructures in Beijing, and the projects for water supply and gas supply in different cities located both on the Chinese coast and in the hinterland are a proof of the beginning of a different trend characterizing ODA loan projects. In addition, we can notice that some of the projects approved during the second yen loan were implemented only in the third or in the fourth yen loan, due to delays provoked by the complex Chinese bureaucratic system. Regarding Japan's own profits, the ODA project for the promotion of the export industries is a clear sign, together with the above spoken projects, of the large importance still performed by Japanese private interests in the projects of the second yen loan to China. Finally, from the point of view of seaports development that is the aspect that interest us more, we can see that the Gulf of Bohai and the Shandong Peninsula were the unique recipients of seaport construction projects in the first two yen loans, probably due to the geographical proximity of these two areas of China to Japan.

The third yen loan

The concession of the third yen loan funds should had started in 1989, but, due to the wave of international isolation that hit China after the Tiananmen incident of 1989, the Japanese yen loan funds for fiscal year 1989 were blocked; nonetheless, after a few months Japan was the first foreign country to restore official development assistance to China, so that in 1990 the funds for the third ODA loan were released. The main projects that characterized the third ODA loan to China were: Qinhuangdao port E and F berth construction project, Qinhuangdao port 4th stage coal terminal construction project, Lianyungang port Xugou area first phase construction project, Shijiusuo port second phase construction project, Shenzhen Dapeng Bay Yantian port 1st phase construction project, air navigation and air traffic control modernization project, Wuhan Tianhe airport

construction project, Shenmu-Shuoxian railway construction project, Hengshui-Shangqiu railway construction project, Baoji-Zhongwei railway construction project, Nanning-Kunming railway construction project, Fujian province Zhang Quan railway construction project, second Wuhan Yangtze river bridge construction project, Huangshi Yangtze river bridge construction project, second Chongqing Yangtze river bridge construction project, Hefei-Tongling highway and tongling Yangtze river highway bridge construction project, Qiqihar-Nenjiang river highway bridge construction project, Hubei Ezhou thermal power plant construction project, Shisanling pumped storage power station project, Beijing-Shenyang-Harbin telecommunications system project, nine provinces and cities telecommunications network expansion project, Yunnan fertilizer plant construction project, Weihe fertilizer plant construction project, Inner Mongolia fertilizer plant construction project, Luzhai fertilizer plant construction project, Jiujiang fertilizer plant construction project, Wengfu fertilizer plant construction project, three cities water supply project (Tianjin, Hefei, Anshan), urban water supply project (Xiamen, Chongqing, Kunming), Xi'an water supply project, Tongyu river irrigation development project, Hainan development project (telecommunications), Hainan development project (highway), Hainan development project (Haikou port), Qingdao development project (telecommunications), Qingdao development project (water supply and sewerage), Qingdao development project (highway), Beijing subway second phase construction project, Beijing Capital airport terminal area expansion project.

Qinhuangdao port E and F berth construction project. The main objective of this new ODA project for the construction of new berths in the piers E and F of Qinhuangdao port was that of expanding its cargo handling capacity; given that the port at that time was serving a vast economic development zone which included Beijing, seven North Chinese provinces and the three autonomous region of Xinjiang, Inner Mongolia, and Ningxia. The Japanese ODA project planned the construction of seven general cargo berths (two in pier E and five in pier F, for the handling of miscellaneous goods, bulk cargo, oil, and steel), harbour railroads, port buildings, water supply and drainage facilities, power supply facilities, plus the procurement of handling equipment, operating vehicles, communications equipment, etc. The project is considered to be extremely successful, since the cargo handling capacity of the new piers E and F, built under this project, was in 2005 respectively 20,46 and 6,18 million tons per year, which is the double of the cargo handling capacity imagined at the time of the project appraisal; among the general cargo the largest share was occupied by steel coming from the near Liaoning steel production district. This project as well show us that Japan favoured the increase of the raw materials exporting capacity of Qinhuangdao in order to import more steel, oil, timber, etc. to Japan.

Qinhuangdao port 4th stage coal terminal construction project. The main objective of the project for the construction of Qinhuangdao 4th stage coal terminal was the creation of a coal export & transfer terminal with an annual capacity of 30 million tons, in order to satisfy the increasing foreign and national demand for coal. Under this project, Qinhuangdao was transformed into the largest coal shipping port of China, with a total annual capacity of 103,65 million tons of coal; Qinhuangdao was chosen because of its vicinity to China's coal major producing regions (Hebei, Shanxi, Shaanxi, Inner Mongolia, Ningxia, Gansu) providing 30% of the entire coal production of China. The Japanese ODA project included the construction of three coal berths (one of which with a capacity of 100,000 DWT), channels and anchorages, coal yards, car dumper stations, port service facilities, utility facilities, and the provision of cargo handling machines, environmental

conservation equipment, etc. The target of 30 million tons per year of the 4th stage coal terminal project was not reached, due to delay in completion of the project, stagnation of coal production demand (owing to the levelling off of the steel demand), and to the shifting toward other cleaner forms of energy; however, in 2000 the annual volume of handled coal in the 4th stage coal terminal reached 25,03 million tons, thus suggesting that there was a continuous increase in the volume of handled coal in this new terminal¹³⁰. The JICA post evaluation report of the project provide in this case also a series of data about the quantity of coal exported from Qinhuangdao to foreign countries and other Chinese provinces after the implementation of the present project; we can notice from the data that Japan is among the three largest importers of coal from Qinhuangdao, together with Taiwan and Korea, whereas for Chinese provinces we can see that Zhejiang, Guangdong, and Shanghai are the largest importers. These data are important in order to see the advantages that Japan earned from the implementation of its ODA project in Qinhuangdao.

Lianyungang port Xugou area first phase construction project. The logistic importance of Lianyungang port as the East terminus of the Longhai line linking the outer provinces of Xinjiang, Qinghai, and Sichuan with Lanzhou (the West terminus of the Longhai railway in the province of Gansu), and crossing many provinces of China from Gansu to the coastal province of Jiangsu had been already underlined, when we spoke about the Japanese ODA project for the port expansion in Lianyungang Miaoling area. These characteristics of Lianyungang involved a fast growing demand for a larger port handling capacity of general cargo coming from all the territories crossed by the Longhai railway, that include some of the richest provinces of China for the extraction of mineral resources. This time, the Japanese ODA regarded the port area of Xugou, the project called for the construction of six general cargo berths (mainly for coal, ores, and non-containerized freight), open-air storage area, harbour roads and railway, warehouses, channels and anchorages, utility facilities, and the provision of cargo handling machines, working boat and vehicles, communications equipment, and technical cooperation. After the completion of the project, the handled cargo volume of the Xugou area started to grow quickly, until 2001 when the target handled cargo volume of 2.1 million tons per year was reached; the largest share in general cargo handled at Xugou was occupied by miscellaneous goods (light industrial manufactured goods, pharmaceutical products, agricultural, forestry and fishery products), accounting for a 30-40% of the total, and by non-metallic ores, coal and salt that were absorbing the remaining share¹³¹. The Longhai railway was the most utilized mean of transportation for the above spoken general cargo, that was moved from the hinterland to the port in case of exportation, or from the port to the hinterland in case of importation, therefore highlighting one more time the logistic importance of this railway (partially built through Japanese ODA loans) connecting Lianyungang with Lanzhou. As a consequence, the Japanese ODA intervention improving the port handling capacity of Lianyungang, not only contributed to the port infrastructures development, but also fostered the economic development of the provinces of the hinterland that were connected with the port. In addition, through the implementation of this ODA project Japan was able to increase the exports of non-metallic ores, coal, oil and miscellaneous goods from Lianyungang to Japan.

¹³⁰ Data taken form the JICA project post evaluation report: "Qinhuangdao Port fourth stage coal terminal construction project, 1-2", JICA, accessed June 18, 2013, http://www.jica.go.jp/english/our_work/evaluation/oda_loan/post/2001/pdf/e_project_02_all.pdf.

¹³¹ Data taken from the JICA project post evaluation report: "Lianyungang Port Xugou Area first phase construction project", JICA, accessed July 3, 2013, http://www.jica.go.jp/english/our_work/evaluation/oda_loan/post/2001/pdf/e_project_04_all.pdf.

Shijiusuo port second phase construction project. The Shijiusuo port second phase construction project aimed at the increasing of miscellaneous cargo handling capacity of the port, due to the fast economic development that was characterizing the three provinces of Shandong, Shanxi and Henan, all connected to Shijiusuo through the ODA built Yanzhou-Shijiusuo railway. In particular, at the time of the appraisal for this project, it was expected that the volume of steel, iron ores and fertilizers produced in the hinterland and transported to Shijiusuo would have grown thanks to the construction of the Yanzhou-Shijiusuo railway; furthermore, due to a project for the construction of new factories producing cement, pulp, glass, etc. around the port area, an increase for the exports of these goods was expected as well in the port. The Japanese ODA plan for the port included the construction of five miscellaneous cargo berths, a port railway, port facilities, utility facilities, plus the provision of a multi-purpose crane, tugboats, trucks, environmental measuring equipment, etc. After the completion of works, the new berths provided an additional annual miscellaneous cargo handling capacity of 2,2 million tons, thus doubling the port general cargo handling capacity¹³². The main commodities imported by Japan from the new ODA built facilities were principally iron ores, steel, and cement.

Shenzhen Dapeng Bay Yantian port 1st phase construction project. The port city of Yantian is a district of the prefecture of Shenzhen, it is located in the central area of the bay of Dapeng, North-East of Hong Kong. This seaport is considered one of the most important container ports of all China, due to its strategic position, near the special economic development zones of Shenzhen and Guangzhou, and to Hong Kong; as a consequence, it has a very important logistic function for many of the Shipping companies operating in East Asia. For instance, many of the container ships departing from North East Asian seaports, especially from Dalian, Pusan and Japanese ports utilize Yantian as a port of call (where products can be stored, assembled, or processed), before going through the Malacca strait and consequentially to their final destination in Europe, or when they go to South East Asia. The Japanese ODA project indeed, planned in this port the construction of a total of six berths, of which two container berths, three miscellaneous cargo berths and one bulk cargo/multi-purpose berth; in addition, the ODA project called for the provision of berthing facilities, handling cargo equipment, port external railroad & road, and consultant services. The estimated cargo handling capacity for the new Japanese ODA built berths was 2,8 million ton per year; this increased port handling capacity stimulated the industrial development of all the East zone of Shenzhen prefecture, in particular the area of Dapeng Bay, producing positive repercussions also for the local population and for the urban development of Yantian¹³³. The Japanese ODA intervention here was one of the first steps in order to transform Yantian in the large container hub port of nowadays.

Baoji-Zhongwei railway construction project. The construction of a railway between the cities of Baoji in Shaanxi, and Zhongwei in Ningxia was considered necessary mainly for two reasons: first of all, the presence of a large coalfield (Huating coalfield) on the path of the future railway, and second the necessity of bypassing the Longhai rail section from Baoji to Lanzhou, due to the limited transportation capacity of the line and to the inappropriateness of the territory for the construction of a new railroad. The Japanese ODA project answered to this question planning the construction of

¹³² Data taken from the JICA project post evaluation report: "Shijiu Port second phase construction project, 1-2", JICA, accessed July 7, 2013, http://www.jica.go.jp/english/our_work/evaluation/oda_loan/post/2000/pdf/02-08.pdf.

¹³³ Data taken from the JICA project post evaluation report: "Shenzhen Dapeng Bay Yantian Port first phase project", JICA, accessed July 9, 2013, http://www.jica.go.jp/english/our_work/evaluation/oda_loan/post/1999/pdf/20.pdf.

500 km of electrified railroad, 48 stations, 426 bridges, 909 culverts, and 67 tunnels on the way between Baoji and Zhongwei. The new railway improved the transportation capacity of oil coming from the outer region of Xinjiang, in particular from Urumqi oilfield (the second largest oil producing region of China), and coal coming from the above spoken Huating coalfield and from the mines of Yinchuan; moreover, the new railway line created a new passage from Zhongwei to Wuwei for the New Eurasian Land Bridge, that was experiencing problems due to the inefficient connection between Wuwei and Lanzhou. As a result, the Japanese ODA project enhanced the quantity of coal and oil that can be transported through the Longhai line¹³⁴ to Lianyungang port, thus increasing exports of coal and oil to Japan.

Fujian province Zhang Quan railway construction project. The Zhangquan railway is a railroad located in the province of Fujian, connecting the city of Zhangping¹³⁵ in the hinterland with the coastal city of Quanzhou, and the ports of Xiaocuo and Houzhou. Before the Japanese ODA intervention this railroad did not reach Quanzhou, but stopped in the city of Hutou 90 km West of Quanzhou; as a consequence, the unique way for transporting freights destined to exportation was the local road connecting the hinterland to the coast, and then the highway connecting Quanzhou to Xiamen. The congestion of the Quanzhou Xiamen highway, and the need to foster economic development in Quanzhou and in the port of Xiaocuo through a railway line connecting the port with the hinterland, were two of the reasons why Japanese yen loan funds were conceded. The Japanese ODA project provided funds for the construction of a railway linking Hutou with the port of Xiaocuo via Quanzhou, plus an additional railway branch connecting Quanzhou with the port of Houzhou; furthermore, a total of 33 steam locomotives, 10 diesel locomotives and 60 passenger carriages were provided through the ODA. After the completion of the project, the congestion of the Xiamen Quanzhou highway was reduced, moreover, the railway fostered the economic development of Quanzhou and Xiaocuo port economic zone; so that, freights coming from the hinterland could be directly handled at the ports of Xiaocuo and Houzhou, instead of be transported to the far Xiamen.

Second Wuhan Yangtze river bridge construction project, Huangshi Yangtze river bridge construction project, second Chongqing Yangtze river bridge construction project, Hefei-Tongling highway and tongling Yangtze river highway bridge construction project. The construction of the Hefei-Tongling highway and Tongling Yangtze river highway bridge, the Huangshi Yangtze river bridge, the second Wuhan Yangtze river bridge, and the second Chongqing Yangtze river bridge were all part of the 8th five year plan of China (1990-1995) for the development of China hinterland through the construction of bridges in strategic locations on the Yangtze river. According to the Chinese requests Japan's third yen loan funds were conceded for the implementation of these four project. The main objectives for these four project were respectively: linking Anhui provincial capital Hefei with the mining city of Tongling, through a bridge and a road in order to foster mining in Tongling, and increase the economic development of the province of Anhui; linking the district of Huangshi with the district of Yishui on the other side of the Yangtze river bank, in order to diminish the saturation of ferries operating in the area; alleviating traffic congestion on the first Wuhan river bridge, in order to improve the efficiency of local transportation; fostering economic development in the Southwest of Chongqing, reducing traffic congestion in the city centre, and

¹³⁴ The new built Baoji-Zhongwei line was mainly used for the transportation of coal and oil.

¹³⁵ Around the city of Zhangping are located the largest mines of Fujian province, which principally produce iron ores.

linking the city with major national roads going toward the South of China. The Japanese ODA projects provided funds for all the works of preparation, materials, machineries and consultant services necessary for the construction of the bridges, which were all big infrastructures being longer than 1 km. The construction of these four bridges produced positive effects in all the four provinces involved, promoting the economic development of the interested zones and improving the local transportation systems, even if not as much as it was expected at the time of projects appraisals. The improvement of the investment environment of these four areas generated benefits also for the Japanese companies operating in proximity of the Yangtze river around these four zones.

Shisanling pumped storage power station project. The Shisanling pumped storage power station is an hydroelectric power plant located in the area of Shisanling, forty km Northwest of Beijing; this power plant is serving the most important three cities of the area, which are Beijing, Tianjin and Tangshan, it can produce 800 MW a day. The Japanese ODA project was answering the increasing need for energy of the three cities we spoken above, which were experiencing power shortages in the peak hours of the day; as a consequence, a pumped storage hydroelectric power plant was projected. The Japanese ODA project called for the construction of a hydroelectric power plant composed by an upper water reservoir on the peak of a mountain in Shisanling, and a lower water reservoir with four annexed underground power generators; the operating principle was that the power surplus of the three cities generated during the night was used to pump water into the upper reservoir in Shisanling, so that during daylight when energy demand peaked, it was possible to utilize the additional energy produced by the falling water in the power plant. The project is considered to be very successful, given that the power plant provided 15% of the energy demand during peak hours in Beijing, Tianjin and Tangshan; furthermore, it has a major importance for the production of hydroelectric power in the areas of Beijing, Tianjin and Tangshan, producing 57% of the total.

Beijing-Shenyang-Harbin telecommunications system project. The fast developing economy of the Northeast of China was asking for a better telecommunication system, in order to facilitate and improve long distance communications, and further stimulate economic growth, especially between the most important economic poles of the region, which are Beijing, Tianjin, Dalian, Shenyang, Changchun, and Harbin. Indeed, according with the seventh and then the eight Chinese five year plan the promotion of communication development in the hinterland regions was a fundamental step for the improvement of their investment environment and economic development, so that the development gap existing between the Chinese coast and its interior could be reduced. The Japanese project provided 4800 km of optical fibre cables, plus the optical fibre transmission equipment, and long distance switching systems; after the completion of the works, the immediate effects were increased efficiency of communications within and between the provinces, growth of agriculture thanks to better communications with the distributors, and improved communication situation between the ports of Tianjin, Qinhuangdao and Dalian¹³⁶. As a result, we can say that the Japanese ODA project was quite successful.

Wengfu fertilizer plant construction project. The Wengfu fertilizer plant construction is part of a larger Japanese ODA project for the development of six of the ten biggest fertilizer plants, which

¹³⁶ Data taken from the JICA project post evaluation report: "Beijing-Shenyang-Harbin telecommunications systems project, 1-2", JICA, accessed July 22, 2013, http://www.jica.go.jp/english/our_work/evaluation/oda_loan/post/2000/pdf/02-09.pdf.

were pointed out in China eight five year plan; I chose the Wengfu fertilizer plant project because is the biggest one among the other projects. Wengfu is an area of the Guizhou province, located North of the city of Guiyang; this area was selected considering the possibility of exploiting the mines of Guizhou, that are rich in phosphate, in order to produce phosphorus fertilizer. As a matter of fact, the main reason for such a big emphasis on the construction of fertilizer plants was linked with the increasing food need of the Chinese population; indeed, phosphorus and nitrogenous fertilizer were necessary to enhance the agricultural production, thus providing a solution for feeding the growing Chinese population. The Japanese ODA project called for the construction of a triple superphosphate fertilizer plant (sulphuric acid plant, phosphoric acid plant, TSP plant, fluoride aluminium plant) with an annual production capacity of 800,000 tons. After the completion of the project, however, the production of fertilizers of this plant had not significantly contributed to the increasing of food production in China, principally due to the difficulty of selling TSP fertilizers; on the other hand, the construction of this plant fostered the economic development in the area of Wengfu, creating new job opportunities and improving the local transportation system¹³⁷.

Three cities water supply project (Tianjin, Hefei, Anshan). The Japanese ODA project for the construction of water supply facilities in the cities of Tianjin, Hefei and Anshan is the third part of the overall ODA project for the construction of water supply facilities in ten of the most important industrial cities of China, already approved by Japan in the second yen loan.

Tongyu river irrigation development project. In accordance with China eight five year plan, one of the main objectives to be achieved for the end of 2000 was an additional food production of 500 million tons in order to feed the growing population. At the time of the ODA project, the province of Jiangsu, where the Tongyu river flows, was one of the largest food producer provinces of China; as a consequence, a project for the development of the Tongyu river irrigation system that would had increased the agricultural production of the province was approved for the third Japanese ODA loan. The Japanese ODA project was aiming at improving the fertility of the Subei area, across which the Tongyu river flows, in order to improve the productivity of the land; the main problem affecting the Subei area was that the soil was highly saline, so that it needed a large quantity of water for being purified and make suitable for cultivation. Nonetheless, the Tongyu river had not sufficient clean water for the irrigation of the area, so that a canal linking the Yangtze river with the Tongyu river was planned in order to enhance the quantity of water that could be used for the irrigation of the saline land in Subei. According to the JICA post evaluation report of the project, the ODA plan was not strictly followed by the Chinese implementing authorities, given that many of the construction works planned in the original ODA plan were modified or cancelled. As a consequence, data about the effectiveness of the project were difficult to be evaluated; indeed, the JICA report say that there are no signs of a stable increasing of agricultural production after the implementation of the project. It seems that the only positive data that is clearly visible after the completion of the project was an increase in the navigation traffic of the new canals built through the ODA funds; however, making an overall analysis of the project results, we can say that it did not achieved its main objectives.

¹³⁷ Data taken from the JICA project post evaluation report: "Wengfu fertilizer plant construction project, 1-2", JICA, accessed July 22, 2013, http://www.jica.go.jp/english/our_work/evaluation/oda_loan/post/2002/pdf/020_full.pdf.

Qingdao development project (telecommunications), Qingdao development project (water supply and sewerage), Qingdao development project (highway). The Qingdao development project (highway, water supply and sewerage, telecommunications) was aiming at developing the new opened economic & technological development zone of Huangdao, located South of Qingdao in the Jiaozhou Bay; in order to improve the investment environment of Huangdao, Japan designed a comprehensive program for fostering the development of local transportation and economic infrastructures.

Beijing Capital airport terminal area expansion project. The Beijing Capital Airport terminal area expansion project was answering to the impellent need of increasing the passenger handling capacity of the airport that was always saturated, given that it was built in the 80s, and have a passenger handling capacity of only 3 million people per year. The Japanese ODA project planned the construction of a new passenger terminal building for international and domestic flights (passenger handling capacity 36 million per year) and a new cargo terminal building (120,000 square meter); in addition, the project called for the construction of aprons (464,000 square meter), airport office buildings, staff quarters, infield roads, parking areas, utility facilities, and the provision of special vehicles and consultant service. After the completion of works, the Chinese government further enlarged the capacity of the airport on its own (building a specific cargo terminal for Air China), so that Beijing Capital Airport has become the largest airport hub of China, not only for its passenger volume, but also for its cargo volume.

The third yen loan is characterized by a slight expansion of the main sectors of intervention for the ODA loan projects; as a matter of fact, even if seaports and railways still play the leading role, airports, bridges, highways, telecommunications, fertilizer plants, and water supply projects begun to acquire a certain importance as well. The geographical allocation of ODA projects is also expanding from the coastal regions to the central regions of China, following China's 7th and 8th five year plan main objective of developing the Central and Western provinces of China, in order to reduce the development gap between them and the Chinese coast. Under this framework, China Central provinces, the Yangtze river basin, and the island of Hainan received a special attention from Japanese aid officials. In particular, China Central provinces were seen as an important source of raw materials usable for production in the coastal areas, the Yangtze river was seen as the main waterway from which it was possible to gain access to the Chinese interior regions, whereas Hainan was considered as a strategic island in the middle of the South China Sea, ideal for the construction of a Japanese industrial cluster, and a port of call for Japanese shipping companies. As a consequence, we can say that Japanese private interests in the third yen loan projects are quite visible and clear. Another characteristic of the third yen loan is the absence of commodity loans, indeed, since the Chinese local economy had already achieved an acceptable level of technological and economic development, no more commodity loans were conceded starting from this yen loan. Finally, one curious thing about the third yen loan is that in fiscal year 1994 no ODA loans were provided to China, probably as a form of protest of Japan criticizing China for the 1993 nuclear tests held in Xinjiang.

The fourth yen loan

The ODA projects for China included in the fourth yen loan were: Dalian port Dayao Bay first phase construction project, Hainan development project (Yangpu port), Qingdao port second phase

expansion project, Huanghua port construction project, Shanghai Baoshan infrastructure improvement project, Xi'An-Ankang railway construction project, Shuoxian-Huanghua railway construction project, Guiyang-Loudi railway construction project, Beijing urban railway construction project, Guiyang-Xinzhai highway construction project, Liangping-Changshou highway construction project, Wanxian-Liangping highway construction project, Xinxiang-Zhengzhou highway construction project, Hangzhou-Quzhou expressway construction project, Hainan East expressway expansion project, Xi'An Xianyang international airport terminal expansion project, Urumqi international airport expansion project, Lanzhou Zhongchuan airport expansion project, Shanghai Pudong international airport construction project, Shanxi Hejin thermal power plant project, Sanhe thermal power plant project, Jiangxi Jiujiang thermal power plant, Shanxi Wangqu thermal power plant construction project, Shaanxi Hancheng No.2 thermal power plant construction project, Hunan Yuanshui river basin hydropower development project, Harbin electric network construction project, Chongqing power distribution system rehabilitation project, Wangqu-Laiyang transmission and substation project, Tianjin No. 3 gas works project, Lanzhou-Xining-Lhasa optical fibre cable construction project, Guangzhou-Kunming-Chengdu optical fibre cable construction project, interior regions communications network expansion project, Zhejiang sewage treatment project, Zhanjiang water supply project, Hohhot water supply project, Chengdu water supply project, Chongqing water supply project, Kunming water supply project, Guangxi water supply project, Jiangxi water supply project, Guiyang water supply project, Dalian water supply system rehabilitation project, Shandong Yantai water supply and water induced management project, Beijing No.9 water works expansion project, Suzhou water environmental improvement project, Heilongjiang Songhua river basin environmental improvement project, Xiang river basin Hunan environmental improvement project, Jilin Song Liao river basin environmental improvement project, Shenyang environmental improvement project, Liuzhou environmental improvement project, Lanzhou environmental improvement project, Benxi environmental improvement project, Hohhot and Baotou environmental improvement project, Guiyang environment model city project, Dalian environment model city project, Chongqing environment model city project, Sanjiang plain Longtouqiao reservoir construction project, Liaoning Baishi reservoir construction project, Henan Panshitou reservoir construction project, Jiangxi urban flood control project, Hunan urban flood control project, Hubei urban flood control project, Huai river Henan water pollution control project, Yellow river delta agricultural development project, Sanjiang plain agricultural development program.

Dalian port Dayao Bay first phase construction project. Dalian is a port city located on the extreme tip of the Liaoning peninsula, Dayao Bay is one of the eight port zones in which the port of Dalian is divided; furthermore, the Dayao Bay port zone is adjacent to Dalian economic & technological development zone. The port of Dalian is one of the most important international trade ports of China for its handling capacity¹³⁸, being one of the three largest container shipment ports of north China together with Qingdao and Tianjin; it is the largest transportation hub for the region of Northeast China, serving the three provinces of Liaoning, Jilin and Heilongjiang, which are characterized by the richness in raw materials, and by the presence of some of the most important heavy industries of China. Dalian port facilities were modernized and improved in the 80s through a

¹³⁸ The port of Dalian was indicated in China tenth five year plan as one of Northeast Asia most fundamental port hubs, as a consequence, many projects for the further development of Dalian port infrastructures were implemented by the Chinese Government, after the Japanese ODA loan.

WB loan, however, at the time of the Japanese ODA project appraisal, the port was already congested, due to its limited handling capacity and to the increasing cargo volume in the port; as a result, a project for the enlargement of port handling facilities was conceded by Japan. The Japanese ODA project called for the construction of two general cargo berths (later converted in container berths), two steel berths, a container yard, a port railroad, utility facilities, and the provision of cargo handling machinery (port cranes, forklifts, etc.), port service equipment (tug boats, railroad locomotives, etc.), environmental protection equipment, port management equipment, and a technical cooperation program. After the completion of works, the port cargo handling capacity of Dayao Bay rapidly increased, and the problem of port congestion was solved; moreover, the economic development of the three Northeast provinces of Liaoning, Jilin and Heilongjiang was stimulated as well. The Japanese yen loan built port infrastructures increased the container handling capacity of Dayao Bay, transforming it into a specialized container handling port zone, that was widely utilized by Japanese companies operating in the adjacent Dalian economic & technological development zone.

Huanghua port construction project. The Japanese ODA projects for the construction of Huanghua¹³⁹ port and the construction of the Shuoxian-Huanghua railway are strictly connected; the bond between the two projects is coal, which is produced in the Shenfu Dongsheng coalfield on the border between Shaanxi and Inner Mongolia. The Japanese ODA answered to the need of enhancing the coal transportation capacity from this mine to the coast, as well as to the need of increasing the coal handling capacity of Huanghua port. The project included the construction of a railway linking Shenchu, in the South of the Shenfu Dongsheng coalfield, with Huanghua port via Shuoxian, and the construction of three coal berths in the port of Huanghua with an annual capacity of 30 million tons. Under the ODA project for the railway line were built 599 km of railroad, 43 train stations, annexed buildings, communications and electric facilities, and were provided a total of 41 locomotives, and 3000 freight carriages; on the other hand, the Huanghua port project called for the construction of three coal berths (one 35,000 DWT and two 50,000 DWT), coal loading and unloading sites, coal storage beds, a ships access bank, a pier, searoads and anchorage areas, utility facilities, plus the provision of loading equipment. After the completion of works, the coal transportation capacity of the new railway overcome the 70 million tons per year in 2003 (the double of the amount at the time of the project appraisal), while the new built berths coal handling capacity reached the planned 30 million tons per year in 2003. Thanks to this project, the port of Huanghua has become the third largest port of China for its coal handling capacity, after Tianjin and Qinhuangdao; the total coal handling capacity of Huanghua in 2006 was around 80 million tons per year, of which 5 million tons were shipped to Japan and Korea, that were the largest foreign importers¹⁴⁰.

Shanghai Baoshan infrastructure improvement project. The Shanghai Baoshan port area is located 20 km North of the city centre of Shanghai, between the Yangtze South river bank and the Huangpu West river bank; before the Japanese ODA intervention, a total of six berths existed in the area, among them one was a container berth situated in the Baoshan No.14 port area, four were exclusively operated by the Shanghai Baosteel Corporation, the largest steel producer of China,

¹³⁹ Huanghua is a port city located in the province of Hebei, South of Tianjin, overlooking the Bohai Gulf.

¹⁴⁰ Data taken from the JICA project post evaluation report: "Huanghua Port construction project", JICA, accessed July 19, 2013, http://www2.jica.go.jp/en/evaluation/pdf/2009_CXXII-P141_4.pdf.

whereas the last one was property of the Shidongkou thermal power plant. According to JICA post evaluation report, the Baosteel Corporation is the main beneficiary of the Japanese ODA project, indeed, the development of the steel industry was one of the main objectives of China ninth five year plan. The main problems affecting Baoshan, and in particular the Shanghai Baosteel Corporation, before the ODA project implementation were the low cargo handling capacity of Baoshan port, and the heavy power shortages registered in the area. As a consequence, the Japanese intervention focused on two main projects, the construction of additional berths in the port for the handling of raw materials, and the construction of a new thermal power plant for providing the necessary power supply to the Baosteel Corporation. In order to address the development of the local steel industry, the Japanese ODA project included the construction of three berths for the handling of iron ores and coal (with an annual capacity of 14 million tons), utility facilities, plus the provision of cargo handling equipment, port control equipment, and port service equipment; while, for the provision of power supply a coal alimented 350MW thermal power generation unit was projected. As a result, in 2003 the target handling capacity of the port berths was reached, with coal and iron ores as its principal cargo¹⁴¹, whereas the target power supply capacity of the new power plant resulted higher than the one calculated in the project appraisal, thus providing electric power not only for the Baosteel Corporation, but also for the city of Shanghai. After the projects implementation, the Baosteel production of crude steel increased from 7,5 million tons in 1999 to 11,55 million tons in 2003¹⁴²; therefore, the production of automobiles plates (one of the main products of Baosteel) and electric appliances parts increased as well, providing more competitive products to Baosteel customers, who included Chinese domestic automobile makers and Japanese companies operating in the Shanghai area.

Urumqi international airport expansion project. Urumqi is the provincial capital of the autonomous region of Xinjiang, this westernmost province of China is very rich in natural resources, such as oil, iron and gas, so that it attract many international investors from all over the regions around its vast territory; furthermore, it possess many touristic attractions such as the historic ruins situated along the old Chinese Silk Road, the Taklimakan desert, beautiful landscapes, etc. As a consequence, one of China tenth five year plan most relevant objectives was to transform Urumqi airport into an international airport hub, in order to link Europe and Asia. The old Urumqi airport of Diwopu built in 1973 was so old and damaged by the hard climatic conditions of Xinjiang that even flight safety could not be assured, so that, it could not accommodate the increasing volume of passengers coming to Urumqi for business or sightseeing; as a consequence, an ODA for the expansion and renovation of the old airport facilities was conceded by Japan. The original Japanese project experienced many changes, due to the further expansion of the airport wanted by China; as a result, the ODA funds covered only the construction of the passenger terminal building (47,800 square meter) with the annexed facilities and the provision of special airport vehicles, while the construction of the airport runway, hangar, installation of air safety equipment, and utility facilities were all supported by Chinese domestic funds. After the project completion, the airport quadruplicated its area, being able to accommodate large aircrafts such as Boeing 747, and eliminating the problem of airport congestion; however, until 2001, when the airline market was

¹⁴¹ Coal was used both for the production of steel and for fuelling the new power plant, while iron ores were principally utilized for the production of steel.

¹⁴² Data collected from the JICA project post evaluation report: "Shanghai Baoshan infrastructure improvement project, 1-2", JICA, accessed July 13, 2013, http://www.jica.go.jp/english/our_work/evaluation/oda_loan/post/2005/pdf/2-24_smry.pdf.

liberalized in China, the number of flights arriving to Urumqi remained quite low. On the contrary, after the 2001 liberalization the volume of passenger and cargo handled at Urumqi international airport rose dramatically, by far surpassing the prevision at the time of the project appraisal; thus indicating the successfulness of the project. Moreover, the regional economic development was stimulated by the expansion of airport facilities, in particular through the increased tourism business, involving foreign and domestic tourist attracted by the cultural, historic, and natural richness of Xinjiang¹⁴³.

Shanghai Pudong international airport construction project. The saturation of the Hongqiao airport in Shanghai and the increasing demand for a larger passenger and cargo aerial handling capacity were the main reasons why a Japanese ODA loan project was conceded for the construction of Pudong international airport. The new airport had to be built in the area of Pudong, a new fast developing district of Shanghai at that time, located on the East bank of Huangpu river; the project for the expansion of the old Hongqiao airport was abolished due to its position in the centre of the city, furthermore it was expected that the new airport in the Pudong area would had strongly stimulated the economic development of this district of Shanghai. The Japanese project planned the construction of a passenger terminal building for international flights (280,000 square meter), a cargo terminal building (65,000 square meter), a landing area, a runway and taxiway, 34 aprons, a parking area, utility facilities, plus the provision of airport vehicles and consulting services. The airport was completed in 1999, and opened in 2000 after one year of testing, however, the annual volume of passenger expected at the time of the project appraisal was not reached, with 5,55 million passengers against a forecast of 7 million¹⁴⁴; on the other hand, the annual handled cargo volume exceeded the prevision at the time of the appraisal, with 270,000 tons against the forecast of 250,000 tons. Moreover, in the following years the volume of passengers and cargo handled at the Pudong international airport had been continuously growing, also thanks to the construction in 2004 of the new magnetic levitation train that connected Pudong international airport with Shanghai city centre, thus eliminating the previous airport connection problem. The Pudong district experienced a wide economic development (especially the tertiary sector) during and after the construction of the new airport infrastructures, with an annual economic growth rate between 16-20%; as a result, the international investment environment of Pudong improved dramatically, providing new investment opportunities for Japanese companies in the area¹⁴⁵.

Tianjin No. 3 gas works project. The increasing demand for gas in the city of Tianjin by citizens and local industries (in particular the steel industry) was the main reason why the ODA project for the construction of Tianjin No.3 gas plant was approved in the fourth yen loan. The project aimed at the stabilization of the gas supply in the Tianjin area by building a coal gasification plant able to produce 1 million cubic meter gas per day, thus providing an alternative energy source more eco-friendly than coal and oil. The Japanese project planned the construction of a coal gasification plant in the district of Dongli, East of Tianjin, included all the annexed facilities (roads, railroads,

¹⁴³ Data collected from the JICA project post evaluation report: "Urumqi International Airport expansion project", JICA, accessed August 1, 2013, http://www.jica.go.jp/activities/evaluation/oda_loan/after/2006/pdf/project_19.pdf.

¹⁴⁴ According to the JICA post evaluation report of the project, there were three main causes for this phenomenon: the ability of handling passengers over capacity at Hongqiao airport, the inability of the new Pudong airport in fiscal year 2000 to reach its full scale operation capacity, and the inconvenient access to the Pudong airport.

¹⁴⁵ Data taken from the JICA project post evaluation report: "Shanghai Pudong International Airport construction project", JICA, accessed June 27, 2013, http://www.jica.go.jp/english/our_work/evaluation/oda_loan/post/2002/pdf/007_full.pdf.

waterworks, power transmission lines, etc.), and the installation of the pipelines that would had transported gas to the city of Tianjin and to Tianjin Economic & Technological Development Zone. Nonetheless, in a second moment, it was decided by the Chinese government to provide natural gas to the Economic & Technological Development Zone, whereas the gas produced in Tianjin No.3 gas works was redirected to the Haihe steel industry zone. After the completion of works, the target gas production was reached in fiscal year 2003, and the main beneficiaries of the project became two of the local industries in the Haihe area, Tianjin Pipe Corporation and Tianjin Steel Plant receiving 75% of the gas production, while Tianjin citizens received only 25% of the production; as a consequence, the steel production in Tianjin steel industry increased by more than 20% in the year after the project completion. Furthermore, the new gas plant was producing as by-product of the process of gasification a large quantity of high-quality coke (1 million tons in 2003), which is a precious material for the production of high-quality steel; in this framework, Japan has been receiving from this plant an annual quantity of 0,2 million tons of high-quality coke (the remaining part is sold in China), as the economic supporter of this gas plant project, thus earning a reasonable advantage, considering the high cost of this quality of coke¹⁴⁶.

Shanxi Wangqu thermal power plant construction project, Wangqu-Laiyang transmission and substation project. The Wangqu thermal power plant construction project and the Wangqu-Laiyang transmission and substation project implemented under Japanese ODA loan funding are connected by the coal extracted in the province of Shanxi. Indeed, Shanxi is the largest coal mine of China, and the abundant presence of this source of energy has been exploited not only by the primary industry, exporting coal, but also by the tertiary industry, exporting energy produced through coal fired thermal power plants¹⁴⁷. In our case, the Japanese ODA called for the construction of two coal alimented 600MW power generations units in the city of Changzhi, Shanxi province, plus the installation of transmission lines in order to transport the energy produced here to Laiyang, in the province of Shandong, that was experiencing power shortages, due to the increased demand for power supply. The projects were both successful, so that the energy produced by Wangqu power plant was utilized not only for fostering the economic development of Shandong, through an increased electric power supply, but also for the development of transportation infrastructures in Shanxi province, where the energy produced in loco was used for improving the efficiency of its coal transportation systems.

Interior regions communications network expansion project. The project for the expansion of interior regions telecommunications network was aiming at reducing the disparity between China coast and its hinterland, through the development and modernization of the poor telephone communications network of 6 interior provinces of China, in order to improve the local investment environment and consequentially foster their economic development. The ODA project was addressing the particularly underdeveloped provinces of Inner Mongolia, Ningxia, Qinghai, Guizhou, Gansu and Xinjiang. The project planned the construction of: local switches and a satellite communication network in Xinjiang; local switches, fibre optic cable transmission lines in Gansu; local switches, fibre optic cable transmission lines, subscriber circuits in Qinghai; local switches, fibre optic cable transmission lines in Ningxia; local switches in Guizhou; local switches, fibre optic

¹⁴⁶ Data taken from the JICA project post evaluation report: "Tianjin No.3 gas works project", JICA, accessed June 27, 2013, http://www.jica.go.jp/english/our_work/evaluation/oda_loan/post/2005/pdf/2-23_full.pdf.

¹⁴⁷ The energy produced in Shanxi for the purpose of being transmitted to other regions of China is principally exported to Beijing, Tianjin, and Shandong, and also in minor quantity to the South of China.

cable transmission lines, No.7 type command network in Inner Mongolia. After the completion of the project, the subscriber households to the telephone service doubled in all the provinces, and the telephone density target fixed at the time of the project appraisal was surpassed in all the provinces as well; for example, the telephone traffic density in Gansu province increased 9 times from 1995 to 2003. In addition, in a second moment, the users of fixed telephone lines become also able to utilize internet; as a consequence, we can say that the project had improved the investment and business environment of these regions, contributing to the economic development and providing new opportunities to local people.

Suzhou water environmental improvement project. Suzhou is one of the largest cities of Jiangsu province, located 80 km West of Shanghai; this city is famous for its canals crossing the city, and covering 43% of the city surface area, indeed, this city is sometimes called the Venice of the East. The main problem affecting the city at the time of the ODA project was the increasing pollution of the water in the canals, that reached a level so low which was not classifiable in the water pollution scale adopted by China; this was due to the growing population of the city and to the fast developing industrial zones located in the area around Suzhou. The Japanese ODA answered to this problem by planning the construction of two sewage treatment plants, a 110 km sewer line, pumping stations, and promoting waterways and channels improvement works; the main objectives of the project were cleaning the water in the canals, enhancing the furniture of industrial and potable water to Suzhou area, and producing fertilizer from the sludge of the treatment plants. The ODA built treatment plants showed their efficiency by treating 320,000 cubic meter of water per day in total, and reducing by more than 50% the water pollution, thus improving the quality of water in the canals, that reached the level four of the Chinese national standard; after the completion of the Japanese ODA project, two more expansion phases implemented by the WB and the local government followed, starting from the ODA built facilities. This project is important because it improved not only the living conditions of the citizens of Suzhou, but also that of the large Japanese community that live there, given that many Japanese companies are present in Suzhou surrounding areas¹⁴⁸.

Benxi environmental improvement project. Benxi is the second largest steel producing district of Liaoning province after Anshan; its steel factories are famous because were the first to be developed by Japan in the first half of the 20th century, during the Japanese military occupation of Liaoning. As a result, Benxi had always been an important steel production pole in Northeast China, especially after China economic reforms of 1978 that accelerated the economic development in the area, fostering the local growth of steel and cement industries. As a consequence, the emissions of these factories, that were mainly utilizing coal and oil as their energy supply, together with the geographic characteristics of the city of Benxi, which is situated in a valley surrounded by mountains, provoked a heavy environmental pollution in the city. Both air pollution and water pollution, in particular in the Taizi river flowing across the city, reached a very high level, so that an intervention for the improvement of the local environment become extremely necessary. The Japanese ODA projected the installation of pollution control facilities in the factories that were releasing contaminant substances in the river and in the air, the construction of a water intake station, and the construction of an environmental observation centre. The Japanese intervention was

¹⁴⁸ Data taken from the JICA post evaluation report of the project: “Suzhou water environmental improvement project”, JICA, accessed June 27, 2013, http://www2.jica.go.jp/en/evaluation/pdf/2010_CXXI-P116_4.pdf.

divided into 20 subprojects that had to be executed by the Chinese domestic companies who won the bid for the contracts, however, due to the reform of the Chinese State Owned Enterprises of 1998, some of the companies involved in these projects went bankrupt; as a result, only 14 of the original 20 projects were implemented. Nonetheless, The majority of the completed subprojects resulted highly successful, reducing the water pollution in the river, providing potable water supply, and furnishing new gas supply facilities; from an overall analysis, we can say that the air quality and water quality in Benxi much improved, thus ameliorating the living conditions of the local citizens and the sustainability of the local industrial production.

Dalian environment model city project. This type of project aims at the reduction and control of air pollution, and at the building of environmental monitoring systems, under the so called “Environment model city framework” that was established during the Japan-China environmental cooperation summit in 1997¹⁴⁹; in China two more environment model city projects were implemented by Japan in Chongqing and Guiyang. Before the project implementation, Dalian air was heavy polluted, due to the wide use of coal for the production of the city energetic supply (69% of the total was obtained by coal), to the fast industrial development of the city, and to the increasing number of vehicles circulating in Dalian; as a consequence, Dalian was chosen as one of the three cities in which the environment model city project was most needed. The Japanese ODA project was divided into four subprojects: Dalian pharmaceutical factory environmental protection project, thermal power station project in Yandao chemical area, Dalian cement plant dust pollution treatment project, Dalian steel plant air pollution treatment project. According to the JICA post evaluation report of the project, all the subprojects succeeded in reducing the pollution level of the factories involved, however, the reduction of Dalian air pollution in the aftermath of the completion of the projects was only partial; indeed, due to the fast industrial growth of Dalian the air pollution still remained high, even if more controlled than before. The project slightly improved the air quality of Dalian, thus ameliorating the living conditions of the local citizens and of the large local Japanese community; in addition, the Japanese ODA project provided an example to Dalian city government to be followed during the process of economic growth, in order to promote a more sustainable industrial development.

Sanjiang plain Longtougiao reservoir construction project. This project mainly aimed at solving the problem of food shortages in China; given that, Heilongjiang had a large potentiality for food production, but low land productivity, a project for the improvement of agriculture in this region was asked to Japan. The area selected for the implementation of this project was the fertile alluvial plain of Sanjiang (the largest plain of Northeast China), formed by the three rivers of Heilongjiang, Songhuajiang and Wusulijiang. The main objective of the project was building a water reservoir through a dam on the course of the river Naolihe, in the prefecture of Baoqing, so that a stable supply of water could be provided to the fields located on the downstream of the river, enhancing the local agricultural production. Furthermore, the dam had to be used also for the control of flooding, for the production of electric energy, and for the establishment of a fish farm; therefore, fostering the local economic development and improving the farmers living conditions. Nonetheless, in a second moment the project was changed by the Japanese experts, who retained the implementation of additional works for the construction of agricultural and irrigation facilities on

¹⁴⁹ See Chart 22 at the end of this chapter for more information about the Japan-China environmental cooperation summit.

the downstream of the river necessary, in order to expand the territory benefitting from water coming from the dam to the 18% of the Baoqing prefecture cultivated land. After the completion of works, the agricultural production in the area affected by the project augmented from 200,230 tons in 1994 to 533,905 tons in 2004, with the culture of cereals as the main crop, including rice, soybeans, and corn; in addition, the dam eliminated the serious problem of floods that were periodically destroying crops and transforming cultivated fields into swamps. Even if the project completion was delayed, due to modifications of the original plan, the main objective of increasing the food production of Baoqing prefecture was achieved; as a result, the Japanese imports of food from this region of China increased as well¹⁵⁰.

Yellow river delta agricultural development project. This project aimed at enhancing the food production of the Yellow river delta, located in the province of Shandong; indeed, at the time of the implementation of the project, the province of Shandong was the second largest producer of food in China, and it possessed the third largest cultivated area of China. The Yellow river flowing across Shandong was the secret allowing this region to have such an high food production. However, the irrigation facilities of Shandong were not sufficient, therefore, many fields were accumulating salts in their ground, so that only 60% of the cultivable land was being utilized; as a consequence, a project for the improvement of irrigation facilities was needed. The main objective of the ODA project was to develop 34,000 hectares of land, in the Xiazhen area (Dongying city) and the Daluhu area (Zibo city), through the improvement of agricultural and irrigation facilities, thus promoting an efficient utilization of Shandong water resources, an increased food production, and an higher peasants income. The Japanese ODA project planned the construction of water reservoirs, pump facilities, irrigation canals, drainage canals, transmission facilities, civil engineer works, and the provision of construction machineries and farming equipment. Furthermore, due to the inundation of the project area of Xiazhen in 2003 provoked by the adjacent Bohai sea during a rainstorm, additional works for the construction of a 32 km embankment on the coast were introduced in the original plan. After the project completion, the planned amount of cultivated land was achieved, reaching 34,667 hectares, however, the food production was only 60% of the target, due to changes in the type of crops and to the use of a single cropping pattern; as a matter of fact, the more profitable crops of cotton and maize were substituted to the original crops, thus producing a lower food production, but, an higher income for the farmers, that by far surpassed the one calculated at the time of project appraisal. The increased income of the peasants improved their living conditions, and consequentially fostered the economic development of the area, thus showing the alternative effectiveness of this project.¹⁵¹

The fourth yen loan is characterized by ODA loan projects involving all the sectors of economic infrastructures and social infrastructures, thus showing the changes produced by the 1992 ODA Charter that promoted the development of social infrastructures and protection of the environment over the classic economic infrastructures. As a matter of fact, we can see several projects for the environmental improvement of water and air, project for the prevention of floods, projects for the development of agriculture, etc. The geographic allocation of projects is as well changed, following

¹⁵⁰ Data taken from the JICA project post evaluation report: "Sanjiang Plain Longtougiao Reservoir construction project", JICA, accessed August 1, 2013, http://www.jica.go.jp/english/our_work/evaluation/oda_loan/post/2006/pdf/project21_full.pdf.

¹⁵¹ Data taken from the JICA project post evaluation report: "Yellow River Delta agricultural development project", JICA, accessed August 1, 2013, http://www2.jica.go.jp/en/evaluation/pdf/2010_CXXI-P126_4.pdf.

the new patterns suggested by the Chinese Government, in order to foster the development of the Central and Western regions of China, through the construction of both economic and social infrastructures. On the other hand, the Japanese economic interests are less stronger than the past in this yen loan, given that there are also loans dedicated to the improvement of the environmental conditions and to the development of social infrastructures in China. The fourth yen loan is the last conceded on a five year plan basis, so that, starting from 2001, I will analyze yen loans annually.

2001 yen loan

The ODA loan projects for fiscal year 2001 were: Heilongjiang Heihe-Beian road construction project, Chongqing urban railway construction project, Wuhan urban railway construction project, Zipingpu multipurpose dam construction project, Shandong Tai'An pumped storage power station project, Hubei small sized hydropower project, Gansu small sized hydropower project, Changsha water supply project, Yingkou water supply project, Tangshan water supply project, Xinjiang water saving irrigation project, Gansu water saving irrigation project, Tianjin wastewater treatment project, Dalian water supply and wastewater treatment project, Shanxi loess plateau afforestation project, Shaanxi loess plateau afforestation project, Inner Mongolia loess plateau afforestation project, Liaoning television & radio infrastructure improvement project.

The 2001 yen loan is characterized by interventions mainly focused on the sectors of urban infrastructures, energy, telecommunications, water supply, and afforestation; this is the first yen loan where economic infrastructure projects dedicated to the development of export facilities are not present, thus illustrating the ODA policy shift produced by the 2001 Economic Cooperation Program for China. In addition, for the first time we can see here a geographical prevalence of projects implemented in the Central and Western regions of China, against the coastal regions; even if a bunch of projects for the development of social infrastructures in the Bohai Gulf are present. However, except the projects for the development of the Bohai gulf, in the 2001 yen loan we cannot see any intervention deeply related with the Japanese private interests strategy in China; therefore, underlining the improved quality of Japanese official development assistance. Finally, another interesting thing to note is that this is the last yen loan where a large number of projects are destined to Chinese economic infrastructures; indeed, starting from the next yen loan the principles of the Economic Cooperation Program for China and the 1992 renewed Japanese ODA philosophy will be applied more strictly, so that, almost all the ODA funds will be dedicated to social and environmental development.

2002 yen loan

The main projects for the Japanese yen loan of 2002 were: Hunan province road construction project, Gansu province road construction project, Shanxi Xilongchi pumped storage power station project, Gansu higher education project, Chongqing higher education project, Hunan higher education project, Yunnan higher education project, Shaanxi higher education project, Sichuan higher education project, Xi'An environmental improvement project, Chongqing environmental improvement project, Beijing environmental improvement project, Anshan environmental improvement project, Taiyuan environmental improvement project, Ningxia afforestation and vegetation cover project.

The main sectors of intervention for the 2002 ODA loan projects are education and environmental protection; as a matter of fact, the shift registered in 2001 had strongly affected the type of projects implemented in China, with only three loans directed at the development of economic infrastructures in 2002. The geographical allocation of projects had entirely moved to the Central and Western regions of China, while the relevance of Japanese private interests in the projects is very low.

2003 yen loan

The ODA loan projects for 2003 were: Yichang environmental improvement project, Nanning environmental improvement project, Henan environmental improvement project, Anhui environmental improvement project, Gansu afforestation and vegetation cover project, Inner Mongolia afforestation and vegetation cover project, inland higher education project-Jilin province, inland higher education project-Guizhou province, inland higher education project-Anhui province, inland higher education project-Xinjiang Uygur autonomous region, inland higher education project-Guangxi Zhuang autonomous region, inland higher education project-Henan province, Hunan environmental and living conditions improvement project.

The 2003 yen loan is characterized by interventions in the sectors of environmental improvement, afforestation and education, marking for the first time the complete absence of projects aiming at the development of economic infrastructures. Furthermore, the majority of ODA loans here are implemented in the poorest provinces of China located in the Chinese hinterland; as a consequence, we can presume the absence of Japanese private interests.

2004 yen loan

The Japanese ODA loan projects for fiscal year 2004 were: Shanxi public health project, Liaoning public health project, Jilin public health project, Jiangxi public health project, Hunan public health project, Hubei public health project, Henan public health project, Heilongjiang public health project, Hebei public health project, Anhui public health project, inland higher education project-Shanxi province, inland higher education project-Qinghai province, inland higher education project-Ningxia Hui autonomous region, inland higher education project-Jiangxi province, inland higher education project-Hubei province, inland higher education project-Heilongjiang province, broadcasting infrastructure improvement project-Yunnan province, broadcasting infrastructure improvement project-Qinghai province, broadcasting infrastructure improvement project-Ningxia autonomous region, broadcasting infrastructure improvement project-Jinan city-Shandong province, broadcasting infrastructure improvement project-Jilin province, broadcasting infrastructure improvement project-Anhui province, Hohhot environmental improvement project, Jiangxi afforestation project, Hubei afforestation project.

The 2004 ODA loans are principally concentrated in the sectors of public health, education, telecommunications and afforestation; so that, in this yen loan we can see a return to the development of economic infrastructures, even if the greater attention is on health and education. The geographic allocation of projects is once more time focused on China Central and Western regions, with some exceptions such as Liaoning, Hebei or Shandong province. In this case as well strong linkages with Japanese private interests are not visible; however, the development of high

qualified human resources could be seen as useful to Japanese companies operating in the areas interested by the projects, in order to acquire a cheap skilled working force.

2005 yen loan

The Japanese ODA loan projects for China in fiscal year 2005 were: Xinjiang Uygur autonomous region Yining city comprehensive environmental renovation project, Guiyang environmental improvement project, Shaanxi water environmental improvement project, eco-environmental construction and general treatment project of the Yangtze upper reaches in Sichuan province, Changsha diversion works and water quality environmental project, Baotou atmospheric environmental improvement project, inland higher education project-Inner Mongolia autonomous region.

The 2005 loans are mainly focused on the development of environmental protection in the Western and North provinces of China.

2006 yen loan

The Japanese ODA loan projects for fiscal year 2006 were: Jilin province Jilin city comprehensive environment improvement project, Henan province afforestation project, Yunnan province Kunming city water environment improvement project, Heilongjiang province Harbin city water environment improvement project, Guangxi Zhuang autonomous region Yulin city water environment improvement project, Inner Mongolia autonomous region Hohhot city atmospheric environment improvement project, Liaoning higher education project, Hebei higher education project, Hainan higher education project, Guizhou province environment improvement and education project.

The 2006 yen loan interventions are concentrated in the sectors of water and air environmental improvement, afforestation and education; in this case the regions receiving the largest number of projects are the Northernmost and Southernmost provinces of China.

2007 yen loan

The Japanese ODA loan projects for 2007 were: Xinjiang environmental improvement project, Henan province Nanyang city environmental improvement project, Sichuan water environmental improvement project, Anhui water environmental improvement project, Ningxia water environmental improvement project, Jilin afforestation project, Qinghai ecological environment improvement project, Hunan municipal solid waste treatment project, Anhui municipal solid waste treatment project, Gansu province Lanzhou city atmospheric environmental improvement project.

The 2007 loans are principally directed to the sectors of water and air environmental improvement and waste treatment, thus underlining again the importance acquired by activities for the protection of the environment in China starting from the shift of 2001. Once more time, the regions interested by the projects are the Central and Western provinces of China.

Foreign Direct Investments

According to Professor Lin Xiaoguang, Japanese ODA to China is a primary form of FDI necessary to build the basis for the FDI that will come in a second moment, indeed, ODA reduces the risks and lowers the capital costs for future Japanese FDI; thus favouring Japanese companies who enter in the Chinese market¹⁵². As a consequence, we can consider the Japanese ODA projects we analysed in the previous paragraph as foreign direct investment of the Japanese government who wanted to build a suitable investment environment for Japanese companies in China. Thereby, the history of Japanese official development assistance to China, can be seen as a fundamental background for the history of foreign direct investments to China.

Starting from this observation of Professor Lin, I would like to resume here a simple history of the Japanese FDI to China, basing on the analysis proposed by Professor Shibota Atsuo in the 2009 RIETI (Research Institute of Economy, Trade & Industry) policy discussion paper about the Japanese FDI in China¹⁵³.

The theory proposed by Professor Shibota rotates around one main hypothesis, affirming that in the history of Japanese investments to China we can recognize three main booms, respectively in the 80s, in the 90s, and in the 2000s; every boom has its own peculiarities concerning the causes of investments, the principal areas of investments, and the sectors of investments. The boom of the 80s is characterized by cheap labour cost as the main reason of investment, and by the area of Dalian as the main location for Japanese investments; furthermore the main categories of investments are the textile, the food processing, and the light industries (miscellaneous goods). The second boom is divided into two periods, the first half of the 90s and the second half of the 90s, since during the 90s an expansion of the location, reasons, and sectors of investments is registered. The causes of investments for the first half of the 90s are cheap labour cost, economic infrastructures development, and marketization of the Chinese economy, while the main areas of investments are still Dalian and the Pearl River Delta (mainly Guangzhou); the main sectors of investments are electrical, machinery, automotive, and motorbike, in addition to the old ones (textile, light industries, food processing). On the other hand, the reasons of investment for the second half of the 90s are the ones of the first half of the 90s, plus the Chinese local supply (due to the improved Chinese technological skills), whereas for the areas of investments, we still have the Pearl River Delta, in addition to the new area of the Yangtze River Delta (principally Shanghai); the main categories of investments are the chemical, the electrical component, the machinery component, and the ones of the first half of the 90s. Finally, the causes of the 2000s boom are China entrance in the WTO, the new market created around the Yangtze river, and the possibility of making large profits in China, plus the previous ones; the areas of investment expand from the Pearl River and the Yangtze River Delta to the Bohai Gulf (Tianjin, Dalian) in North China, whereas the sectors of investments expand from the previous ones to the software development and the R&D.

The first boom of Japanese investments in the 80s was focused on the area of Dalian, given that this city provided many advantages to Japanese companies; indeed, the city had been occupied by

¹⁵² Xiaoguang Lin, *Japan's ODA and the Sino-Japanese relations* (Beijing: Shijie Zhishi Chubanshe, 2007), 256.

¹⁵³ Atsuo Shibota, "Japanese investments in China", in *Policy Discussion Paper series P-004* (RIETI: 2009). <http://www.rieti.go.jp/jp/publications/pdp/09p004.pdf>

Japanese troops in the first half of the 20th century, so that there was a consistent part of the local population that could speak Japanese, furthermore, being modernized by Japanese during the military occupation, the city of Dalian presented fewer infrastructural problems, and consequentially fewer economic risks for FDI than other places in China. On the other hand, the already spoken cheap Chinese cost of labour, the richness in raw materials and food production of Northeast China (Liaoning, Jilin, Heilongjiang), and the geographical proximity of Dalian to Japan, were further enhancing the profitability of FDI in Dalian. As a result, the first Japanese FDI here concentrated on food processing, textile products, and light industries; for instance, we can cite the examples of Dalian Kowa Foods Company established in 1988, and Mishima Foods Dalian founded 1988 as well.

During the second boom of Japanese FDI to China, Dalian remained until the first half of the 90s one of the main investment areas for Japanese companies who mainly exported their products back to Japan, whereas, the Pearl River Delta, and the Yangtze River Delta became the most relevant areas for the production destined to the international markets. Indeed, the two largest production areas of China at that time were around Guangzhou and Shanghai, so that many Japanese companies clustered in the surroundings of these cities. The main advantages provided to Japanese businesses by the Pearl river delta and the Yangtze river delta according to Professor Shibota were the presence of the Japanese ODA and World Bank built modern economic infrastructures, a more favourable tax treatment (since these areas were full of SEZ and ETDZ), and starting from the second half of the 90s the possibility of effecting local supply in China. On the basis of these advantages, it became possible for Japanese companies to implement almost a full scale delocalization of the production processes in China, thus cutting production costs and eliminating the need of importing high tech components from Japan, for then exporting Japanese products to the USA and Europe. These favourable investment conditions most increased the range of sectors invested by Japan, with the leading sectors of machinery, electric & electrical components, automotive, and chemical; some examples can be Omron Dalian (medical devices), Toshiba Guangzhou and Toshiba Shanghai (TV, electrical devices), Mabuchi Motor Dalian (engines), or Mitsubishi electric Shanghai and Mitsubishi electric Guangzhou (automotive parts, elevators, compressors).

The third boom in the 2000s is principally caused by the entrance of China in the WTO, which allowed Japanese products to be sold in the Chinese domestic market on a competitive basis, thus creating many possibilities for enormous economic profits. Considering that the Japanese FDI investment strategy changed during this period, with a larger focus on the sales in the Chinese market over the exportation, the areas of concentration of the Japanese FDI became the ones where Chinese GDP per capita was higher, given that in those places the local population purchasing power was sufficient to buy Japanese goods. As a consequence, The Yangtze river delta, the Pearl river delta and the Bohai Gulf became the largest recipients of Japanese FDI in the 2000s; as a matter of fact, in these three areas were located all the richest cities of China, such as Shanghai, Suzhou, Wuhan, Chongqing, Guangzhou, Tianjin, Qingdao, Beijing, Dalian, etc. In particular, during this third boom the vital zone of the Bohai Gulf, where the largest seaports of the North of China are concentrated (Qingdao, Tianjin, Tangshan, Qinhuangdao, Huanghua, Yingkou, Dalian) was transformed into a huge Japanese production cluster, due to the advantages that characterize this area: presence of some of the richest cities of China, modern industrial facilities (with the

leading industries of metal production, automotive, logistic, software development, R&D, medical, chemical, food processing), modern transportation infrastructures (above all seaports), richness in raw materials, high percentage of qualified working force, high percentage of Japanese speakers, strategic geographical position. In particular, one of the most outstanding features of the Bohai area is the high technological skills of the local Chinese workers, which was developed by both Japanese ODA loan programs and Japanese corporations trainings, so that the Japanese companies operating in the sectors of software development and R&D were able to obtain extraordinary results here. As a consequence, the Bohai area, that in the past was principally utilized as a source of raw materials and a production base for products that had to be exported to Japan, changed its main function, becoming a huge Japanese production platform for both exports in the international markets and sales in the Chinese national market. A few examples of Japanese FDI directed at conquering the Chinese domestic market were the 2002 accord of Toyota motors with the Chinese government for the foundation of the Tianjin FAW Toyota Motor Company Limited, and the foundation of Mitsubishi Electric Automation China Company Limited in 2002 in Shanghai.

According to Shibota's scheme Japanese FDI in China were inspired by different causes in different periods of time, and focused on particular locations in response to determined needs; in addition, is important to note that many connections can be found between the FDI strategy described by Shibota and the ODA strategy of the Japanese government. In conclusion, we can say that Professor Shibota's theory is really important for understanding the pattern of investment followed by Japanese FDI from the 80s until the end of the 2000s in China; in particular his scheme will be very useful for the analysis of the different types of FDI implemented by Japan in China.

THE SHIFT OF 2001: THE ECONOMIC COOPERATION PROGRAM FOR CHINA AND THE ENTRANCE OF CHINA IN THE WTO

Fiscal year 2001 is the year of the shift in the Japanese investment policy toward China, the two main events that provoked this phenomenon are the "Economic Cooperation Program for China" issued by the Japanese Ministry of Foreign Affairs and the entrance of China in the WTO¹⁵⁴. The shift I am talking about regard the Japanese investment strategy in China, which changed from a focus on the Chinese exporting platforms to a focus on the penetration of the Chinese domestic market; indeed, as Professor Cassidy affirm in its book:

...Japan has used China as an export platform, given its low wages, rather than prioritizing market access, at least in the short term. But this will no doubt change, as the Chinese market becomes more attractive with WTO membership in 2001.¹⁵⁵

The Economic Cooperation Program for China (ECPC) was the answer of Japan to the changed economic framework that characterized China at that time; indeed, according to the ECPC:

- China had become an economic and military power, as well as a business competitor of Japan.

¹⁵⁴ In this framework, we cannot underestimate the role played by the shift in the Japanese foreign policy toward China as well, due to the election in 2001 of the radical right wing Japanese Prime Minister Koizumi Junichiro, who was one of the main promoters of the China ODA policy shift, calling for an initial reduction and a future abolishment of ODA loan projects to China.

¹⁵⁵ Cassidy, *Japanese Direct Investment China*, 154.

- China had become able to raise funds from its domestic market and from the international markets, furthermore, the Chinese private sector had become able to raise funds on its own.
- There were some development needs in the so called “soft areas”, that China could not be able to satisfy on its own by raising funds, such as the institution building, the legal systems, and the development of human resources, which were necessary for the integration of China in the international community as well as in the WTO.

As a consequence, in order to address the above issues, the Japanese ODA loan policy experienced an alteration; so that the new directions for the future implementation of ODA in China become:

- The need for more accurate reviews of project proposals, establishing priority areas, and conciliating Chinese and Japanese interests.
- China had to implement on its own the projects that are affordable for its technological level of development, in particular the ones concerning economic infrastructures development.
- Japanese ODA projects must be coordinated through the use of public and private funding.
- Japan had to promote ODA projects aiming at the marketization of the Chinese economy.
- Japanese ODA must not be used for the development of China military capacity, or other objectives inconsistent with the ODA Charter’s doctrine.

Following the renewal of the principles for the future economic cooperation with China listed above, the main objectives and priority areas of Japanese ODA projects changed as well; as a matter of fact, the ECPC underlined the necessity of developing China Central and Western regions, in order to reduce the development gap with the coast, emphasizing the areas of protection of the environment, anti-pollution measures, improvement of living conditions standard and social development, human resources development, institution building , and technology transfer. In particular, the future Japanese ODA projects had to focus on:

- For the environment and other global issues: address the environmental problems of China, in order to avoid their negative impact on the Japanese environment, due to the contamination of the ocean and the atmosphere; address China increasing energy consumption (mainly obtained from coal), that was contributing to global warming, providing new and renewable energy sources, in order to diminish carbon dioxide emissions; address the expansion of infectious disease (mainly AIDS and tuberculosis) through tailored projects aiming at stopping the contagion.
- For the assistance to open & reform policies: promote deeper relations between China and the other international economies, thus accelerating the process of marketization of the Chinese economy; foster the instauration of a so called “good government” in China, improving the Chinese legal system and the transparency and efficiency of the Chinese administration, thus stimulating private sector activities; support China integration in the world economy, and consequently in the WTO.
- For the promotion of mutual understanding: improve the visibility of Japanese ODA projects in China; promote Japanese language and Japanese culture, through human resources development programs involving Chinese students going to study in Japan.
- For poverty alleviation: foster the economic and social development in the interior regions of China, in order to reduce the development gap between the coast and the hinterland;

develop a sustainable agriculture and rural infrastructures; create programs for helping the most vulnerable members of the society.

- For the support to the Japanese private sector: implement projects for the improvement of environmental situation in China, thus simplifying the establishment of Japanese businesses; promote the respect of the intellectual property rights in China, through suitable protection policies; enhance the procurement of Japanese technologies and expertise, through a tied loan system, favoring Japanese companies in the international biddings for ODA loan contracts in China.
- For the promotion of multilateral cooperation: build a relationship between China and Japan based on a friendly and cooperative partnership, through which solving the regional and international issues.

In addition, a set of guidelines for the implementation of official development assistance in China are expressed in the ECPC, in order to recall the attention of Japan on a series of important issues; these guidelines are:

- The need for a greater conformity of Japanese ODA projects to the principles of the ODA Charter, thus promoting the information transparency on utilization of ODA funds, and the respect of the ODA Charter by China.
- The need for a wider promotion of Japanese ODA visibility among the Chinese population, making publicity about Japanese ODA.
- The need for improving the efficiency and flexibility of technical cooperation programs.
- The need for creating a China-Japan joint formulation of Japanese ODA projects in China, involving the Chinese local governments, in order to improve the transparency and efficiency of Japanese ODA.
- The need for promoting a model approach.
- The need for coordinating ODA interventions with the Japanese private sector.
- The need for a stronger coordination in ODA projects with the international institutions and the other donors.
- The need for the promotion of an IT cooperation, in the framework of a bilateral and regional cooperation, especially through the training of human resources who will support the IT development in China, and provide the IT Japanese private companies in China with a qualified working force.
- The need for promoting the transparency of Japanese ODA to China, revealing the Japanese economic interests that lay behind them, in order to encourage the understanding of the Japanese public for the provision of ODA to China.

As we can see from contents of the document above, the ECPC produced a large shift in the Japanese ODA policy toward China, eliminating the old emphasis put on the improvement of economic infrastructures, and at the same time fostering the development of social infrastructures and environmental protection. Moreover, we can observe that the shift generated by the ECPC was partly inspired and further radicalized by the WTO membership of China; as a matter of fact, the opening of the Chinese domestic market represented a large profitable opportunity for Japanese

companies, who asked for a renewed support coming from the ODA projects, in order to diminish the risks and lower the capital costs of entering in the Chinese market.¹⁵⁶

If the issuing of the ECPC can be considered as the event that changed the Japanese ODA policy toward China, the entrance of China in the WTO can be seen as the event that produced a shift in the Japanese FDI strategy to China. As a matter of fact, China's membership of the WTO generated a wave of excitement in Japanese companies who wanted to sell their products in this new opened market, hoping for large profits that could had been made in the Chinese domestic market. As a consequence, many of the Japanese companies that were operating in China, mainly producing for the international export markets, began the production for the Chinese internal market, most of times delocalizing the 100% of their production processes on Chinese territory, in order to lower production costs. Indeed, the new WTO regulations established the principle of the *National Treatment*, that forbid the discrimination of foreign products in favor of Chinese national products; as a result, the competitiveness of Japanese products in the Chinese domestic market improved a lot, and consequentially the situation of sales of the Japanese businesses in China, thus fostering Japanese FDI directed at acquiring a share of profits coming from this new market, and modifying the Japanese FDI strategy in China. For example, the sales of automobiles in the Chinese internal market were controlled by the Chinese government until 2001, and even if foreign companies could produce on Chinese territory, they cannot make direct sales there; however, after the acceptance of WTO regulations by China, it became possible to make direct sales in the Chinese domestic market, as a result, in 2002 Toyota made a large investment in Tianjin, founding the Tianjin FAW Toyota Motor Company Limited, in order to start sales in China, and build an automobile production cluster there. Furthermore, Japanese industrial lobbies called for a shift in the Japanese Government ODA policy to China, reflected in the ECPC guidelines, in order to modify the Japanese ODA system and gain more advantages than the past from ODA loan contracts in China.

THE EVOLUTION OF JAPANESE INVESTMENTS

ODA: from economic infrastructure development to human resources and environmental development

The evolution of Japanese ODA in China can be analyzed from three different point of views, the evolution of the purpose of investment, the evolution of the sector of investment, and the evolution of the geographical location of investment.

For the purpose of investment, we can note that Japanese ODA investments were characterized for a long period of time by a strong focus on the development of economic infrastructures, in order to foster the economic development of China and simplify the establishment of Japanese companies, producing for the export markets in the ODA built Chinese exporting platforms. However, starting with the issuing of the ODA Charter in 1992, and continuing with the publication of the ECPC in 2001, the main purpose of Japanese ODA to China experienced a change, becoming the

¹⁵⁶ All the information about the contents of the Economic Cooperation Program for China are taken from: "Economic Cooperation Program for China", MOFA, accessed June 21, 2013, http://www.mofa.go.jp/policy/oda/region/e_asia/china-2.html.

development of social infrastructures, human resources, and protection of the environment, with a particular focus on the Western and Central regions of China, in order to eliminate the development gap with the coast; under this framework, Japanese ODA improved the investment environment of China's hinterland, allowing Japanese companies to enter more easily in the Chinese domestic market.

The sectors of investments of ODA experienced an evolution as well, as a matter of fact, at the beginning of Japanese ODA to China, the transportation sector had played a major role with seaports, railroads and airports in the leading position, followed by the energy (hydroelectric power plants, thermal power plants) and the telecommunications sectors. Indeed, the development of a modern transportation network, energy supply facilities, and a good telecommunication system are fundamental priority areas to develop for the institution of a functioning economy, that otherwise cannot start the process of economic development. In a second moment, after the publication of the ODA Charter, the sectors of water supply and sanitation, education, health, and protection of the environment began to appear in Japanese ODA projects; nonetheless, the real change for the sector of investment of ODA in China still remain the ECPC, after the issuing of which the social and environmental sectors prevailed over the economic sectors, thus starting the second phase of Japanese ODA to China, that was principally focused on improving the education and living conditions standard of the Chinese population.

From the geographical point of view, we can see that Japanese ODA started in the region of China that is closer to the Japanese territory, the Bohai Gulf, for then moving to South, according to a vertical pattern, toward the rich areas of Shandong, Shanghai, and Guangzhou; on the other hand, starting from the 90s we can notice that an horizontal movement of the ODA projects toward the Central and Western regions of China began as well, from the coast to the hinterland. The ODA Charter and the guidelines contained in the 7th and 8th China's five year plan inspired this trend of Japanese ODA aiming at the development of China Western and Central regions; however, it was only with the issuing of the ECPC that a large number of projects started to be implemented in the Western and Central regions of China. Furthermore, except for this focus on the interior regions of China during the last period of concession of Japanese ODA loans to China, we can notice a permanent concentration of ODA projects in some areas, which are significant for the Japan investment strategy; for the coastal regions we have the Bohai Gulf, the region of Northeast China (especially Liaoning), the Shanghai area, the Guangzhou area, and the island of Hainan, while for the hinterland we can recognize a focus on the provinces of Shanxi and Guizhou, and on the cities of Chongqing, Wuhan, Kunming, and Xi'an. The areas where the concentration of Japanese ODA is most relevant are also the location of Japanese industrial clusters, such as Dalian, Tianjin, Shanghai, Guangzhou, Wuhan, Chongqing, Qingdao, Hainan etc.; therefore, showing us another connection existing between Japanese ODA and FDI.

In conclusion, we can observe that the Japanese ODA interventions in China experienced different changes in the purposes, sectors, and location of investment during 30 years of history; as a matter of fact, the processes of development inspired by Japan's ODA interested all the sectors of investment, promoting a complete development framework in almost all the provinces of China, even if some areas received a larger contribute, due to Japan's local economic interests.

FDI: various typologies of investment in different periods of time

The evolution of Japanese FDI in China from the opening of the Chinese economy in 1978 to nowadays, can be divided into two main periods, which are characterized by a different investment strategy; in the 80s and in the 90s, Japanese FDI in China were directed at the production of goods that were exported back to Japan or exported to third countries foreign markets (mainly USA and Europe), while starting from the 2000s onward Japanese FDI in China were principally aiming at selling Japanese products in China itself. Under this framework, we can see one additional passage in the process of transformation of Chinese exporting platforms into production bases for the penetration of the Chinese domestic market, given that, in the 90s it became possible to effectuate local supply in China, according to professor Shibota, thus creating the possibility for implementing a complete outsourcing of the production processes on Chinese territory.

On the basis of these two Japanese investment strategies, we can identify a series of typical investment patterns followed by Japanese FDI in China during the 80s, the 90s and the 2000s. In the first period, characterized by an investment strategy directed at exporting back to Japan or at exporting toward the international markets the products manufactured in China, we can distinguish six main typologies of FDI: FDI directed at the exploitation of the local abundance of mineral resources and raw materials, FDI directed at the utilization of the local cheap cost of labour, FDI localized in areas where pole of Chinese industrial excellence were present, FDI directed at the utilization of a local favorable economic infrastructure, FDI aiming at taking advantage of Chinese suppliers, and FDI exploiting a nearby Japanese industrial cluster. On the other hand, for the second period, aiming at the conquest of the Chinese domestic market, we can individuate three main patterns of investment, which are typical of the post WTO membership of China: FDI utilizing local geographical advantages (such as the presence of a big river allowing the penetration of the internal market or the proximity of a rich city), FDI exploiting the presence local high qualified working personnel, and FDI taking advantage of the visibility granted to Japanese products for companies establishing in determined areas important for the promotion of foreign products in the Chinese domestic market.

The various types of FDI identified in Professor Shibota's theory are more or less the same as the ones I listed above: FDI taking advantage from the low cost of labour, FDI exploiting advantageous geographical location conditions, FDI aiming at the use of a particular infrastructure, FDI aiming at utilization of local supply, FDI taking advantage from China entrance in the WTO. Furthermore, we can distinguish two more types of FDI, which are peculiar of the period after the 2001 entrance of China in the WTO; they are FDI aiming at acquiring a share of profits in the Chinese domestic market through affiliated Chinese companies or joint ventures, and FDI aiming at acquiring a share of profits in the Chinese domestic market directly.

In the next chapter, I will analyze the evolution of Japanese investments in a more detailed way, in three of the most relevant seaports of China for the Japanese investment strategy, which are Dalian, Shanghai and Tianjin.

Period	ODA Characteristics	Documents	Main Actors
1974-1978	-Exports of oil and coal to Japan in exchange of the provision of extracting & refining facilities, and transportation infrastructures to China; these accords are considered the first ODAs of Japan to China	China Japan Trade Agreement of 1974	MOFA
1982	-ODA aiming at building exporting platforms in China, increasing China export capacity, enhancing Japanese FDI in China, developing Chinese industrial infrastructures	Prime Minister Suzuki Zenko issued document, in occasion of ten years of normalization of diplomatic relationships between China and Japan	MOFA, JICA, OECF, JEXIM
1992	-Shift of the focus of ODA from economic infrastructures to social infrastructures and protection of the environment (not applied in China until 2001)	ODA Charter	MOFA
1992	-Reduction of the development gap between the coast and the hinterland of China, through development of economic infrastructures in the coast and development of social infrastructures and	Guiding principles for implementation of ODA in China	JICA, Okita Saburo

	environment protection in the Central and Western regions of China		
1997	-Creation of the “Environmental Information Network” and the “Environmental Development Model City” ODA projects for China	Japan China Environmental Cooperation Toward The 21 st Century	MOFA, JICA, OECF
2000	-Limit the Chinese fast economic development, through reducing the ODA budget to China and providing stronger support for Japanese companies in China	China Soft Containment Policy	MOFA, Obuchi Keizo Cabinet
2001	-Shift from the development of economic infrastructures to the development of social infrastructures, environment protection, human resources and promotion of the Japanese industry in China. -Shift from five year based yen loans to annual yen loans, in addition to big cut to the Chinese ODA budget, and larger focus on the development of China Central and Western	Economic Cooperation Program for China	MOFA, JBIC, JICA, Koizumi Junichiro Cabinet

	regions		
2003	<ul style="list-style-type: none"> -Improve the transparency and efficiency of ODA -Promote sustainable development, human security, and reduction of poverty through ODA 	ODA Charter Revision	MOFA, JBIC, JICA
2008	<ul style="list-style-type: none"> -End of Yen loans to China -Continuation of ODA grants and ODA technical cooperation programs to China 	Machimura Nobutaka declaration of 2007	MOFA, Abe Shinzo first Cabinet

Chart 22. Main features of Japanese ODA to China

Chapter 5. Case study concerning the evolution of Japanese investments in three Chinese seaports: different types of investment in Dalian, Shanghai and Tianjin

Dalian, Shanghai and Tianjin are three of the most important seaports of China and of Northeast Asia for international trade and logistic operations; the advantageous geographical position these three ports enjoy, together with the favorable seaport development policy accorded to them by the Chinese Government and their modern investment environment partly built by Japanese ODA & FDI, promoted their importance in China and Northeast Asia seaport network.

The investments made by Japan in these three seaports are huge, and characterized by different types of investment strategies utilizing the comparative advantages offered by the geographical, infrastructural or industrial features of the seaports; nonetheless, even if most of the times the investment strategies are peculiar of a particular seaport, there are also similar investment approaches. This is interesting in order to see which are the causes that attracted the Japanese FDI in that particular seaport, and try to find out if there is a connection with the Japanese ODA projects implemented there by Japan.

In the following pages I will describe the investment environment and seaport infrastructures of Dalian, Shanghai and Tianjin, then I will try to identify for each seaport the different types of investment strategies adopted by Japanese FDI during the three decades of the 80s, the 90s and the 2000s; moreover, I will try to uncover the connection, if exists, between the Japanese ODA and Japanese FDI in these seaports, in order to see if the ODA investments favored the FDI in the process of entrance in China.

DALIAN

Fiscal Year	2007	2008	2009	2010	2011	2012
Container Throughput	4,227	4,503	4,552	5,242	6,400	8,060
Cargo Throughput	165,4	185,2	203,7	300,8	338,0	373,0

chart 23. Dalian Port annual container throughput and annual cargo throughput, from Port of Rotterdam Statistics

The data¹⁵⁷ about Dalian port annual container throughput and annual cargo throughput above are taken from the ranking of top 20 world container ports and top 20 world ports made by the Rotterdam Port Authority; Dalian placed in the 17th position for its container throughput, and in the 8th position for its cargo throughput.

The port of Dalian

The seaport of Dalian, situated in the South tip of the Liaoning peninsula, is one of the most important container ports of North China together with Qingdao and Tianjin, and the second largest

¹⁵⁷ The unit utilized in the table for the annual container throughput is 1000TEU, while for the annual cargo throughput the unit is 1 million metric tons, gross weight.

container transshipment hub of China, after Shanghai; indeed, the PRC's State Council in 2003 announced its plan to transform Dalian into an international hub port for the North-Eastern Asian Region together with Shanghai, launching them in the international container distribution network. In addition, Dalian is the port where China's first container shipping route was established in 1972, thus showing the relevance of this seaport for the Chinese government, that modernized and restructured the port of Dalian already in 1978. The port of Dalian serves all the three North-East Chinese provinces of Liaoning, Heilongjiang and Jilin, a territory very rich in natural resources, such as timber, iron ores, grains, oil and coal; the other two big ports in the region, Dandong and Yingkou, are characterized by shallow waters, so that they cannot manage big vessels. The port of Dalian is divided into eight zones, six of them are in the Bay of Dalian, while the other two zones are located in the Bay of Dayao; the names of the eight zones are: Daliangang, Dalianwan, Nianyuwan, Xianglujiao, Ganjingzi, Si'ergou, Heizuizi, and Dayaowan. Dalian port occupies a surface of 346 km², while its stacking yards cover a surface of 1.8 million m², and its warehouse facilities a surface of 300,000 m²; furthermore, the port is served by 160 kilometers of railway. The port has a total of 80 berths, (38 of them are deep-water berths that can handle ships superior to 10,000 DWT) for the handling of containers, crude oil, petroleum products, grain, bulk ores, coal, and roll-on/roll-off cargoes; moreover, Northeast China's largest crude oil terminal (with a capacity of 80 million tons per year) is also located here in Dalian. Dalian Port Group, established by the Chinese government in 2005, is considered by World Port Source the largest comprehensive port operator of North-East China, given that it not only manages Dalian port facilities and controls port operations, but also supports regional development and promotes resource integration among Liaoning biggest seaports; Dalian Port Group most important company is Dalian Port Corporation.

There are three main container terminals in Dalian port, that handle the largest part of the container business in Liaoning, they can provide services to container ships with a capacity of 141,000 TEUs¹⁵⁸, and are responsible for the 90% of the international container transshipment business in Liaoning; the three terminals comprehend a total of 13 container berths (six of which suitable for 10,000 DWT ships) all located in the port zone of Dayao Bay (the port area of Dalian specialized in the handling of container), and have a container yearly throughput in constant growth (plus 15% in 2010 and plus 21% in 2011). The three companies which manage these three container terminals are:

- The Dalian Container Terminal, that is a joint venture between Dalian Port Group and the Port of Singapore Authority, and has a capacity of 2,3 million TEUs of containerized cargo per year, plus a one-time storage capacity of 49,000 TEUs.
- The Dalian Port Container Terminal Company, that operates six container berths with an annual handling capacity of 3 million TEUs, and a one-time storage capacity of 25,000 TEUs.
- The Dalian International Container Terminal Company Limited, which is a joint venture between Dagang China Shipping Terminal, China Shipping Terminal and Nippon Yusen Kaisha, and has a one-time storage capacity of 50,000 TEUs.

¹⁵⁸ Twenty-foot Equivalent Unit (TEU) is a unit of cargo capacity used for calculating the dimensions of container ships and container terminals.

In addition, Dalian port is characterized by many other modern port infrastructures that make it one of the most important transshipment ports of North East Asia, and the best equipped seaport in North East China; these port facilities are:

- The Bulk & General Cargo Terminal, built on an area that embrace six of the eight port zones of Dalian, is one of the largest bulk cargoes transshipment centers in Northeast Asia; furthermore, it has modern machineries and equipment for the handling of general cargoes, such as grain, timber, coal, steel, non-mining ores etc. The terminal cover an area of 4 km², with a storage yard of 1,4 km², and a warehouse surface of 300,000 m²; it has an annual general cargo handling capacity of 20 million tons. Moreover, this terminal is very well connected with the hinterland of Northeast China through a railway network (partly built through Japanese ODA loans) that arrive to the city of Harbin; as a consequence, almost 80% of the general and bulk cargoes handled in the port are transported from the hinterland through the railway.
- The Bulk Grain Terminal, built by the Dalian Port Group in the port area of Ganjingzi, is a fundamental distribution center for the exports and imports of grain, respectively from the region of Northeast China and toward Inner Mongolia; the first part of this grain terminal was built in 1985 and used for the imports and exports of groceries. The bulk grain terminal consist in eight multipurpose berths, of which three specialized in the handling of bulk grains (with a total annual capacity of 6,5 million tons), whereas the remaining berths are used for the handling of groceries, coal, steel and cement; the storage facilities consist in six yards with a total storage capacity of 1,5 million tons, situated in the Ganjingzi port zone as well, and connected through an exclusive railway to the piers, where bulk cargoes are handled.
- The Dalian port Ore Terminal Company, located on the Dagushan Peninsula, is a modern specialized ore terminal characterized by a water depth of 23 meters, and an ore storage yard of 372,000 m² with an ore stacking capacity of 6 million tons; it has different berths equipped with modern ship loaders and un-loaders, that have a capacity of 7000 tons per hour (unloading) and 4500 tons per hour (loading), resulting in an annual ores handling capacity of 30 million tons.
- The Dalian Harbour Liquid Tank Terminal Company Limited, a joint venture of Oder Phil Corporation and Dalian Port Group, is the most modern bulk liquid chemical terminal in Asia; located in the port area of Nianyuwan, this modern liquid chemical terminal is equipped with four berths, that can accommodate 50,000 DWT vessels, and 51 liquid chemical storage tanks, with a capacity of 120,000 m³.
- The Dalian Crude Oil Terminal, in the port area of Nianyuwan, is China largest crude oil terminal, with a berth length of more than 500 meters, and a water depth of 25 meters; this terminal have 35 crude oil storage tanks (3,5 million m³), and 39 refined oil storage tanks (368,000 m³), resulting in a total storage capacity of almost 4 million m³, and an annual handling capacity of 80 million tons.
- The two Roll-on/Roll-off Terminals¹⁵⁹, located in Dayao Bay near Dalian Free Trade Zone International Automobile Logistic Park, were completed in 2006 thanks to a co-investment

¹⁵⁹ The Chinese government had designated only four seaports for the construction of Roll-on/Roll-off (Ro-Ro) terminals in Dalian, Tianjin, Shanghai, and Nansha (Guangzhou), in order to import and export vehicles.

by Nippon Yusen Kabushiki Kaisha (NYK), Dalian Port Group, and COSCO Pacific. These terminals cover a surface of 470,000 m², in which are present inspection, stockpiling, working, and assembling facilities; the terminals are equipped with two Ro-Ro berths, suitable for 10,000 DWT and 50,000 DWT ships, and have an annual handling capacity of 1 million vehicles.

- The Dalian Ferry Terminal is the biggest offshore ferry terminal of China, providing services to international and domestic cruise ships and ferries; it has a 1400 meters long quay equipped with nine berths, and an annual passenger handling capacity of 60 million people.

Considering the presence of the modern port infrastructures listed above, and the geographical proximity of Dalian to Japan, we can say that this port is perhaps the third most important seaport for the Japanese investment strategy in China nowadays, after Tianjin and Shanghai.¹⁶⁰

The Coastal Development Area of Dalian was opened to foreign investments by the Chinese government in 1984 together with other thirteen coastal cities in order to boost the economic development of China attracting foreign direct investments. The same year the Coastal Development Zone was converted in an Economic and Technological Development Zone, and in 1991 China's first Hi-Tech industrial Zone opened in the area. In addition, Dalian Economic and Technological Development Zone has recently unified with the adjacent Jinzhou Industrial Development Zone forming one of China's biggest Economic Development Zones, that includes Export Processing Zones, Free Trade Zones, a Hi-Tech Industrial Zone and China's most advanced Software Park. The leading industries in the Economic and Technological Development Zone are petrochemical, automotive, communication and electronic equipment, electrical machinery, metallic products, shipbuilding, logistics, agroindustry, bioengineering, medicine and IT services. Besides, Dalian has recently become a financial center, since it houses branches of major worldwide banks, including Tokyo Mitsubishi UFJ and Mizuho Corporate Bank. In the year 2000 in Dalian there were 1,384 foreign companies, of which 400 were from Hong Kong and 357 were from Japan, operating in the area. Some of the most important Japanese companies that are present in Dalian are: Dalian Alps Teda Logistic, Alpine, Fujitsu device, Toshiba, Hitachi, Nec, Nidec, Panasonic, Mitsubishi Electric, Mitsubishi Heavy Industries, Mitsubishi Motors, Nissan, Yamaha Motor, Ryoden Koki Engineering, Omron, Sony, Sumitomo wiring systems, Yokogawa electric, Hal film maker, Jtekt, MI communication etc. Furthermore, according to The China Daily, the Chinese Ministry of Commerce and the Japanese Ministry of Economy Trade and Industry decided to make a co-investment of \$1 billion for the construction of Dalian-Japan Energy-saving and Environmental Protection Sci-Tech Industrial Park in Dalian Huayuankou economic development zone. The industrial park will focus on energy saving and environmental protection industries, so that there are different Japanese enterprises that are interested in the project; in this project, the main Japanese investor is Aichi Tokei Denki¹⁶¹.

¹⁶⁰ The description of Dalian seaport infrastructures and all the data concerning Dalian port facilities are taken from: "Port of Dalian", World Port Source, accessed August 5, 2013,

http://www.worldportsource.com/ports/review/CHN_Port_of_Dalian_238.php.

¹⁶¹ "Dalian-Japan Industrial Park begins construction, June 29, 2010", China Daily, accessed August 5, 2013, http://www.chinadaily.com.cn/m/dalian/2010-06/29/content_10036679.htm.

The WB built infrastructures

The World Bank intervention in Dalian was quite small, given that only four projects were implemented here by the WB between 1988 and 1994; these four projects concerned: port infrastructures development, ship waste disposal, and environmental improvement (including air pollution control & mitigation, and water quality monitoring & improvement).

The projects regarding the improvement of port infrastructures are three: Dalian port project, Dalian ship waste disposal project, and China grain distribution and marketing project. The first project approved in fiscal year 1988, called for the construction of two container berths, suitable for 30,000 DWT ships, and two general purpose berths convertible into container berths at need, that could accommodate 25,000 DWT ships, in the port zone of Dayaowan; moreover, in the project was included also the construction of two container freight stations, storage yards & warehouses, a railroad linking Dayaowan with the major storage yard, a road connecting Dayaowan with the Dalian-Shenyang freeway, port utility facilities, port handling equipment, and port navigational equipment, in addition to a training program for port operators and a study for the intermodal transport of containers in the hinterland. The second project for ship waste disposal approved in 1992, was aiming at the reduction of water pollution caused by shipping waste in Dalian, through the construction of ship waste collection facilities and the implementation of a series of studies for the water quality improvement; in particular, the most important part of this project for Dalian port was the definition of an emergency plan in case of oil spill incidents. On the other hand, The third project approved in fiscal year 1993, was directed at the construction of two bulk grain terminals in the port zone of Dayaowan and in the port of Yingkou, nonetheless, in a second moment the planned port facilities were all relocated in the new Dalian port area of Xizui; the port infrastructures built by the WB in Xizui consisted in a wheat unloading berth, capable of accommodating 80,000 DWT ships, three corn loading berths, suitable for 30,000 DWT vessels, many vertical silos storages with a total capacity of 400,000 tons, an internal port railroad, port ancillary facilities, and the provision of port handling equipment.

The WB projects directed at the development of seaport infrastructures in Dalian are less than the ones conceded to Shanghai and Tianjin, however, this is not a sign of the minor role performed by Dalian port; indeed, as I said before in the description of Dalian port, in 1978 a large intervention for the restructuring of port facilities had been already implemented by the Chinese government, that wanted to transform the port into an international hub port for Northeast Asia, so that many modern port infrastructures were already available in Dalian. In addition, we can notice that among four projects dedicated by the WB to Dalian, three were directed to the amelioration of port facilities, thus revealing the importance of this seaport for the WB in its seaport global development strategy.

The Japanese ODA built infrastructures

The Japanese ODA intervention in Dalian is quite relevant, indeed, a total of four projects were implemented through Japanese ODA funds in this city; the sectors involved in the projects were mainly economic infrastructures and environment protection. The projects were: Dalian port Dayao Bay first phase construction project, Dalian water supply system rehabilitation project, Dalian environment model city project, Dalian water supply and wastewater treatment project.

There is only one project dedicated by Japan to the development of seaport infrastructures, however, the port facilities built through this project resulted fundamental in order to boost the economic development of Dalian steel industry and container business. The project was approved in fiscal year 1995, and was aiming at further enhance Dalian port container and bulk cargo handling capacity, given that, the infrastructures built by the World Bank in 1988 and 1993 were not sufficient to satisfy the increasing requests for an higher port handling capacity. As a matter of fact, according to the JICA appraisal of 1994:

In 1994, the volume of handled cargo had reached the limit of the 45.76 million tons per year handling capacity of Dalian Port as a whole, including these four newly built berths, and the average number of days that vessels spent berthed had reached 6.8. Moreover, with the volume of handled cargo being forecast at the time of the appraisal to grow to 71.2 million tons in 1997, rising to 85.6 million tons in 2000, there was a pressing need for the construction of new berths at the port.¹⁶²

As a consequence, an ODA loan agreement worth 6,655 million yen was signed in January 1995, between the Japanese Government and the Ministry of Foreign Trade and Economic Cooperation of the People's Republic of China, the total cost of the project for improving port infrastructures including local funds was 13,937 million yen. However, due to a shortage in local funds, the original ODA loan project plan was modified in 1996; as a result, the final revised project of 1996 included: two steel berths for 20,000 DWT ships, two general cargo berths for 10,000 DWT ships, a storage yard of 85,000 m², port handling equipment, port vehicles, a port railroad connecting Dayao Bay with the Dalian-Harbin railway line (including the provision of four locomotives), port navigational equipment, and communication equipment. According to the original project the time of completion should have been December 1999, but, owing to the revision of the general plan in 1996 several delays occurred, so that it was not possible to complete works until December 2002. Concerning the initial ODA project costs, the actual costs were lower than planned (only 4,308 million yen), since most of the equipment was purchased locally rather than through procurement of imported goods. After the completion of the project there was an increase in cargo handling volume as well as a relieve of the port congestion, indeed, according to JICA final evaluation report:

In 2003, when work on the project was completed, Dayao Bay's cargo handling volume reached 112% of the planned figure of 13 million tons per year. Moreover, Dayao Bay's cargo handling volume for 2004 showed a year-on-year increase of 21%.¹⁶³

In the aftermath of the ODA project completion, conforming to the Chinese Government policy of 2003 aiming at transforming Dalian into an international container hub port, the two general cargo berths built under the Japanese ODA loan were converted in 2004 into container berths in order to increase the volume of containerized handled cargo.

The site of the Japanese ODA project was of course the same of the WB, Dayao Bay; indeed, this port zone is the international deep-water hub for container distribution and collection, and it contains a Free Trade Zone, an Export Processing Zone, and it is adjacent to Dalian Hi-Tech

¹⁶² Data taken from the JICA project post evaluation report: "Dalian Port Dayao Bay first phase construction project", JICA, accessed August 7, 2013, http://www.jica.go.jp/english/our_work/evaluation/oda_loan/post/2006/pdf/project22_full.pdf.

¹⁶³ Data taken from the JICA project post evaluation report: "Dalian Port Dayao Bay first phase construction project", JICA, accessed August 7, 2013, http://www.jica.go.jp/english/our_work/evaluation/oda_loan/post/2006/pdf/project22_full.pdf.

Industrial Zone as well as to Dalian Logistics Park and Dalian Free Trade Zone International Automobile Logistics Park. Furthermore, Dayao Bay has also a convenient access to railways and highways running all across North-East China, indeed, it is connected through the Dalian-Harbin railway and the Dalian-Shenyang expressway to all the major cities of the Northeast China hinterland. These characteristics make of Dayao Bay the best location for the construction of a port area specialized in the handling of containers for the international distribution network.

The Japanese ODA project built infrastructures, especially the machineries and port facilities provided, performed an important role for the implementation of the second and third phase of the port enlargement plan, that created the conditions for the doubling of Dalian container throughput from 2007 to 2012, as we can see from chart 23 at the beginning of the paragraph. This fast increase in container throughput started after the completion of the Japanese ODA project, therefore, revealing the importance of the Japanese intervention for the fast growth of container handling capacity in Dalian port.

The Japanese FDI in Dalian

According to Professor Shibota theory, Dalian is the first place where Japanese FDI concentrated after the opening of the Chinese economy in 1978, as a matter of fact, this seaport present many characteristics favorable for Japanese investors; first of all, Dalian is very near to the Japanese Peninsula, secondly, Dalian surrounding areas are rich in natural resources and food production, and thirdly, this seaport was designated by the Chinese government as one of China's international trade hub in the Chinese port development strategy. In addition, there is a large percentage of the local population, especially in Dalian, who can speak Japanese, as well as a large Japanese community. As a consequence, Dalian investment environment offered many advantages for the first Japanese FDI in the 80s; furthermore, due to the past Japanese military occupation of Northeast China, including the Liaoning Peninsula, the local seaport infrastructures were more modern than other Chinese seaports, and the local industrial districts, in particular the heavy industries and steelworks, possessed an advanced technology and better industrial knowhow. In the following paragraphs, I will discuss in detail the different investment strategies of Japanese companies in Dalian, and their evolution during the three decades, that characterize these thirty years of Japanese FDI to Dalian.

Investments in the 80s

There are five principal reasons that inspired Japanese FDI in Dalian during the 80s: the richness in natural resources and food production of Northeast China, the proximity of Dalian to Japan, the institution of Dalian ETDZ in 1984, the presence of one of the largest steel production district of China in Liaoning, the renovation of Dalian port facilities of 1978.

Dalian is the first seaport where Japanese companies started to invest in the 80s, due to the richness in raw materials, mineral resources, and food production of its hinterland; as a matter of fact, the Chinese provinces of Liaoning, Jilin, Heilongjiang, and Inner Mongolia were rich in coal, timber, crude oil, iron ores, grains, rare hearts, etc. The cheap natural resources and food coming from Northeast China hinterland were transported to Dalian and exported to Japan, otherwise they were processed by Japanese local companies, which at that time mainly operated in the sectors of food processing, textile, and light industry; under this framework, Japanese companies were able to cut a large part of production costs, buying very cheap raw materials from Chinese distributors, thus

producing more competitive products. Furthermore, Dalian was one of the first ports in China where a large berth for the handling of groceries was built in the second half of the 80s, so that Japanese logistic companies and import & export companies could also export non-processed food to Japan, taking advantage of the short period of time needed, given that Japan could be reached from Dalian in only three days of navigation at that time. The majority of made in China Japanese products in this period was exported and sold to Japan or to the international markets.

The geographical proximity of Dalian to Japan, was one of the most important advantages for Japanese companies in the 80s, since the only way to transport large quantities of goods at that time was the sea; in addition, considering also that the maritime transportation technology was not advanced as today, the geographical proximity between two trade partners represented a more important factor than today. In particular, when the traded goods were perishable materials, such as food and chemical products, the distance between the origin and the destination of products was a vital factor to be taken into account.

Dalian ETDZ was inaugurated in 1984 by the Chinese government as one of the first 14 open coastal cities of China with the task of attracting FDI and consequentially fostering the Chinese economic development; in the 80s the first investment sectors for Japanese companies in this area were the petrochemical, the metal industry, and the agroindustry. The first Japanese FDI were directed at these sectors, because of the presence of the nearby steel production district in Anshan and Benxi, and because of the abundant natural resources and food production of Northeast China.

There is a high concentration of steel industries in the hinterland of Dalian, due to the abundant iron ores and coal deposits of Northeast China; the majority of these heavy industries were “State Owned Enterprises” an old model of Chinese state owned companies¹⁶⁴; nonetheless, differently from the other inefficient State Owned Enterprises, the ones located in Liaoning were able to produce good quality steel, that was at the same time cheap. This was possible thanks to the knowhow and advanced technologies passed down by Japanese during the military occupation of Liaoning in the 20th century; for instance, we can cite Sinosteel, Beitai Iron and Steel Group, Dongbei Special Steel Group, and above all Angang Steel Corporation (better known as Ansteel), the second largest steel company of China. These competitive steelworks of Liaoning, were a great advantage for the first Japanese light industry companies investing in Dalian during the 80s, given that they can provide a cheap and good quality supply of steel to the Japanese manufacturing plants located in the port of Dalian; as a matter of fact, the Angang Steel Company, and the other steelworks were all connected with Dalian port through The Shenyang-Dalian expressway and the Haerbin-Dalian railway, which both have stops in these steel production districts. The cheap supply of good quality steel, allowed the local Japanese companies, investing in the light industry sector, to acquire a larger competitiveness.

Another not entirely negligible factor that encouraged Japanese FDI in Dalian, during the 80s, was the restructuring and modernization of port infrastructures implemented by the Chinese

¹⁶⁴ A State Own Enterprise was a characteristic type of state owned company of the communist period in China, that was assuring a working position and a salary to all the members of the Chinese society, despite their technical skills and work productivity; as a consequence, Chinese State Owned Enterprises were characterized by a low efficiency and high cost of maintenance, furthermore, their products were of low quality, and extremely cheap. The State Owned Enterprise system was abolished by the Chinese government in 1998.

government in 1978, in order to boost Dalian seaport development and launch it in the international maritime trade network.

The food processing, the light industry, the petrochemical, and the logistic sectors were the largest recipients of Japanese FDI during the 80s in Dalian, indeed, the abundance of natural & food resources and steel products, together with the geographical proximity of the Japanese peninsula to Dalian were largely exploited by the Japanese companies in order to make profits. Some examples of Japanese companies that established in Dalian during the 80s are: Dalian Kowa Foods founded in 1988, Dalian Mishima Foods founded in 1988 as well, and Dalian Nisshin Oil Mills again founded in 1988 (under the brand of Dalian Riqing Oil).

Investments in the 90s

Japanese FDI in Dalian during the 90s were relying on four main advantages: the WB built port infrastructures, the good railway network connecting the coast with the hinterland, the car motor manufacturing pole of excellence in Shenyang and Harbin, the local Japanese community.

The port infrastructures built by the WB in 1988 and in 1993 resulted very useful to Japanese companies operating in Dalian, indeed, the two container berths improved the port handling capacity, thus increasing the volume of Japanese products that could be handled in the port, and consequentially stimulating the productivity of local Japanese factories; on the other hand, the two general cargo berths (that were converted in container berths in a second moment), which were mainly used for the handling of bulk cargoes increased the volume of raw materials exports to Japan, and the quantity of energetic and natural resources available for the power plants and Japanese industries operating near the port zone. Furthermore, the WB built road connecting Dayao Bay with the local expressway (the Dalian-Shenyang expressway) linked the port zone of Dayao Bay with the steel district of Anshan and the industrial zones located in the hinterland of Dalian (above all Shenyang), allowing the goods produced or extracted in the hinterland to reach Dayao Bay, which was the port zone where international freights were handled at that time, in particular containers, thus ameliorating the FDI environment of the entire region. Nevertheless, the most relevant WB built port infrastructure is the huge bulk grain terminal of Dalian Xizui port area; as a matter of fact, this facility most augmented the quantity of food exports and imports for the Japanese market, Inner Mongolia, and the local food processing industry, therefore creating a flourishing corn & cereal business, that today represent one of the main forms of economic revenue of Dalian port.

Another of the local advantages provided to Japanese local investors by Dalian in the 90s was the good railway system¹⁶⁵, which linked the port of Dalian with all the major industrial production districts of Northeast China; as a matter of fact, it was already possible in the 90s (and also before) to take a train in Dalian and arrive in a few hours to the Northernmost capital city of Heilongjiang, Harbin. The Dalian-Harbin railway stops in all the major cities and industrial production districts of Northeast China, that are Yingkou, Anshan, Liaoyang, Shenyang, Changchun, Harbin; Yingkou is

¹⁶⁵ One of the largest locomotives production plants of China was built in Dalian at the beginning of the 20th century, in order to build the actual railway linking Dalian to Harbin; however, due to the Japanese occupation of Dalian and Northeast China during the first half of the 20th century, the tract of railway from Dalian to Changchun (representing almost 70% of the railway line) was actually built by the Japanese. Moreover, in 1934 an accord between Dalian Heavy Industries and Kawasaki Heavy Industries further stimulated the development of the local railway network, thus creating another advantage for the future Japanese companies in the area.

the second most important seaport of Liaoning, while Anshan and Liaoyang are steel production districts, and Shenyang, Changchun and Harbin are poles of industrial excellence in the engine manufacturing, automobile manufacturing, medicines, medical devices and the military industry, and more generally in the light & heavy industry sectors. Many Japanese investors here were exploiting in the 90s this logistic superiority of Northeast China, together with the other above spoken advantages (natural resources abundance, cheap cost of labour, etc.), in order to produce in the cheap hinterland, and transport their products to Dalian for exporting to Japan, to other regions of China or to third countries; one of the proof of the importance of this railway line for Japanese companies is the tract of railway that connect Dayao Bay with the main railway line, which was built through the Japanese ODA loan, in order to ameliorate and accelerate the transportation of goods from the production facilities to the container berths in the port.

Dalian, Shenyang and the other two largest industrial districts of Northeast China, Changchun and Harbin, are famous for their heavy industries; especially, Shenyang and Harbin industrial districts are particularly good at the manufacturing of military vehicles, so that their mechanical knowledge and industrial knowhow are higher than other heavy industries in China, as a consequence, their ability was used by Japanese investors, in order to produce automobile parts. The motors manufacturing pole of excellence in Shenyang and Harbin were centred for Japanese investors around two main companies, the Shenyang Aerospace Mitsubishi Motors Engine Manufacturing Company (founded in 1997), and the Harbin DongAn Automotive Engine Manufacturing Company (founded in 1998); these two factories both have joint venture accords with Mitsubishi motors, and produce automobile engines and transmission parts for Mitsubishi in China. The automobile parts produced in these two factories were assembled in Dalian port by Mitsubishi, or exported to other destinations; in particular, were partly exported to Japan and partly sold to Brilliant, a Chinese car maker who has joint venture accords also with Toyota and BMW. In addition, Shenyang Aerospace and Harbin Dongan produce on their own engines that enjoy the right of using the Mitsubishi brand, and sell them in the Chinese market; these characteristics allowed these two companies to acquire further competitiveness in the Chinese and international automobile market, creating two pole of engines manufacturing excellence in the area, therefore stimulating also the economic development of the local automobile industry and the steel production districts in Northeast China.

The Japanese community in Dalian is one of the largest in China, indeed, mainly due to the past military occupation of Northeast China, many Japanese people live here nowadays; as a result, the Japanese companies who wanted to invest in Dalian during the 90s were able to employ local Japanese working personnel, who could speak Chinese and knew the local customs, thus helping Japanese investors to solve many of the cultural and linguistic problems that originate from FDI. Following this strategy, the process of entrance and adaptation of Japanese companies in Dalian and Northeast China was most facilitated, and consequently the investment risks and economic resources necessary to make an FDI in this part of China were also lowered for Japanese companies, who had an additional advantage on other foreign investors.

The automotive, the electric, the petrochemical, and the food & beverage sectors attracted the largest share of Japanese FDI in Dalian and Northeast China during the 90s, some examples are: NIDEC Dalian, founded in 1992, which produce intelligent motors and actuators for the automotive market; Dalian FUJI Industrial Corporation, founded in 1994, that produce rubber parts for

automobiles (door switch covers, seals for key components, sensor covers, packing for headlamps); Omron Dalian, founded in 1991, who produce electric medical devices for the Omron Corporation; Mitsubishi Electric Dalian, founded in 1994, which produce miniature circuit breakers, magnet switch, and others electromechanical products; the already cited Mitsubishi Motors joint ventures in Harbin and Shenyang, etc.

Investments in the 2000s

There are four main factors that fostered Japanese FDI in Dalian during the 2000s: the institution of Dalian Software Park in 1998, the presence of high qualified personnel able to speak Japanese, the Japanese ODA built port infrastructures, Dalian Export Processing Zone.

Dalian Software Park (DSP) is situated in the inner area of the Hi-Tech Industrial Zone of Dalian, it is a privately owned enterprise¹⁶⁶ under the supervision of PRC; it was opened in 1998 and is considered China's most advanced software park. DSP is a leading area in the fields of information technologies outsourcing, business process outsourcing, knowledge process outsourcing, application software development, embedded software development, printed circuit board and more generally research and development activities. According to data of 2006 there were 380 companies in the park, of which 58% were Chinese and 42% were foreign companies (Japanese companies accounted for the 27% of total foreign companies share); moreover, the first foreign company to enter the park was Panasonic, briefly followed by Sony. Another example is Nidec, a Japanese company producing intelligent motors which decided to build its largest overseas R&D base in Dalian Software Park. One of the main reasons for such an high involvement of Japanese companies here is that there are high qualified workers in Dalian who can speak very good Japanese, due to historical factors and to the presence of Dalian University of Foreign Languages (one of China's most outstanding centers for Japanese studies); as a consequence, many famous Japanese multinational companies decided to settle here, in order to take advantage of the Japanese language speaking abilities of local workers for the Japanese Business Process Outsourcing industry. Indeed, more than 80% of Japan business process outsourcing activities in the world are delocalized in Dalian Software Park; so that, we can say that the IT service industry in Dalian is particularly focused on Japan¹⁶⁷. Due to the needs of a high qualified working force for the software park business, Dalian host many outstanding universities specialized in engineering, Japanese language, hi-technologies and IT services, some examples are: Dalian University of Technology, Dalian Jiaotong University, Dalian Maritime University, Neusoft Institute of Information (within the park) and Dalian University of Foreign Language.

The presence of high qualified workers who can speak Japanese in Dalian is another of the causes that encouraged Japanese companies to invest here; moreover, the Japanese government had also provided ODA projects for the development of local human resources as the 2004 "China-Japan friendship Dalian center for human resources development" and the 2005, "Dalian human resources development" projects. These ODA projects implemented after the publication of the Economic Cooperation Program for China in 2001, were directed at improving the investment environment of

¹⁶⁶ Dalian Software Park is managed by Yida Group, a professional service provider in business park development, management and operation; furthermore, DSP has created four ancillary software parks in the cities of Dalian, Tianjin, Suzhou, and Wuhan, in order to expand its business.

¹⁶⁷ On the contrary, other foreign companies preferred places where English is a widely spoken language, such as Bangalore.

Dalian exclusively for Japanese FDI, through the development of human resources. The human resources development projects were one of the basis for the creation of a qualified working force speaking Japanese and having a good knowledge of IT technologies, which can be utilized by the numerous Japanese IT industries in Dalian software park. Another fundamental role for the education of local workers was performed by the Japanese foreign language universities of Dalian, where students can master the most advanced skills in IT technologies and learn the Japanese language, in order to become the new high qualified working force that Hi-Tech Japanese companies in the area so much need for their R&D activities.

The Japanese ODA built port infrastructures in 1995 (effective completion of works in 2002) were important for ameliorating the local transportation facilities, that were necessary to Japanese companies for moving goods produced in Northeast China and Dalian to the market of destination, which could be the Chinese market, the international markets, or the Japanese market. Under this framework, an increased steel production capacity of Liaoning steel district, obtained through the construction of additional steel berths, general cargo berths (steel berths for exporting steel products, and general cargo berth for importing iron ores and coal necessary to steelworks) and railway connecting the berths with the local railway line, resulted fundamental in order to support the local investment strategy of the Japanese private sector. Indeed, an improved railway transportation system together with improved port facilities result in a better distribution network of steel for the many Japanese companies present in the area, as well as in the possibility to increase the volume of exports of steel products and iron ores to Japan. The importance for Japanese companies of Dalian as an export oriented logistic platform in the first period of the Japanese investment strategy, and also as a base for distribution in the Chinese internal market in a second moment is clear, if we take in consideration the port facilities provided by the Japanese ODA loan, which resulted very useful for moving automobile parts and steel products from Dalian to international destinations or from Dalian the other regions of China; indeed, the principal goods traded by Japanese companies in Dalian were automobile steel plates, automobile engines, automobile parts, and other steel products. The newly built facilities at Dayao Bay were utilized by Japanese automobile industries, such as Mitsubishi, to export and move automobile steel plates, produced by the Ansteel group or other steelworks of Liaoning, and car motors, produced for Mitsubishi in Shenyang and Harbin, to other regions of China, to Japan, to Dalian, or to third countries, where the Mitsubishi car assembly facilities are located. The automobile parts and engines produced in Northeast China could be exported directly from the Chinese seaports to third countries or they could be moved to Mitsubishi distribution and assembling centers, which in the case of China are located in Shanghai, Changsha and Fuzhou; in addition, the automobile components can also be stored or assembled in Dalian port bonded zone or send to Japan. From this example we can see how the logistic role played by Dalian Port is relevant to many Japanese companies in the area, which export goods from Dalian logistic platform to international markets, or sell their products in the local Chinese market. For a proof of the importance performed by this port in the Japanese local investment strategy, we can refer to the presence of all the three biggest Japanese shipping lines in the port of Dalian, NYK, Mitsui OSK lines and K-line, that take advantage from the above spoken advantages, and from the new ODA built port infrastructures, which solved many prior logistic problems. Finally, it has to be said that in the eighth five year plan of PRC, the development of transportation infrastructures in Dalian was one of the main goals that had to be achieved, in order to boost the economic development of Northeast China; indeed, at that time, Dalian was considered the second most vital Chinese port for

international trade to develop only after Shanghai, as a consequence, the Chinese Government advanced a request for the ODA loan to the Japanese Government. As a matter of fact, the increased steel transportation capacity from Dalian to the North-East provinces and vice-versa, had also favored the business of Chinese steel companies in the local and foreign markets. This is confirmed by the strategy of foreign expansion that some of the biggest steel companies of Northeast China are successfully implementing; in effect, these companies had already sold many of their products to foreign countries (Japan included), bought large shares of foreign steel companies (60% of Vigano in Italy), and are importing iron ores from cheaper foreign countries such as Brazil and India.

The institution of Dalian Export Processing Zone in fiscal year 2000 is another factor that encouraged Japanese FDI in Dalian; as a matter of fact, in this new area, created by the Chinese government in order to stimulate Chinese local economic development (through processes of transmission of knowhow, local outsourcing of supply, etc.), goods produced by foreign companies can be assembled, stored or processed in a completely tax free regime, thus providing to foreign investors in China a profitable opportunity to further cut production costs and make their products more competitive on the international markets.

The automotive, the heavy industry, the electrical & machinery, and the petrochemical sectors still remain the leading sectors of investment for Japanese companies in Dalian, together with the newcomer IT sector; some examples of Japanese companies who invested in Dalian in the 2000s are: MCF Forklift Dalian, a subsidiary of Mitsubishi Heavy Industry established in 2009, who produce forklifts for the international markets; NSK (Nippon Seiko Kabushiki-Kaisha), established in 2009 in Shenyang, who produce bearings for the Chinese and international markets; Dalian Toshiba Locomotive Electric Equipment, founded in 2002 as joint venture with Dalian Locomotives and Rolling Stock Company, in order to manufacture locomotives for the Chinese and the international markets; and other IT companies such as NIDEC, Panasonic, Sony, NEC, OKI, Sumitomo Wiring Systems, Ryoden Koki Engineering (subsidiary of Mitsubishi Electric Corporation).

Conclusions

Japanese investments in Dalian were focused on the development of the automotive industry, the steel industry, the IT industry, the petrochemical industry, the electric industry, the heavy industry and the logistic industry. In this framework, the comparative advantages offered by Dalian and its hinterland to Japanese investors are higher than all the other regions of China, for the reasons explained above. As a consequence, the Japanese private interests in this region of China have a key influence on the ODA policy of Japan, so that the intervention of Japanese industrial lobbies in the process of concession of the Japanese ODA, as well as on the WB ODA (considering the decisional share assigned to Japan in the organization) is quite arguable. In particular, if we take a look at the type of interventions and economic infrastructures realized through the Japanese ODAs in connection with one of the main sector of investment of Japan in Dalian, which is the steel industry, the linkage between ODA and FDI result particularly clear.

SHANGHAI

Fiscal Year	2007	2008	2009	2010	2011	2012
Container Throughput	26,150	27,980	25,002	29,070	31,739	32,529
Cargo Throughput	560,0	582,0	590,0	653,0	727,6	736,0

chart 24. Shanghai port annual container throughput and annual cargo throughput, from Port of Rotterdam Statistics

The data¹⁶⁸ about Shanghai port annual container throughput and annual cargo throughput above are taken from the ranking of top 20 world container ports and top 20 world ports, made by the Rotterdam Port Authority; Shanghai placed in the 1st position for its container throughput, and in the 2nd position for its cargo throughput, thus classifying as the largest and busiest seaport in the world, given that the first place for the cargo throughput is occupied by the combination of the two ports of Ningbo and Zhoushan. The data above include also the domestic and river trade of Shanghai; in this framework, is interesting to notice that in fiscal year 2012, one third of the annual container throughput of Shanghai was actually handled in the Yangtze river, thus revealing the importance of this river for the domestic and international container distribution network in Shanghai and its hinterland.

The Port of Shanghai

Shanghai port is the largest and the busiest seaport in the world, with an annual container handling capacity of 32 million TEUs; the port is composed by two river ports and a seaport, which are the Huangpu river port including the zones of Zhanghuabang, Jungonglu, Gongqing, Zhujiamen, Longwu, etc., the Yangtze river port, including the zones of Baoshan, Waigaoqiao, Wusong, Luoqing, and the seaport of Yangshan. The Huangpu and the Yangtze port are characterized by shallow waters (with an average depth of 9 meters), so that big and heavy ships cannot use them, as a consequence, in 2000 works for the construction of Yangshan deep water seaport began; Yangshan in an island situated out of the coast of Shanghai inside the Bay of Hangzhou, it is characterized by an average seabed deepness of 15 meters, so that big ships as well can use it. The port of Shanghai possesses a total of 125 berths (of which 82 suitable for 10,000 DWT ships) with a total quay length of 20 km, including bulk terminals, break bulk terminals, Roll-on Roll-off terminals, and cruise terminals; in addition, it have 239,000 m² of warehouses, 4.7 million m² of storage yards, and 5143 units of cargo handling equipment. Shanghai International Port Group Company Limited (SIPG) is the only port operator for the port public terminals, as a result, it performs every kind of duty in the port, such as handling cargo, transport domestic and international cargo by land and water, maintenance works, container leasing, port logistic services, in-port services, etc.

Shanghai port has three main container handling port areas in Yangshan, Wusongkou (in Baoshan district), and Waigaoqiao; furthermore, apart for SIPG, that is the biggest one, there are different container companies that operate these major container terminals:

¹⁶⁸ The unit utilized in the table for the annual container throughput is 1000 TEU, while for the annual cargo throughput the unit utilized is 1 million metric tons, gross weight.

- The Shanghai Container Terminals Company Limited, which has three container terminals in the port zone of Wusongkou equipped with 10 berths and 550,000 m² of container yards.
- The SIPG owned Zhendong Container Terminal Branch, which possess 5 container berths and modern port facilities in the port zone of Waigaoqiao.
- The SIPG owned Shanghai Shengdong International Container Terminal Company Limited, that possess a container terminal, equipped with 34 of the most modern container quay cranes in the world, and an international logistic park in the port zone of Yangshan.
- The Shanghai Pudong International Container Company Limited, that operate in the port zone of Waigaoqiao, have three container berths (suitable for 5th and 6th generation container ships) and a container yards with a capacity of 30,000 TEU; furthermore, it possess a special purpose area for the handling of hazardous cargo containers and refrigerated containers, and an intelligent container moving system (CTMS real-time production).
- The Port of Shanghai East Container Terminal Company Limited, which operate six container berths (four for main cargo-handling services, and two for inland feeder services) in the area of Waigaoqiao, and due to its efficiency had been recognized as the best container terminal in Asia in 2006.
- The Port of Shanghai Mingdong Container Terminals Company Limited, which has seven container berths (capable of accommodating 50,000 DWT ships) and two domestic feeder line berths in the area of Waigaoqiao, thus handling foreign and domestic containers, in addition to bulk cargoes.
- The SIPG owned Port of Shanghai Guangdong International Container Terminal Company Limited, that operate in the port zone of Yangshan, possess a 2600 meter quay which reach 17,5 meter in depth, constituted by seven container berths that can accommodate big container vessels, from 70,000 to 150,000 tons, and can annually handle 5 million TEU.

In addition, in the port of Shanghai there are many non-container terminals, that are usually located on the Huangpu and Yangtze river zones of the port, which are utilized for the distribution of goods in the Chinese hinterland and in the international markets; these terminals are:

- The Haitong International Automotive Terminals, two roll-on/roll-off terminals, which are owned and operated by a joint venture of Anji Automotive Logistics Company, SIPG, Nippon Yusen Kabushiki Kaisha, NYK Holding (Europe), Wallenius Wilhelmsen Terminals, and SAIC HK Limited. These two Ro-Ro terminals are organized on four berths, and are used for both river transportation and sea transportation of vehicles and components in the Chinese domestic market and in the international markets; the services offered by the Ro-Ro terminals include international shipping, domestic shipping, customs clearance, land carriage, railroad transportation, components packing & unpacking, storage, customs transfer, integrated supply chain design and operations, international door-to-door multimode transportation services, and above all pre delivery inspection (PDI) and vehicle preparation centre (VPC) services¹⁶⁹. These relevant characteristics of the Shanghai Haitong Automobile Terminal make it a very attractive infrastructure for FDI directed at the automotive sector, as we will see in the following pages.

¹⁶⁹ The information about the services provided in the Haitong International Automobile terminals are taken from: “Service Item”, SIPG Haitong International, accessed August 15, 2013, http://www.haitongauto.com/e_service.asp.

- The SIPG coal terminal located in the Pudong new area of the port, is the coal terminal of Shanghai port, it consist in 17 berths, and a storage yard of 50 acres situated along the Huangpu river; except for coal, it can also handle sand and gravel.
- The SIPG owned Zhanghuabang terminal is composed by three 10,000 ton berths situated on the Huangpu river; this terminal is specialized in handling steel products, large and heavy lift equipment, and especially oversized equipment and installations. Indeed, its port infrastructures had been used in many state sponsored projects for the construction of mega-infrastructures, such as the Jinshan petrochemical works, the Qinshan nuclear power plant, and Shanghai Pudong International Airport.
- The SIPG owned Jungonglu terminal, is a terminal constituted by four multipurpose berths and 33 acres of warehouses situated along the deep-draft channel of the Huangpu river, not far from the port zone of Wusongkou; this terminal is specialized in handling bulk and break bulk cargoes, such as steel, iron, pulp, vehicles, equipment and containers. In addition, it developed a vast range of specialized services that goes from motor transportation to tool and rigging manufacture, or export of management technology.
- The SIPG owned Baoshan terminal, is a specialized terminal for domestic and international bulk, break bulk, containers, oversized items and steel products, situated near the Baosteel Corporation; the terminal have a total of 9 berths, three of which built through a Japanese ODA loan, while the services in which this terminal is specialized include motor vehicles transportation, and container freights.
- The SIPG owned Longwu terminal, located on the upper course of the Huangpu river, is a specialized terminal serving the Hangzhou-Jiaxing-Huzhou plain area, which is characterized by an outstanding production of grain and raw silk; the port infrastructures consist in 9 cargo vessel berths, 5 container berths, and twenty 500,000 ton inland barge berths, while the main activities implemented in the port are cargo handling, storage, distribution, etc.
- The SIPG owned Luojing ore terminal was built in 2007, through a co-investment by Hong Kong Ruijue Investment Company, Baosteel Corporation, and Masteel Corporation, in order to create a specialized terminal for the handling of ores, which is characterized by a technologically advanced equipment for the supply of ores to the local steel factories. The terminal is located on the Yangtze South bank, it is characterized by a water depth of 11 meters, and it can accommodate very large vessels (more than 180,000 DWT); furthermore, it has a storage yard with a capacity of more than 1 million tons of cargo. The investment aimed at expanding the iron ores commerce on the Yangtze river, and at the same time aimed at boosting the production of steel in the Baoshan area, improving the volume of iron ores transportable to the area where the steelworks are located.
- The SIPG Minsheng controlled company operate a terminal specialized in handling and storing bulk and break bulk cargoes, such as grain, oil, feed, rice; the terminal consist in four 10,000 ton berths and two silos with a grain storing capacity of 120,000 tons .
- The SIPG owned Nanpu Terminal Company, situated in the Pudong new area port zone, operate two terminals (Bailianjing and Tangkou) specialized in the handling of bulk and break bulk cargoes, in particular iron, steel and wood; the port infrastructures consist in four 10,000 ton deep water berths, two 1,000 ton berths, and 10 acres of storage yard.

- The SIPG Xinhua Company, is a company specialized in the handling of heavy bulk cargoes, such as metallic ores, chemical fertilizers, steel products, and building materials; it operate a total of nine 10,000 ton berths in the port zone of Pudong, thus being one of the biggest companies handling foreign freights in Shanghai port.
- The Shanghai Port International Cruise Terminal is composed by two terminals, the old terminal located on the Huangpu river, in the heart of Shanghai near the Pudong Lujiazui financial area, and the new terminal built in the Wusong North district of Shanghai.

As we can see from the port infrastructures listed above, the port of Shanghai is a technologically advanced modern seaport, which have every sort of port facilities; these characteristics make it one of the best equipped seaports in the world.

The port of Shanghai is situated in a particularly favorable geographic position, being on the delta of the Yangtze river and in the proximity of some of the largest economic development zones of the center of China; indeed, the Yangtze river allow goods to be transported from the Western regions of China to the port of Shanghai, where they can be shipped to international destinations, and the industrial production districts in the cities nearby Shanghai (Nantong, Changzhou, Suzhou, Kunshan, Wuxi, Hangzhou) can utilize the port of Shanghai for shipping their merchandise as well. One of the main objectives of the SIPG is transforming Shanghai into an international shipping center, by developing ship-to-ship transshipment operations, in particular in the port zones of Yangshan, Waigaoqiao, and Wusongkou (Baoshan), in order to improve the efficiency of the port, and establish an international container shipment network connecting the Yangtze river with Yangshan, and consequently with the international shipping routes. Furthermore, another of the port development strategies is that of further developing the container transport capacity in the Yangtze river, in order to boost the production and consequently the economic development in the hinterland of China, thus contributing to lower the development gap between the coast and the interior regions.¹⁷⁰

The WB built infrastructures

The World Bank intervention in the city of Shanghai was huge, with a total of 26 projects implemented from the opening of the Chinese economy in 1978 until nowadays; the fields of intervention are various: seaport infrastructures, highway and road construction, urban transportation infrastructures, electric power, sewerage system, flood control systems, promotion of the local industrial development, bank financing, environmental protection, reduction of water pollution, reduction of carbon dioxide emissions.

With respect to the projects approved for the improvement of Shanghai port facilities, we can notice four main projects: Shanghai port construction project, Shanghai port project, Shanghai ship waste disposal project, and Shanghai port restructuring and development project. The first one was approved in fiscal year 1982, and it consisted in the construction of additional port facilities; the project called for the construction of a 424 meters long deep water pier equipped with two container berths, a railway and roadway, ancillary infrastructures, plus the provision of handling equipment and port personnel training. The second project was approved in fiscal year 1988, it included the

¹⁷⁰ All the information and data about Shanghai port infrastructures are taken from: "Port of Shanghai", World Port Source, accessed August 15, 2013, http://www.worldportsource.com/ports/commerce/CHN_Port_of_Shanghai_411.php.

construction of a multipurpose terminal in the port zone of Baoshan composed by eight berths (three of which for container handling), a general cargo terminal composed by eight berths in the port zone of Guangang, two coal handling berths in the port zone of Zhujiamen, a 80,000 ton capacity grain silos, besides the renovation and restructuring of four berths in the grain terminal situated in the port zone of Minsheng, and the provision of all the respective specialized handling equipment and systems for the management of port costs and information. The Third project for ship waste disposal was approved in fiscal year 1992, it principally aimed at reducing the water pollution of the Chinese and international territorial waters caused by ships waste, through the construction of port facilities receiving and treating shipping wastes, extending pollution monitoring capability of the port, and developing oil spill contingency response plans. The fourth project was approved as well in 1992, its main objectives were the restructuring of port facilities, in particular promoting the specialization of port terminals and the repositioning of port operations outside the city center, and the further infrastructural development of the port. the project called for the construction of a new container terminal in the port zone of Waigaoqiao, a coal terminal in the port zone of Luojing, in addition to the provision of new cargo handling equipment and a computerized system for port accounting, auditing and budgetary control.

As we can notice from above, there are many port infrastructures in the port of Shanghai that had been built through the WB intervention, thus highlighting the important role accorded by the WB to this port in the global development strategy for the world seaport network, as well as for the China seaport network. In addition, considering that the weight of Japan in IDA is almost the same of that of the US, we can argue that there were influential Japanese interests behind the implementation of these projects for the development of Shanghai port infrastructures; indeed, Shanghai, being situated on the delta of the Yangtze river, is one of the three most vital investment areas for the Japanese investment strategy in China, together with the Pearl river delta, and the Gulf of Bohai.

The Japanese ODA built infrastructures

The Japanese ODA built infrastructures in Shanghai are less than the ones built by the WB, however, the Japanese interventions are more focused on the development of economic infrastructures, compared to the WB projects that interested many different sectors of investment. There are only three projects implemented in Shanghai through the Japanese ODA loan funding: the Tianjin Shanghai and Guangzhou telecommunications expansion project (1984), the Shanghai Baoshan infrastructure improvement project (1995), and the Shanghai Pudong International airport construction project (1997).

Regarding the port infrastructures built in Shanghai by Japan, we have only the Shanghai Baoshan infrastructure improvement project; nonetheless, this project was fundamental for boosting the development of the local steel industry¹⁷¹, in order to provide Japanese companies producing automobiles & automotive components and electric & machinery components, in the Shanghai area and in the factories situated along the Yangtze river, with cheap high quality iron and automobile steel plates. The project consisted in the construction of three berths (for the handling of coal, steel products, and iron ores), a storage yard, a thermal power plant, and the provision of handling facilities; while the main objective was increasing the productivity of Baosteel Corporation, as a

¹⁷¹ In particular the production of the Baosteel Corporation, which formed a joint venture company with Nippon Steel Corporation in fiscal year 2003.

consequence, the site of the project was in correspondence of the location of Baosteel, so that the port infrastructures and the thermal power plant could be efficiently utilized by Baosteel in order to improve its production. The linkage between the Japanese private economic interests and the ODA project is particularly clear in this case, given that were the necessities of the local Japanese companies, that called for the implementation of the ODA project in Baoshan port area.

The Japanese FDI in Shanghai

Shanghai and the Yangtze river delta are the second place where Japanese investment started to accumulate in China during the 90s, according to professor Shibota theory; as a matter of fact, Shanghai is the most important seaport of China, due to its geographic position on the delta of the Yangtze river, that provide it with a waterway going deep into China hinterland, where many of the largest industrial development zones and natural resources deposits of China's Central and Western regions are located. The biggest industrial production districts along the Yangtze river are located near the cities of Chongqing, Chengdu (not situated on the Yangtze river bank), Yichang, Wuhan, Jiujiang, Wuhu, Ma'anshan, Changzhou, Nantong; these areas received an overwhelming quantity of FDI from Japanese companies, taking advantage of the cheapness of local labour and the abundance of natural resources, which used the Yangtze river for transporting the goods produced in the hinterland to Shanghai. As a consequence, if we want to make a comparison, Japanese companies here are less concentrated than in Tianjin, given that are scattered all around the Yangtze river basin, and utilize Shanghai mainly as a transshipment port, or as an assembling and storing port, in order to export their products to the international markets or to sell them in the Chinese national market; this characteristic of Shanghai make it the most utilized and largest seaport of China (and of the World). In the following paragraphs I will analyze in detail the different types of Japanese FDI in Shanghai, and their evolution during the period that goes from the opening of the Chinese economy to nowadays.

Investment in the 80s

The Japanese FDI directed to Shanghai in the 80s were mainly exploiting the following advantages: the construction of Baoshan steelworks, the presence of the WB built port infrastructures, the transportation of natural resources from China hinterland through the Yangtze river, the outstanding food production of Shanghai surrounding areas, the Grand Canal system, Shanghai ETDZs, the concentration of modern industrial complexes in the Shanghai area.

The Baosteel Corporation is the largest steel and iron producer of China, this steelwork was built thanks to a cooperation of the Chinese and the Japanese governments between 1978 and 1985, in order to create China's most technologically advanced pole of production for the metal industry; indeed the factory was equipped with all the newest machineries and technologies exported from Japan, who was chosen by China as the best partner for the construction of this flagship of the Chinese steel industry, due to the high technological level reached by Japan. The process of construction of the steelwork was much troubled and experienced many changes¹⁷², principally due to the lack of foreign currency of China (used for buying the Japanese machineries), and to the suspicious arousing among the Chinese engineers that Japan was selling them old technologies, in order to maintain its dominant position on the international steel markets; however, when the

¹⁷² Above all the 1981 "Baosteel contract alteration", which was provoked by a foreign currency shortage of China.

construction works were completed, the most modern and largest steelwork of China born. Baosteel Corporation represented an enormous advantage for Japan and for Japanese FDI in the Yangtze river delta, given that the steel produced by this factory was of good quality, thanks to the technologies and machineries imported from Japan, and at the same time was also extremely cheap, due to the low cost of iron ores and coal in China; as a consequence Japanese import & export companies could import a cheap but good steel in Japan, and Japanese companies operating in the Yangtze river delta could supply locally the steel they needed for their productions. The construction of Baosteel solved many of the previous problems for the Japanese light and heavy industry companies who were producing in Shanghai, and could not find good quality metals for their products.

The WB built port Infrastructures were extremely relevant for Japan investment strategy in Shanghai, since they much increased the port handling capacity; indeed, the two container berths built in 1982, the multipurpose terminal built in Baoshan port zone (for container and bulk cargo), the general cargo terminal built in Guangang port area, the two coal berths built in Zhujiamen port zone, the restructuring of four berths in the Minsheng grain terminal, and the construction of an 80,000 ton grain silos transformed the port in one of the better equipped seaports of China for that time. In particular, the restructuring of Minsheng grain terminal and the construction of the two coal berths in Zhujiamen were fundamental port facilities for the Japanese investment strategy, given that grain and coal represented some of the largest imported commodities by Japan during the 80s. As a matter of fact, in this period the largest part of Japanese FDI in China were directed at the importation of raw materials and food; as a consequence, the Shanghai modern port infrastructures were an important infrastructural advantage for the Japanese imports, and for the first Japanese companies that were investing in China. In addition, the multipurpose terminal for containers and bulk cargoes built through the 1988 WB project in Baoshan was aiming at boosting the production capacity of Baosteel, providing berths for the transportation of bulk ores and coal, coming from China hinterland through the Yangtze river, and container & general cargo berths for the transportation of Baoshan steel products through the Yangtze river or the seaport of Shanghai. In this case as well, the WB port infrastructures at Baoshan solved many of the problems of Japanese companies relative to the transportation of Baosteel products from the factory to their destination, thus improving the local steel distribution network.

The presence of a large pool of natural and mineral resources in China hinterland, connected to Shanghai through the Yangtze river, represented another great advantage for Japanese FDI who can exploit this geographical advantage of Shanghai in order to utilize these raw materials for their textile and light industry factories in the Yangtze river delta, or for importing in Japan cheap mineral resources. As a matter of fact, the waterways were the most utilized form of transportation at that time in the hinterland, given that the Chinese highway and railway network was not developed as today; sometimes waterways were the only way to connect some interior regions of China with the coast, so that the presence of a good waterway system played an important role in the economic development of this area of China. For instance, the new steel production complex of Baosteel, located in the Shanghai port area of Baoshan, on the South river bank of the Yangtze river, was taking advantage of being directly supplied with coal and ores necessary for its production processes, coming from China hinterland through the Yangtze river; furthermore, the river was

utilized as well for moving steel products from Baoshan to factories located in the hinterland of China along the Yangtze river.

Shanghai is located between two of the largest food production areas of China, the Hangjiahu plain in the South (a plain comprehended in the triangle formed by the three cities of Hangzhou, Jiaxing, and Huzhou), and the Tongyu river basin in the North; these two zones located in Jiangsu province are among the most fertile areas of China, and they are famous for their outstanding agricultural production, which is mainly focused on cereals (especially rice). As a consequence, Japanese investors decided to exploit these richness in food production of Shanghai surrounding areas, in order to increase the imports of food toward Japan from Shanghai port, that was already equipped in the 80s with suitable modern facilities for the handling of bulk food, groceries and grain. In addition, the transportation of food from the production areas to Shanghai was facilitated by the system of canals linking all the major agricultural fields of Jiangnan¹⁷³ and of North Jiangsu with Shanghai, thus accelerating the procedures of transportation from the food production zones to the seaport, realized through large river barges. As a result, the quantity of foods that could be processed in Shanghai by Japanese companies and then exported to Japan grew as well, and the economic development of the Minsheng bulk grain terminal was highly stimulated, thanks to the Japanese exports of raw food coming from the Hangjiahu Plain, through the Huangpu river, to Pudong port zone, where Minsheng terminal is located.

Another advantage that fostered Japanese FDI in Shanghai during the 80s was the presence of a large network of canals, linking all the major industrial and agricultural zones around Shanghai with the seaport, through which it was possible to transport goods or raw materials; indeed, the Grand Canal linking the Shanghai area with Suzhou, Hangzhou, Wuxi, Jiaxing, Changzhou, and Zhenjiang, built in the past by the Chinese emperors for connecting Beijing with Hangzhou, constituted a vital cargo transportation network for the Japanese FDI strategy, when the railway and the highway systems in the Shanghai area were not developed. As a consequence, the special economic zones of Shanghai and Ningbo opened in the 1984, and the open coastal area of the Yangtze river delta opened in 1985, resulted almost completely connected through this canal network, thus facilitating the communications between these three special economic zones, and increasing the logistic and industrial outsourcing advantages for Japanese companies producing here.

Shanghai Minhang Economic & Technological Development Zone and Shanghai Hongqiao Economic and Technological Development Zone were both opened in 1984, in order to boost the economic development in the area of Shanghai; the location of these two ETDZ was not casual, given that in Hongqiao was located the largest cargo airport of China, and in Minhang were present the majority of Shanghai river port infrastructures, located on the two river banks of the Huangpu river. The main industries that characterized these two ETDZ at that time were the food & beverage, the light industry, and the textile industry; these industrial sectors are the same indicated by professor Shibota in his theory, as the main investment sectors of Japanese FDI during the 80s. As a matter of fact, the hinterland of Shanghai was rich in food production, mineral resources & iron ores (transformed by Baosteel in metals), and also in textile fibers, above all silk, coming from the

¹⁷³ The name of a geographical area comprehending all the cities of Shanghai, Nanjing, Ningbo, Hangzhou, Suzhou, Wuxi, Changzhou, and Shaoxing, used in the past for indicating the territories situated on the South bank of the Yangtze river.

Hangjiahu Plain, which except for being a fertile agricultural region, was also one of the largest supplier of silk worms of all China, since the old age.

As we saw above, in the area surrounding Shanghai during the 80s were present several poles of industrial excellence, such as the Baoshan steelworks, Shanghai ETDZs, Ningbo ETDZ, the Yangtze river delta special economic zone, the Suzhou textile district, the Jiangnan Shipyard in Shanghai, etc. These features of Shanghai and Shanghai surrounding areas were providing to Japanese companies investing here many advantages for settling production facilities; in addition, the modern industry concentration here, together with the WB built infrastructures and the services that a Metropolis like Shanghai could already provide in the 80s (energy supply, sewage systems, water supply, qualified working force, etc.), made it one of the best choices for Japanese FDI in China.

The food processing industry, the steel industry, the light industry, the textile industry, and the import & export are the sectors that attracted more Japanese FDIs in the 80s in Shanghai; some examples of this earliest Japanese investor are: Shanghai Mitsubishi elevator company founded in 1987, Nissin Foods established in 1985, Sony in 1985, and Fuji Xerox & Hitachi in the 80s.

Investment in the 90s

Japanese FDI to Shanghai in the 90s were encouraged by five main causes: the Baosteel Corporation cheap iron supply, the port infrastructures built by the Japanese ODA in 1995, the possibility of effectuate local supply in the Yangtze river delta, the launching of Suzhou industrial area, the Jinqiao Export Processing Zone .

The cheap iron supply coming from the Baosteel Corporation was one of the most important factors supporting Japanese FDI in the sectors of electrical, automotive, machineries, and electrical & mechanical components; as a matter of fact, Baosteel can be considered as one of the engines for the fast industrial development of Shanghai, as well as one of the poles of attraction for FDI in the Shanghai area. The steel products of Baosteel mainly consisted in automobile plates, automobile parts and engines, electric & machinery steel parts, and outsized special steel products for big infrastructures¹⁷⁴; the Japanese and Chinese automobile companies located in Shanghai and along the Yangtze river delta were the industries that benefitted most from this new steel production complex. As a result, the cheap iron supply from Baosteel allowed the Japanese companies operating in the area to cut their production costs, and produce more competitive products destined to the international markets or to the Japanese market.

The Japanese ODA built port infrastructures in Baoshan port area, further improved the steel production capacity of Baosteel and the Baoshan port steel products handling capacity; indeed, three berths for the handling of coal, iron ores, and steel products were built on the premises of Baosteel Corporation, thus contributing to the modernization and enlargement of the steelwork. Moreover, in order to improve Baosteel productivity the Japanese ODA provided also a power generator situated inside the Baosteel Corporation, therefore increasing the power supply necessary to a larger production of steel. Augmenting the automobile steel parts production was the main objective of the Japanese ODA, so that Japanese automobile companies in China could had supplied

¹⁷⁴ For example, during the construction of Pudong International Airport, many of the largest pieces of iron that had to be used for the construction of the airport facilities were provided by Baosteel Corporation.

locally their steel parts; as a matter of fact, the year of approval of the Japanese ODA loan for Baoshan correspond with the year of the turning point in the Chinese investment strategy of the largest Japanese automobile makers (Toyota, Honda, and Nissan), who decided to start producing in the Chinese market in 1995, even if they still not made big FDI such as the ones registered between fiscal year 2002 and 2003. In this case, we can see that there is a strong connection between the concession of the Japanese ODA, and the private interest of the Japanese automobile industrial lobbies, who strongly influenced the decision of the Japanese Government, for the type of intervention that had to be done in Baoshan.

According to professor Shibota, another of the advantages that Japanese companies acquired starting from the second half of the 90s in China, especially in the Yangtze river delta, was the possibility of doing local supply, due to the improved technological level of Chinese industries, and to the high qualified working force present in this region of China. Previously Japanese companies had to import from Japan or Korea the components that contained an high level of technology, such as the engines of cars, software systems, complex electrical & machinery components, etc.; but, starting from the second half of the 90s, it became possible to supply locally these components in determined areas of the Yangtze river delta characterized by an advanced level of technological development, where the processes of transmission of knowhow and industrial competences was already completed, such as Shanghai, Suzhou, Changzhou, Kunshan, Wuxi, Wuhan, etc. The local supply much reduced the costs of production for Japanese companies in the Yangtze river delta, thus boosting the economic development not only in Shanghai, but also in the interior regions where suppliers were located; as a direct result, a wide industrial supply network for Japanese companies producing in the Yangtze river delta was created. Another consequence deriving from the Chinese local supply was the possibility of implementing a 100% delocalization of the production processes in China, in order to drastically reduce production costs, enhance the competitiveness of products, and prepare for a future entrance in the Chinese domestic market; Japanese companies understood the opportunity, and began to implement a full scale delocalization of their production processes in this area of China.

Suzhou is an outstanding pole of industrial development, indeed, it contains Suzhou New Area that is an ETDZ opened in 1992, and Suzhou Industrial Park, which is a co-investment of the Chinese government and Singaporean Government founded in 1994; thanks to these infrastructures, Suzhou became a pole of industrial excellence for the textile, the chemical, the electric, and the medical industry. The Japanese companies operating here had an outstanding advantage, except for the presence of poles of industrial excellence, given that in Suzhou reside one of the largest Japanese community of China, whose members are workers of the Japanese companies located in the area. The Japanese local population in Suzhou has been constantly growing due to the large number of Japanese companies who opened subsidiaries here; as a consequence, a Japanese industrial production cluster born in Suzhou during the 90s, and many Japanese companies started to take advantage of this characteristic of Suzhou.

The Jinqiao Export Processing Zone, situated in Pudong district, was the first EPZ opened in China in 1990, it was specialized in automobile production & assembly, telecommunications equipment manufacturing, electric industry, and pharmaceutical & chemical industry. This EPZ was the unique place in China during the 90s where foreign companies could store, process, and assemble their products, in a complete tax free regime; as a consequence, many Japanese companies

settled here, such as Shanghai Sharp, Sony, Mitsubishi, Hitachi, Shanghai Huahong-NEC, Shanghai Kyocera Electronics, Toshiba Computer, Omron Automatics, etc.

The steel industry, the electric & machinery industry, the automotive industry, the textile industry, the food & beverage industry, the chemical industry, and the logistic industry were the largest recipients of Japanese FDI in the 90s in Shanghai and in the Yangtze river delta; some examples of Japanese companies who invested in these areas were: Fujitsu established in 1996, Kobe Steel in 1997, Meiji Foods in 1997, Omron Automation systems in 1993, Sumitomo Warehouse in 1996, Yamaha in 1996, YKK Group in 1992, Ezaki Glico in 1995, in addition to Canon, Hoya, Fukuda, Kawasaki Heavy Industries, Mitsubishi Corporation, Seiko Epson, and Yokohama Industries in the 90s.

Investments in the 2000s

In the 2000s there were five main reasons at the basis of Japanese FDI in Shanghai: the possibility of penetrating the Chinese domestic market through the Yangtze, the construction of two RO-RO terminals in 2003, the accumulation of Japanese industrial production clusters along the Yangtze river, the two Shanghai Export Processing Zones, the visibility granted to Japanese products in Shanghai.

The 2000s marked an important turning point in the Japanese investment strategy for Shanghai and the Yangtze river delta, indeed, the numerous Japanese companies that were operating there started to focus more on the sales in the Chinese national market than in the international markets; this shift was provoked as we already saw by the entrance of China in the WTO in 2001. In this background, the most relevant superiority provided to Japanese FDI by Shanghai was the strategic geographical position of this seaport on the delta of the Yangtze river, and consequentially the access to the Chinese hinterland market. Indeed, this feature of Shanghai presented two main advantages for Japanese FDI, the first was that Japanese products made in Shanghai could be transported and sold in China hinterland through the Yangtze, and the second was that products manufactured in the industrial zones of the Yangtze river hinterland could be transported to Shanghai and distributed to other regions of China for sales, or exported to the international markets. Both these strategies were followed by Japanese investors, however, the latter presented more economic advantages for the Japanese companies, given that opening a production plant along the Yangtze river basin was cheaper than Shanghai, due to low cost of land and labour in the hinterland of China, and could promote processes of economic development in China hinterland, which would have supported future Japanese FDI in those areas. In addition, another reason that encouraged Japanese FDI to sell products in the Yangtze river market was the relevant percentage of rich Chinese living in the major industrial centers and biggest cities along the Yangtze (Chongqing, Wuhan, Suzhou, Nanjing, Jiujiang, Yichang, and Chengdu), who could afford to buy Japanese products. As a result, Japanese FDI aiming at conquer the Chinese domestic market not only increased Japanese companies' profits, but also stimulated the local economic growth, starting processes of economic development from which the local Chinese population benefitted as well.

The construction of the Haitong roll-on/roll-off terminals in the port of Shanghai in 2003, through a co-investment of SIPG, Shanghai Automotive Industry Corporation (SAIC) and NYK Shipping Lines, provided an outstanding advantage to Japanese automobile companies producing in Shanghai

area, since they can utilize the Ro-Ro terminals for exporting vehicles to the international markets and for moving automobiles in China itself for sales in the Chinese domestic market. In addition, automobile companies producing on the Yangtze river basin could also transport cars to Shanghai for then transshipping them, through the Ro-Ro terminals, and export them in the international markets or to other regions of China. On the other hand, cars made in Japan could be directly exported to Shanghai and transshipped in Shanghai Ro-Ro terminal, for then being distributed in the China hinterland market, through the Yangtze river. In this framework, the city of Chongqing also started to perform an important role in the automobile and motorcycle market, given that it became one of the largest producers of automobile and motorcycle of China. As a matter of fact, many Japanese companies (Mazda, Honda, Suzuki, Denso, Kansai) started to produce here for the Chinese internal market and the international markets, since they can transport their products through the Yangtze river to Shanghai where they can be transshipped through the new Ro-Ro terminals and distributed, otherwise they can sell them in Chongqing which was one of the richest cities of China (at the same level of Beijing, Shanghai, Guangzhou and Tianjin). Moreover, being Chongqing one of the unique poles for car distribution in China's Western regions, Japanese companies located here can also sell their vehicles in the surrounding areas, thanks to the good railway, highway and waterway systems of Chongqing, which were partly built also through Japanese ODA loans. One of the most important examples of Japanese companies producing on the Yangtze river is Honda, who established a car production plant in Wuhan in 2003, restructuring an old automobile production facility (Wuhan Grand Motor), for the manufacturing of SUV for sales in the Chinese domestic market, given that this type of vehicle was very popular in China at that time; the vehicles produced by Honda in Wuhan could be sold locally or transported to Shanghai where they can be distributed to the other regions of China. This strategy was partly adopted by Mitsubishi as well, who on the other hand, directly assembled and distributed its vehicles from Shanghai. As we can notice, the Japanese automobile industry received enormous benefits from the construction of the Haitong Ro-Ro terminals; as a consequence, it is arguable that an accord between Japanese automobile makers and NYK Shipping Lines (owned by Mitsubishi Corporation) existed at the base of the investment made by the largest Japanese shipping line for the construction of the Shanghai Ro-Ro terminals in 2003, when many of the largest Japanese automobile companies began their full scale production along the Yangtze river and in the Yangtze river delta.

The presence of many industrial production cluster in the Shanghai area and along the Yangtze river is another important advantage for Japanese companies who could solve many of the problems originating from a greenfield FDI, through the utilization of existing economic and social infrastructures built by the previous FDI. In particular, the concentration of industrial production clusters in the Yangtze river basin (Chongqing, Yichang, Wuhan, Changzhou, Nantong, etc.) and in the area around Shanghai (Wuxi, Kunshan, Suzhou, Hangzhou, etc.) helped Japanese FDI in the resolution of logistic and infrastructural problems, and generated also a process of transmission of industrial knowhow, and formation of qualified working force that much ameliorated the FDI environment. Moreover, the utilization of Chinese local supply by the Japanese companies starting from 1995, further contributed to the development of processes of transmission of industrial knowhow from the Japanese companies to the local Chinese suppliers, creating a series of Japanese industrial supply clusters located around the Japanese factories, which most facilitated and encouraged Japanese FDI in these areas. According to this logic, not only the accumulation of

Japanese FDI in the region, but also the past interventions of Japanese ODA here produced many positive effects on the local FDI environment for future Japanese companies.

In the 2000s in Shanghai were opened two new export processing zones: Shanghai Songjiang Export processing Zone, opened in 2000, and specialized in shipping, warehousing, logistic, trading & distribution services; Fengpu Export Processing Zone, opened in 2003 in Minhang district, and specialized in electro-mechanic components manufacturing, automobile & automobile parts production, and food & beverage industry. The new Shanghai Export Processing Zones together with the old Jinqiao EPZ represented another local advantage provided by Shanghai in the 2000s to Japanese investors, who can reduce investment costs and risks making FDI in these areas, therefore, improving their competitiveness in the international markets, and also increasing imports toward Japan of made in China Japanese products and raw materials.

Shanghai is also a famous foreign exhibition center for international products, indeed, through the expositions and fairs, that are periodically held in Shanghai, foreign products can acquire visibility in the Chinese internal market, and consequentially among Chinese customers or members of elite clubs and associations, who can much help the promotion of a foreign product between rich Chinese. This phenomenon, in a society where most of times personal relations counts more than affairs, is an important characteristic to which Japanese companies paid a wide attention, in order to foster the sales of Japanese products in China.

The automotive industry, the steel industry, the IT industry, the electric industry, the food & beverage industry, the logistic industry, and the chemical industry are the largest recipients of Japanese FDI in the 2000s in Shanghai and the Yangtze river delta; some examples of Japanese companies who invested here were: Honda Wuhan established in 2003, Mitsubishi in 2004, Hino Engines in 2003, Marubeni Chemicals Shanghai in 2004, Hirata Automated Machinery in 2006, Nissei in 2004, NSK in 2005, Sanyo Chemical in 2007, Baosteel Hitachi Rolls Nantong in 2006, Fine Sinter Wuxi in 2004, Shanghai Mie Precision Mold in 2007, and Kawashima Textile Shanghai.

Conclusions

Japanese investments in Shanghai were mainly focused on the logistic industry, the steel industry, the automotive industry, the food & beverages industry, the textile & chemical industry, and the electronic & machinery industry. The comparative advantages presented by Shanghai to Japanese investors were concerning many fields of investment, nonetheless, the most important one is perhaps the geographical strategic position of Shanghai; as a matter of fact, the access to the Yangtze river hinterland provided Japanese investors with an entrance to China's internal market, and the location of Shanghai in the middle of China East coastline allowed Japanese companies to acquire an important base for their logistic network in the distribution of their products in the international as well as in the Chinese market. As a consequence, the wide Japanese private interests in the Shanghai area may had influenced the choices of the Japanese government for the concession of certain types of ODA projects in determined locations of the Yangtze river delta, where the Japanese companies needed help for the improvement of the local investment environment; this is clearly visible from the relevance accorded to Baosteel Corporation by both the Japanese government ODA projects and the Japanese private sector.

TIANJIN

Fiscal Year	2007	2008	2009	2010	2011	2012
Container Throughput	7,103	8500	8,700	10,080	11,500	12,300
Cargo Throughput	309,6	355,9	380,0	408,0	451,0	476,0

chart 25. Tianjin Port annual container throughput and annual cargo throughput, from Port of Rotterdam Statistics

The data¹⁷⁵ about Tianjin port annual container throughput and annual cargo throughput above are taken from the ranking of top 20 world container ports and top 20 world ports made by the Rotterdam Port Authority; Tianjin placed in the 10th position for its container throughput, and in the 4th position for its cargo throughput.

The port of Tianjin

The port of Tianjin (original name Tanggu port) is located 60 km East of Tianjin city and 170 km Southeast of Beijing, in the Bohai Gulf around the estuary of the Haihe river; the seaport was much enlarged and modernized in recent years, so that the original port infrastructures nowadays represent only a small part of the new seaport. The port of Tianjin is divided into six main areas, Beijiang, Haihe, Nanjiang, Beigang, Dongjiang, and Dagukou. the Beijiang area is the place where the original port of Tanggu was located, the port infrastructures here include container terminals, general cargo terminals, Tianjin Port Free Trade Zone, the container logistics center, and the Tianjin port trade and shipping service area. The Haihe port zone is the river port of Tianjin, it is the oldest part of the port, and it contains the old Qing Dynasty port ruins of Dagu; this area of the port is most utilized by local industries who operate near the river, indeed, the Haihe port zone contains six different production areas and more or less 70 berths. The Nanjiang port area is built on an artificial island, with an area of 26 km², in this port zone are located the bulk cargo terminals of Tianjin port, for the handling of coal, oil, dry and liquid bulk cargoes. The Beigang port area, located on the Yongding river estuary, is not very big, however, it contains the Binhai touristic area, which is used both by passengers and cargo ships; furthermore, in the North area of Beigang is present a fishing harbor. The Dongjiang port area is located on an artificial peninsula, covering an area of 33 km², in the Northeast part of the port of Tianjin; this new port area is composed by three port zones, a zone for container terminals, a service zone (with offices, residences, leisure facilities, yachting piers, cruise terminals, and artificial beaches), and a 10 km² bonded port area, containing a logistic processing zone. The new port area of Dagukou, situated South of the Nanjiang port zone, contain the Lingang Harbor Industrial Zone, where Tianjin shipbuilding cluster is located. In fiscal year 2009 all the port areas listed above were absorbed in the Binhai new area district¹⁷⁶, an enormous special economic zone comprehending an area of 2,270 km², in which the Tianjin Economic and Technological Development Area (TEDA), and the Binhai Free Market Zone are also included.

¹⁷⁵ The unit utilized in the table for the annual container throughput is 1000TEU, while for the annual cargo throughput the unit utilized is 1 million metric tons, gross weight.

¹⁷⁶ The Binhai new district gathered the three old districts of Hangu, Tanggu and Dagang, creating a special economic zone in which Tianjin port facilities are entirely included.

Tianjin port covers an area of about 200 km², and has a 21.5 km long quay equipped with more than 100 berths, furthermore, its navigation channels have an average depth of 17,5 meters. In particular, the port of Tianjin is characterized by several shipping channels, except for the Haihe river; the main shipping channel is 400 meters wide, 21 meters deep, and 33 km long, and it is suitable for the two way passage of 300,000 DWT ships, whereas the Dagusha channel and the North Branch channel are smaller, and can accommodate 200,000 DWT ships. The main warehouse and storage facilities of Tianjin are: a 19 hectares chemical storage terminal in Lingang Industrial Park, a 3000 m² warehouse in the port free trade zone for cargo processing and storage, a warehouse storage for frozen products, a 30 hectares coal storage yard, 350 hectares of container yards, 280 hectares of bulk cargo yards, and many others storage facilities. The port of Tianjin is owned by the Chinese government, and is managed through the Tianjin Port Group (TPG) company, which is the primary port operator that control all port operations in Tianjin port; TPG is composed by 69 subordinates and affiliated companies, among them the most important ones are: the Tianjin Transportation and Port Authority, the Tianjin Port Development Company, the Tianjin Port Holdings Company.

Tianjin port has many container terminals, which are principally located in the port zones of Beijiang and Dongjiang; these container terminals are:

- The Tianjin Five Continents International Container Terminal has four container berths in the Beijiang port area that can accommodate 100,000 DWT ships, the terminal covers an area of 35 hectares.
- The Tianjin Orient Container Terminal has four container berths, in the port area of Beijiang, suitable for 100,000 DWT ships, it covers an area of 45 hectares.
- The Tianjin Port Alliance International Container Terminal has three container berths in the Beijiang port area, suitable for 100,000 DWT ships, the terminal covers an area of 63 hectares.
- The Tianjin Port Container Terminal has four container berths in the port area of Beijiang, one utilizable by 25,000 DWT ships and three for 50,000 DWT ships, the terminal covers an area of 70 hectares.
- The Tianjin Port Euroasia International Container Terminal has three berths in the port area of Beijiang, two capable of providing service to 100,000 DWT ships and one for 70,000 DWT ships, the terminal covers an area of 83 hectares.
- The Port of Tianjin Shenghua International Container Terminal has three berths in the port zone of Beijiang, suitable for 100,000 DWT ships.
- The Tianjin Port Pacific International Container Terminal has six container berths in the port area of Dongjiang, that can accommodate 100,000 DWT ships, the terminal covers an area of 218 hectares.

Moreover, Tianjin port possess many other technologically advanced port infrastructures, that make it one of the most modern seaports of China, and the best equipped port of North China as well; the main port infrastructures present in Tianjin port are:

- The Goods and Materials Cooperation Terminal, located in the Haihe port area, with one berth for the handling of bulk cargoes.
- The Guojiadai Bulk Terminal, in the Haihe port zone, equipped with four berths for bulk cargoes.

- The Tianjin Shangyuan Bulk Terminal, situated in the Haihe port, has one berth for the handling of bulk cargoes, serving the Chaori power plant.
- The Hanjiang Specialized Ore Terminal, in the port zone of Nanjiang, is characterized by a quay length of 400 meters and a depth of 22 meters; this terminal has a bulk berth that can accommodate 300,000 DWT ships.
- The phase 1 Shenhua Tianjin Coal Terminal, located in Nanjiang port area, is equipped with three berths (one for 150,000 DWT vessels and two for 70,000 DWT vessels) and three coal loader, it has an annual capacity of 45 million tons of coal.
- The phase 2 Shenhua Tianjin Coal Terminal, situated as well in the Nanjiang port area, has three berths for vessels of 50,000 DWT, 70,000 DWT and 150,000 DWT, three loaders, and an annual capacity of 35 million tons.
- The Tianjin Port Coke Terminal, located in Nanjiang port area, has a surface of 10 hectares, it is equipped with two berths for 70,000 DWT ships, two coke loaders (that can load 2000 tons coke per hour) and 7 quay cranes; it can accommodate contemporary six coastal barges.
- The Tianjin Port Yuanhang Ore Terminal is located in the port zone of Nanjiang, and is equipped with two berths suitable for 200,000 DWT ships.
- The Huaneng Coal Terminal, located in the Nanjiang port zone, has a surface of 30 hectares, and four coal berths.
- The Tianjin Port Dry Bulk Terminal, located in the Nanjiang port area, has seven bulk cargo berths.
- The Fourth Stevedoring Company Terminal, in the port zone of Beijiang, has five berths (suitable for 30,000 DWT ships) for the handling of timber and mineral ores, and it has a surface of 46 hectares.
- The Fifth Stevedoring Company Terminal, in the Beijiang port zone, has five berths (suitable for 60,000 DWT and 150,000 DWT ships) for the handling of bulk and general cargoes, it has a surface of 35 hectares.
- The Dongjiang Construction Materials Terminal for the handling of sand and stones.
- The Hebei Maritime Transport Terminal, in Haihe port area, has two berths for the handling of liquid bulk cargoes.
- The Dagu Chemical Company Liquid Chemical Terminal in the port area of Haihe has two berths for the handling of propylene and liquid lye.
- The North Sea Oil and Grain Company Terminal in the Haihe port zone has two berths for 3,000 DWT vessels.
- The Tianjin Binhai Alliance Petrochemical Terminal in the port zone of Haihe has a surface of 30 hectares and two berths for 3,000 DWT vessels.
- The Sinochem Tianjin Port Petrochemical Terminal, located in the Nanjiang port area, has a surface of 40 hectares, and has three berths for 50,000 DWT, 10,000 DWT and 5,000 DWT ships; it can handle five million tons of oil per year.
- The Tianjin Port Shihua Crude Oil Terminal, in the port area of Nanjiang, possess a berth that can accommodate 300,000 DWT vessels, and is characterized by a quay length of 480 meters and depth of 22,5 meters; the terminal is equipped with four loading arms (from 8 to 12 thousand tons per hour), and has an annual capacity of 20 million tons of oil.
- The Tianjin Port Petrochemical Terminal, situated in the Nanjiang port zone, had also a capacity of 20 million tons of oil per year, furthermore, it has four berths suitable for

300,000 DWT, 80,000 DWT, 30,000DWT, and 15,000 DWT vessels; it is characterized by a quay length of 1230 meters and a depth of 19 meters, in addition, is equipped with 24 loading arm cranes.

- The Tianjin Port Petrochina Crude Oil Terminal, located in Nanjiang port area, has one berth for the handling of oil capable of accommodating 300,000 DWT ships.
- The Tianjin Port CNOOC (China National Offshore Oil Corporation) Crude Oil Terminal, in the port zone of Nanjiang, has a crude oil berth suitable for 300,000 DWT ships.
- A Tianjin Port CNOOC LNG terminal is also under construction in the Nanjiang port area, it will consist in a floating storage and gasification unit, plus one berth and two storage tanks (30,000 cubic meter each); it will have an LNG receiving capacity of 3 billion m³ per year.¹⁷⁷
- Two Ro-Ro terminals, located in the Beijiing port zone: The Tianjin Port Ro-Ro Terminal (that can handle also grain an edible oil) covering an area of 14 hectares, and equipped with two berths for 50,000 DWT and 80,000 DWT ships, with an annual capacity of 200,000 CEUs¹⁷⁸; and the TPG Global RO-RO Terminal, covering an area of 34 hectares, and equipped with two berths for 75,000 DWT vessels, with an annual capacity of 500,000 CEUs. The two terminals were built through a co-investment between TPG, Nippon Yusen Kabushiki Kaisha, NYK (Europe), and other companies, as well as in Shanghai and Dalian.
- The Huicheng General Cargo Terminal, situated in the Dongjiang port zone, has a surface of 40 hectares and annual general cargo handling capacity of 11 million tons; it has a total of four berths, two for 40,000 DWT ships and two for 100,000 DWT ships.
- The Tianjin Xingang Sinor Terminal, in Dongjiang port zone, handle general and specialized cargoes (square shape cargo), it has only one berth for 38,000 DWT ships.
- The International Cruiser Homeport is located in the Dongjiang port zone, in the core of the 120 hectares of touristic area built there, it has two berths and a 500,000 passengers annual handling capacity.
- The Tianjin Xingang Passenger Terminal, situated in the Beijiing port area, is the old passenger terminal of Tianjin, with an annual capacity of 350,000 passengers and three berths suitable for 10,000 DWT vessels.

Tianjin port is very well equipped with modern port infrastructures, such as container terminals, bulk terminals, oil terminals, an LNG terminal, Ro-Ro terminals, and general cargo terminals; as a consequence, is becoming one of the most important seaports of China and of the World.¹⁷⁹

The TEDA first and then the Binhai special economic zone transformed the city of Tianjin into an advanced base for Chinese industrial and financial development; indeed, Tianjin Binhai is today the third largest special economic zone in China, after Shanghai and Shenzhen, and is characterized by a prominence in research and development activities and eco-friendly infrastructures. Furthermore, many industrial clusters are present in this special economic zone, above all the Toyota production cluster, so that their presence stimulate the economic development of Tianjin and consequentially

¹⁷⁷ “CNOOC gets nod for China’s first floating LNG terminal, August 15, 2013”, Sinoship News, accessed August 25, 2013, http://sinoshipnews.com/news_content.php?fid=3w3c1721.

¹⁷⁸ Car Equivalent Unit (CEU), a unit utilized by shipping companies when they handle cars.

¹⁷⁹ All the data about Tianjin port facilities are taken from: “Port of Tianjin”, World Port Source, accessed August 25, 2013, http://www.worldportsource.com/ports/review/CHN_Port_of_Tianjin_521.php.

the enlargement of port facilities, which are in continuous expansion. The Tianjin Economic and Technological Development Area (TEDA) was opened by the Chinese government in 1984 as one of the first ETDZ of China; its importance is proved by the fact that the foreign businesses operating here nowadays are more than the ones of Shanghai. The main sectors of investment in TEDA are the automotive, medicines, food processing, ecological products, and textile. On the other hand, the Binhai new area is divided into 9 functional zones: the advanced manufacturing zone, the airport based industrial zone, the Binhai high-tech industrial development zone, the seaport based industrial zone, the Nangang industrial zone, the seaport logistic zone, the coastal leisure and tourism zone, the Sino Singapore Tianjin Eco-city, and the Yujiabao Financial district¹⁸⁰. Many multinational companies had established their branches here, such as Airbus, Rockefeller, Tishman Speyer, Motorola, etc.

The WB built infrastructures

The World Bank intervention in Tianjin was relevant, indeed, a total of 15 projects were implemented here starting from 1982, until fiscal year 2010; the WB projects in Tianjin involved many sectors of intervention, among which the development of port infrastructures, local industry, protection of the environment and sustainable development performed a major role. In particular, these project regarded: port infrastructures, highway construction, urban development, local industry financing, light industry sector restructuring (textile, pulp & paper, packaging), industrial development and restructuring (in the sectors of machine tools, construction machinery, automotive parts, electronic components, electric motors), environment protection, water quality improvement, build energy efficient systems & reducing carbon dioxide emissions, gas recovery and utilization, construction of an energy efficient eco-city, and education reform.

The projects dedicated by the WB to the development of port infrastructures are four, thus revealing the importance of seaport facilities in the WB development strategy for Tianjin, given that almost one third of the WB projects were implemented in the area of seaport development; these four projects were: Tianjin port construction project, Tianjin port project, Tianjin ship waste disposal project, China container transport project. The first project approved in fiscal year 1982 planned the construction of a 890 meters long deep water pier equipped with three container berths, an internal port railway and roadway, port ancillary facilities, in addition to the provision of handling equipment and port personnel training. The second project approved in 1986 called for the construction of five berths for the handling of timber, construction materials, and general cargo, in the East Pier South side of Tianjin port, and six berths for the handling of general cargo in the East Pier North side, all these berths were convertible into container berths at need, and can accommodate ships of 30,000 DWT and 50,000 DWT; in addition, under this project were provided navigational equipment, cargo handling equipment, storage yards, a port internal railway and road, water supply facilities, power supply facilities, sewage system, ancillary buildings and a special training program for port management and operations. The project for ship waste disposal, approved in 1992, was aiming at reducing the pollution of water in the port caused by ship's wastes, through the construction of port facilities for the reception and treatment of shipping wastes, through the amelioration of the port pollution monitoring capability, and through the development

¹⁸⁰ The Yujiabao Financial District, located in the core area of Binhai, aspire to become a centre of World's finance, when it will be opened in 2014.

of response plans in case of oil spill eventuality. The fourth project, approved in fiscal year 1999, aimed at facilitating the penetration of seaborne containers from Tianjin marine gateway to Chinese cities located in the hinterland, in order to foster the economic development and productivity in China interior regions and consequentially increase container handling capacity in Tianjin. The project was divided in two main parts, the construction of inland container depots and the enhancement of container handling capacity of the Tianjin Harbor Container Company; as a consequence, container depots were built in Cangzhou, Handan, Tangshan, Qinhuangdao (for Hebei province), Baotou (for Inner Mongolia), Hangzhou, Huzhou, Xiaoshan (for Zhejiang province), whereas, works in Tianjin port for the upgrading of existing container berths, container yards, and port auxiliary facilities were implemented, together with the provision of new container handling equipment, in order to increase the container handling capacity of the port.

As we can see from the projects outlines above, the development of Tianjin port facilities by the World Bank was centered on the improvement of Tianjin port container handling capacity, given that the main function of this seaport of the North of China in the WB seaport global development strategy, was providing a base for international shipping companies in the North of China and in the Northeast Asian Region as well. Indeed, all the largest shipping companies of the world have a branch in Tianjin, given that this seaport became one of the three most important seaports of China, together with Shanghai and Dalian, also thanks to the large interventions of the WB.

The Japanese ODA built infrastructures

The projects implemented by JICA in Tianjin are all focused on the development of economic infrastructures, however, none of them is directed at the improvement of seaport infrastructures, thus highlighting one important characteristic, that is the completeness of the WB and Chinese Government interventions in the sector of seaport infrastructures development for Tianjin port¹⁸¹. As a matter of fact, the Japanese ODA projects here were: Tianjin telecommunications expansion project, Tianjin water supply project, Tianjin No.3 gas works project, and Tianjin wastewater treatment project.

Perhaps the most important Japanese ODA project here is the construction of Tianjin no. 3 gas works, which provided the city of Tianjin with a coal gasification plant, an outstanding new eco-friendly energy producing infrastructure, that only a few countries in the world possessed at that time. Moreover, the telecommunications system expansion project regarded in some way the improvement of Tianjin port infrastructures, given that it improved also the conditions of the port communication systems within Tianjin, and between Tianjin and all the other seaports located in the Bohai Gulf.

The Japanese FDI in Tianjin

Tianjin is the second most important location for Japanese FDI in China after Shanghai, indeed, even if according to Professor Shibota's scheme the Bohai Gulf became a main area of Japanese investments only in the 2000s, the actual concentration of Japanese FDI here is perhaps superior to Shanghai area. This is principally due to the efforts made by the Chinese government for the promotion of Tianjin as one of China's most important economic, logistic, and financial centers;

¹⁸¹ This may be a sign of the relevance of Tianjin port in the Chinese seaport development strategy, as well as in the WB's seaport global development strategy.

these efforts are visible in the constitution in 2009 of the Binhai new area, a special economic zone, that include in its area all the major economic infrastructures of Tianjin, such as TEDA, Tianjin Port, Tianjin airport, Yujiapu financial district, Sino-Singapore Tianjin Eco-city, the Toyota Tianjin production cluster, etc. Moreover, Tianjin advantageous geographic location in the Bohai Gulf, and its proximity to Beijing had further ameliorated its investment environment, transforming this city into one of the main poles of attraction for Japanese FDI in China. In the following paragraphs, I will describe in detail the evolution of Japanese FDI during the three decades in which we divide the presence of Japanese investors in China, and distinguish the various types of investment strategies adopted by the Japanese companies operating in Tianjin.

Investments in the 80s

Japanese FDI in Tianjin port in the 80s were mainly inspired by four causes: the WB built modern port infrastructures, the available large supply of raw materials (coal, iron ores, and food), the cheap cost of labour, the institution of TEDA.

The World Bank intervention during the 80s in Tianjin much increased the port container handling capacity, with a project for the construction of three container berths in 1982, and also the timber, construction materials, and general cargo port handling capacity, through a project in 1986 for the construction of eleven berths; nonetheless, all the eleven berths built in 1986 were convertible in container berths, thus revealing the important role performed by Tianjin as a hub for the international trade already in the 80s. The WB built port facilities much improved Tianjin port handling cargo volume, thus promoting the economic development of the industrial zones situated in Tianjin area (in which several Japanese companies were operating) and facilitating the exportation toward Japan for Japanese import & export companies, which were obstructed before by the inappropriate and outdated port facilities of Tianjin. Furthermore, the port internal roads and railways built by the WB ameliorated also the container, general cargo and raw materials distribution network among the different zones of the seaport, therefore enhancing the speed and efficiency of Japanese logistic companies operating in the port; as a consequence, the competitiveness of Tianjin port augmented a lot in comparison to other Chinese seaports.

Tianjin in the 80s had an important comparative advantage for Japanese FDI, that was the available large supply of coal and ores; indeed, even if its territory was not rich in natural resources, Tianjin was a station of the Japanese ODA built railway connecting Beijing to Qinhuangdao, whose main freights were coal and ores coming from Tangshan (100 km North of Tianjin), and from the huge coal mines of Shanxi. As a consequence, the coal extracted in these regions was transported to Tianjin as well, and used by local Japanese industries for their production or for exports to Japan. Furthermore, considering that Tianjin area was one of the most fertile plains of China, the local high food production was also utilized for exports toward Japan, and for the local food processing industries during the 80s. In addition, there was also a small steel production district, situated on the Haihe river, which was supplying to Tianjin steel needs, that became also an advantageous platform for exporting cheap steel to Japan and provide steel products to local Japanese industries. Another advantage connected with the raw material business were the World Bank infrastructures built in 1986, consisting in berths for the handling of timber, construction materials, and general cargo, which could already accommodate ships of 30,000 DWT and 50,000 DWT at that time, therefore providing this seaport with outstanding port facilities for the transportation of raw

materials; as a consequence, these WB built port infrastructures in Tianjin were widely utilized by Japanese import & export companies for exporting food and natural resources to Japan.

Cheap cost of labour in Tianjin (and more generally in all China) was perhaps the main economic advantage that was attracting Japanese foreign business in China during the 80s, when the largest sector of investments were the textile, the light industry, and the food processing, according to Professor Shibota's theory; as a matter of fact, being these three sectors all labour intensive work categories, the cheapness of labour represented the most fundamental feature, in order to cut production cost and consequentially attract FDI. This factor together with the availability of coal, ores, and food supply, and with the presence of suitable port infrastructures for exportation built by the WB, further ameliorated the FDI environment of Tianjin, so that many Japanese companies invested here, due to the possibility of producing extremely competitive products to be sold in the international and in the Japanese market.

The presence of Tianjin Economic & Technological Development Area, opened in 1984, is another of the fundamental factors attracting Japanese investments in Tianjin, given that the favourable tax regime and economic advantages provided to companies investing in this zone, together with the other advantages listed above, were creating a perfect investment environment, that only a few other locations in China could guaranteed in the 80s. TEDA in the 80s was a pole of industrial excellence for the food processing industry, the textile industry, the petrochemical industry, and the light industry; TEDA was excelling in these industries due to the wide availability in Tianjin of food, mineral resources, and coal supply, and to the proximity of this seaport to large deposits of oil and natural gas located in Dagang district and in the Bohai Gulf seabed.

The light industry, the food & beverage industry, the textile industry, the petrochemical industry, the logistic industry and the automotive industry were the largest recipients of Japanese FDI in the 80s in Tianjin; some examples of Japanese companies who invested here were: Tianjin Daihatsu¹⁸² established in 1984, Mitsubishi Chemical Corporation (through a subsidiary) in 1988, Itochu Foods in 1984.

Investments in the 90s

In the 90s Japanese FDI in Tianjin were encouraged mainly by five reasons: the construction of Tianjin Hangu Chemical Industrial Park, the modern investment environment provided by TEDA, the proximity of Beijing, the importance of Tianjin as an international trade hub for containers, the high concentration of famous universities in Tianjin.

Tianjin Hangu Chemical Industrial Park built in 1996 is an outstanding industrial development zone for the petrochemical and pharmaceutical industries, located inside TEDA, that was created by the Chinese government in order to attract FDI in the chemical sector; the main products of this chemical production cluster are fine chemicals, marine chemicals, pharmaceutical chemicals, and new materials. This chemical industry pole of excellence enjoyed the advantage of being built inside Tianjin seaport area, so that the foreign companies who were producing chemicals for exportation here during the 90s could directly export their products from the seaport based factories to their destination. Tianjin was a pole of excellence in the chemical industry also before the 90s,

¹⁸² This first production facility of Daihatsu in China could produce only a very small quantity of automobiles per year.

given that many of the most important Chinese chemical giants were present there, such as Petro China, Sinopec, CNOOC, Chem China, Cabot Chemical, Tianjin Bohai Chemical Industries Import & Export Corporation, etc.; as a matter of fact, according to a recent survey Tianjin has a total of 4 billion tons of geological reserves among which there are 130 billion cubic meters of natural gas reserves, two oil fields providing 12 million tons of crude oil per year, and salt mines with an annual production of 2.5 million tons of salt¹⁸³. Furthermore, Tianjin was the first place in China where the International Chemical Industry Fair, which is the most important fair in China for the petroleum and the chemical industries, was held in 1992; therefore, confirming the important role performed by Tianjin in the Chinese chemical industry¹⁸⁴. As a result, many Japanese FDI in the chemical sector were attracted in the 90s by the advantages provided by the Hangu Chemical Industrial Park; some examples are Mitsui Chemicals and Mitsubishi Chemicals, that established in Tianjin in the 90s.

Another advantage provided to Japanese investors by Tianjin during the 90s was the modern investment environment of TEDA; as a matter of fact, this area of Tianjin was one of the few in the North of China during the 90s which could guaranteed a complete set of utilities and infrastructures to the Japanese companies establishing here, thus solving many of the problems connected to the bad investment environment of other locations in China. Moreover, the Japanese ODA projects implemented in the 80s and in the 90s for the improvement of Tianjin investment environment were an additional factor favoring the Japanese businesses entrance; indeed, the ODA projects of Japan expanded Tianjin telecommunication system, ameliorated Tianjin water supply facilities, and built the most modern gas supply plant of China. These benefits granted to foreign investors in Tianjin already in the 90s, represented some of the principal reasons why many Japanese FDI were attracted by TEDA, also thanks to the Japanese ODA intervention. As a consequence, we can argue that a connection existed between the ODA projects of Japan and the economic interests of the Japanese private sector, which received many benefits from the ODA investments of the 80s and the 90s in Tianjin.

One of the most relevant features of Tianjin in the 90s was that this seaport had become the main sea gate of Beijing; as a matter of fact, Tianjin was the nearest seaport to the Chinese capital, so that many of the Japanese companies who were producing in Beijing or in Beijing surrounding area had to rely on this seaport for their maritime operations, in order to transport their products from China to the market of destination. This is another characteristic of Tianjin port, that encouraged Japanese FDI in the area of Tianjin and Beijing as well.

Tianjin role as the most important international logistic center for foreign companies in the North of China was confirmed during the 90s, thanks to the outstanding economic development of the Bohai coastal area, to the flourishing import & export business that developed in the Bohai Gulf, and to Tianjin port high container handling capacity (the WB infrastructures built here in the 80s, comprehended a total of 14 container berths). Moreover, Tianjin became also the main international distribution base for the dry ports of North China hinterland, thanks to the project of the WB that improved the penetration capacity of seaborne containers in its hinterland; as a consequence,

¹⁸³ “Nangang Industrial Zone attracts the world’s largest chemical companies”, Forbes Custom, accessed September 1, 2013, <http://forbescustom.com/EconomicDevelopmentPgs/TEDANangangIndustrialZone.html>.

¹⁸⁴ A further demonstration of the importance of Tianjin chemical industry was the construction in 2009 of the Nangang Chemical Industrial Park, built near Tianjin Dagang oilfields.

Tianjin started performing the role of logistic centre for the hinterland dry ports of the North of China as well. For these reasons, many Japanese FDI were effectuated in Tianjin and in Tianjin surrounding areas during the 90s, transforming this port into one of Japan main production clusters of China.

The numerous famous universities located here are another factor that ameliorated the local investment environment, thus favoring Japanese FDI in the 90s, given that a large pool of qualified working force was available in Tianjin. The most important universities of Tianjin are first of all the Nankai University, famous for its science & technology and R&D centers, then there is Tianjin University, the oldest university of China, which was built at the times of the first wave of modernization that characterized China in the end of the Qing Dynasty; moreover, in Tianjin there are many of China's most famous technological universities (Tianjin Polytechnic University, Tianjin Normal University, Tianjin University of Science & Technology, Tianjin Medical University, Tianjin University of Technology), and several foreign universities, such as the Boustead College, Oklahoma City University Meinders School of Business, etc. As a consequence, many Japanese FDI were made in Tianjin, because of the presence of qualified working force, who was mainly employed by Japanese companies in R&D centers, in the electrical & machinery industry, in the local chemical industrial production cluster, and in the automotive sector as well.

The chemical industry (both petrochemical and pharmaceutical), the electric & machinery industry, the automotive industry, and the logistic industry were the sectors which received the widest attention from the Japanese FDI; some examples of Japanese companies which established in Tianjin during the 90s were: Toyota Motors in 1995, Bridgestone Tianjin in 1995, Panasonic Electronic Devices Tianjin in 1995, Canon Tianjin in 1997, Nisseki Lubricants & Grease in 1995, Tianjin Aisin Automobile Parts in 1997, Tianjin Denso Electronics in 1997, Tianjin Honda motors in 1992, Sumitomo Cyclo Drive China in 1995, and Marubeni Corporation.

Investments in the 2000s

Japanese FDI in Tianjin during the 2000s were focused on the automobile sector, and were principally instigated by five reasons: the attractive effect exercised by Toyota automotive industrial cluster, the construction in 2005 of two RO-RO terminals in Tianjin port, the fourth project of the WB for Tianjin port, the institution by the Chinese government of an Export Processing Zone in 2000, Tianjin Japanese automobile fair.

Toyota is physically present in Tianjin since 1995, when it built the Toyota China Technology Center, where trainings for the Toyota automobile components suppliers and for Toyota vehicles repairing were held, in addition to the provision of services for Chinese customers, such as technical assistance and repair. Furthermore, between 1995 and 1999, Toyota also produced engines in Tianjin, through a joint venture with Tianjin Automotive Group, while, in the 2000 it established a joint venture with Tianjin Automotive Xiali Company for producing automobiles on a small scale. Nonetheless, the largest investment of Toyota in Tianjin was the joint venture made with FAW¹⁸⁵ in 2002, which started the large scale production of Toyota in Tianjin, and more generally in China. The direct consequence of the establishment of a full scale production by Toyota in Tianjin was the formation of a necessary automobile components supply network, that attracted many Japanese FDI

¹⁸⁵ FAW Group is the largest automobile producer of China.

in the sector of automotive components in the site around the Toyota factory. In particular, the most important part suppliers of Toyota were obliged to transfer part of their production in Tianjin by the company itself, whereas other Japanese automobile & automobile component companies, such as Honda took advantage of the local automobile Toyota production cluster, in order to utilize the automobile components local supply, cut production costs deriving from economic infrastructure inappropriateness, and employ qualified working personnel specialized in the automotive sector. The FDI attraction effect of Toyota in Tianjin generated a Japanese automobile production cluster in the area, comprehending the manufacturing of all types of automobile parts; according to this phenomenon, many Japanese automobile parts suppliers invested in Tianjin, such as Denso, Aisin, Fujitsu, Kansai Paint, Panasonic Automotive Systems, Idemitsu Lube, Bridgestone, Stanley Electronics, etc. As a result, thanks to its efficiency, Tianjin FAW Toyota Motor Company Limited has become nowadays one of the pillars of China most outstanding automotive production cluster, where Toyota produce vehicles both for the export markets in Europe and USA, and for the Chinese domestic market.

The two RO-RO terminals built in May 2005, through a co-investment by NYK, NYK (Europe), and Tianjin Port Group, were a necessary infrastructure for the shipping of automobiles, produced in the Toyota automobile production cluster inside TEDA, toward the international market of destination. The new Ro-Ro terminals were also utilized by Japanese automobile companies in order to move the vehicles across the different regions of China, where there was a request for Japanese cars. As for the case of Shanghai, we can imagine that in Tianjin as well, an accord existed between NYK and Toyota behind the construction of the Ro-Ro terminals, in order to promote the business of Japanese automobile companies in China and overseas.

The fourth project of the WB for the increasing of Tianjin port container handling capacity was another advantage that favoured Japanese FDI in Tianjin; as a matter of fact, under this project the entire container handling capacity of Tianjin port was upgraded, and new container depots in the hinterland of Tianjin and in China hinterland were built or the old ones were enlarged, in order to increase the volume of goods that can be handled at Tianjin port, and consequentially stimulate the economic development of China hinterland. The WB project contributed also to the works for the renovation of the tract of the Grand Canal that linked Tianjin to Hangzhou, so that goods produced in the North and the South of China could be transported through the hinterland waterways, therefore reducing the congestion of Chinese seaports on the coast, and restructuring an old functional navigation facility, which would have fostered the economic development of the Chinese interior regions as well. Japanese FDI benefitted from the enhanced container handling capacity of the port and from the construction of new container storing yards in China hinterland, that augmented the volume of traded goods and ameliorated China containerized cargo distribution network.

The 2000 opened Export Processing Zone (EPZ) in Tianjin provided local Japanese companies with a place for storage, production and assembling in an area adjacent to Tianjin port facilities, where no customs taxes were imposed to the companies operating there; the EPZ resulted extremely favourable for the development of the local automobile industry, which could best exploit the advantages present in the EPZ. Indeed, Tianjin EPZ is a pole for industrial production specialized in the sectors of automotive, chemical and food and beverages.

Tianjin is an important platform for the promotion of Japanese automobiles in North China, in particular in Beijing area; every year several automobile fairs are held in Tianjin by the largest Japanese automobile makers, who have their major showrooms in Tianjin, in order to acquire visibility, promote their new products, and make sales in the Chinese market. These automobile fairs are perhaps more important than the ones organized in Shanghai, given that many of the Chinese party cadres and biggest Chinese company leaders, who live in Beijing go to Tianjin fair due to its vicinity to the Chinese capital. The influence exercised by these leading figures of China over the other party members and over Chinese rich people is quite high, due to the personal relations system that characterize the Chinese society; so that, if one product succeed in making a good impression over one of these figures, probably a wide sales network will be assured to it in all the region of North China. This feature of the Chinese domestic market was early understood by Japanese companies, who started organizing their largest automobile fairs in Tianjin and investing for the construction of their largest automobile showrooms here, instead of Shanghai; this was also due to the fact that the richest people of China live in Beijing.

The automotive industry was the largest recipient of Japanese FDI in Tianjin during the 2000s¹⁸⁶, in addition to the chemical industry, the electronic & machinery industry, the food & beverage industry, the logistic industry, and the IT industry; some examples of Japanese companies who invested in Tianjin in the 2000s are: Kawasaki Robotics Tianjin established in 2006, Kyocera Tianjin in 2003, Sekisui Plastics in 2004, Tianjin Daihatsu Precision Machinery in 2004, Tianjin Shenchi Software (NEC) in 2005, Sanyo Electric in 2001, Tianjin Toyota Tsusho Steel in 2004, Tianjin FAW Toyota in 2002, and Nissan, Honda, Suzuki, Subaru, Mazda, Lexus, Hino, Isuzu in the 2000s.

Conclusions

Japanese investments in Tianjin were principally concentrated in the automotive industry, chemical industry, pharmaceutical industry, food & beverage industry, electrical industry, IT industry and logistic industry. The comparative advantages offered by Tianjin to Japanese FDI were not as much as the ones provided by Dalian and Shanghai, however, the proximity of this seaport to Beijing, the model of success of the automobile production cluster constituted here by Toyota, and the establishment of the Binhai New Area in 2009 transformed this seaport into one of the largest recipient of Japanese FDI in China nowadays. From the point of view of the relation between ODA and FDI, even if the Japanese private interests in Tianjin were quite relevant, I could not find a clear connection between the Japanese ODA interventions and the Japanese FDI in Tianjin; on the other hand, the connection of Japanese FDI with the World Bank projects is quite arguable, considering the advantages brought to Japanese companies in Tianjin by the construction of 14 container berths, and by the project for the upgrading of the container handling capacity of the seaport.

¹⁸⁶ As a matter of fact, apart for Mitsubishi motors, all the largest Japanese automobile companies invested in Tianjin during the 2000s; this phenomenon was caused by the creation of the network of automobile part suppliers, supporting the Toyota automobile production cluster, that attracted FDI from other Japanese automobile & automobile components companies.

Conclusions

The objective of my work is to demonstrate that Japanese ODA was connected with the needs of Japanese FDI in the three Chinese seaports of Dalian, Shanghai, and Tianjin, and more generally in China, through the analysis of the evolution of Japanese investments during the three decades that characterized the presence of Japanese investors in China after 1978, that are the 80s, the 90s, and the 2000s. Keeping in mind this major purpose, in chapter one, we started with a description of official development assistance and its characteristics, then we passed to the analysis of the peculiarities of ODA conceded by the major donor countries and international institutions in the world. In this framework, we understood that there are different types of approaches to ODA, such as the French, the English, and the German ones, that principally highlight the importance of education and poverty alleviation in developing countries, and the USA and WB ones, which mainly focus on the promotion of structural adjustment reforms, health and institution of the so called “good governance” in the developing countries. Afterwards, in chapter two, we examined the peculiarities of the Japanese ODA system, focusing on Japan’s foreign aid history & philosophy, aid categories, aid institutions, ODA implementation processes, and aid recipients; thereby, we discovered that Japanese ODA is principally centred on the development of economic infrastructures (above all transportation infrastructures), that are most of the times linked with the pursuing of Japanese private interests in that specific developing country. On the other hand, in chapter three, we moved to the analysis of data concerning FDI and ODA conceded by Japan and other countries and international institutions to China, and we find out that Japan was the largest donor of ODA to China for all the period that goes from 1978 to the end of Japanese ODA loans in 2008, as well as the largest investor of FDI in China for the same period, except for a short fall of FDI in the years that followed the 1997 Asian economic crisis. Furthermore, we saw that World Bank’s IDA, Germany, and France conceded large amounts of ODA to China as well; however, while economic infrastructures represented the main objective of development for Japan and IDA, social infrastructures were the largest recipients of ODA from France, and partially from Germany, that focused on economic infrastructures for a small period of time. From the point of view of FDI Germany and the US performed the leading role as major investors after Japan, but, a difference in the investment strategy of these countries existed; indeed, while Japan relied on a larger delocalization of production processes for its FDI in China, the US and partially Germany preferred a smaller and isolated one. As a consequence, we can say that the Japanese investment strategy is perhaps more fair, given that it promoted both the Japanese and the Chinese interests in China, through the building of infrastructures that could be utilized with great advantages by both Japan and China in the case of ODA, and through the transmission of industrial knowhow to the local Chinese population, by a complete process of delocalization in the case of FDI. In the fourth chapter, we made a brief summary of the history of Japan’s ODA and FDI to China, in order to see the contributions that Japanese investments provided for the development of the Chinese economy; from the various examples examined, we understood that Japan had intervened with ODA and FDI in the construction of many of the most important infrastructures of modern China. Moreover, we saw that in 2001 an important shift was registered in the Japanese investment strategy for China, provoked by the entrance of China in the WTO and by the issuing of the “Economic Cooperation Program for China”, strongly supported by the new elected right wing Japanese Prime Minister Koizumi Junichiro. Following these changes the Japanese ODA for China shifted its emphasis from the development of economic infrastructures to that of social infrastructures, environmental

protection and promotion of the Japanese industry in China; whereas, the Japanese FDI strategy in China shifted from FDI concentrated in the Chinese exporting platforms to FDI directed at the penetration of the Chinese domestic market. Finally, in the fifth chapter, we examined the Japanese investments in the three seaports of Dalian, Shanghai, and Tianjin, in order to see the evolution of Japanese investments here; through the analysis of the Japanese investments implemented in these ports we understood that Japanese ODA had an outstanding importance for the Japanese private sector, in order to build a favourable investment environment in China for Japanese FDI. In this framework, Japanese ODA and FDI exploited the different advantageous characteristics that every one of these three seaports presented for Japan; for instance, Dalian presented advantages for its Japanese speaking and high qualified working personnel, while Shanghai had the great superiority of being located on the delta of the Yangtze river, and Tianjin was important for its proximity to Beijing. The connections observed in this case study between Japanese ODA and Japanese FDI, above all in the seaports of Dalian and Shanghai and less in Tianjin, are a proof of the accords that existed between the Japanese government and the Japanese industrial lobbies, in order to favour Japanese private interests in China; as a result, we can affirm that the FDI enabling function of Japanese ODA is verified.

Japanese ODA played a fundamental role in the development of Chinese economic and social infrastructures, for the construction of a good investment environment suitable to attract FDI; in this framework, Japan's private sector received many benefits from the improved Chinese infrastructures and human resources, that allowed Japanese investors to acquire many profitable investment opportunities in China. On the other hand, China as well benefitted from the Japanese interventions, which improved the FDI attracting capacity of the Chinese economy, favouring the entrance of foreign capitals, and consequentially boosting the economic development of China.

For this FDI enabling characteristic of its ODA toward China, as well as for other factors linked with the processes of implementation of ODA and with the governmental organizations that manage its ODA system, Japan was harshly criticized, notwithstanding the positive effects of Japanese ODA on the Chinese economy. Nonetheless, apart for critiques, there are different points of view about Japanese ODA to China; among them I identified three principal attitudes, that more or less reflect the main trends among scholars:

- The first, is an attitude of absolute critique of the Japanese ODA system, due to the Japanese economic interests concealed beneath ODA, and to the presumed inefficiency of Japanese foreign aid; this attitude is typical of American and North European scholars.
- The second, is an attitude of gratitude toward Japan for its ODA, which is typical of Chinese scholars, who emphasize the positive effects that Japanese ODA had on the development of the Chinese economy, especially in solving the problem of lack of modern infrastructures in China.
- The third is an attitude of strong critique and anger toward the Chinese government and sometimes also toward the Japanese government, that is typical of Japanese scholars, who accuse the Chinese of being ungrateful and deceitful, given that they used Japanese ODA funds for purposes others than the ones accorded with Japan, wasting Japanese money.

I took three scholars as exponents of these three different attitudes toward Japanese ODA to China; for the foreign scholars I chose Professor David Arase, for the Chinese scholars I chose Professor

Jin Xide, whereas for the Japanese scholars I selected the journalist Aoki Naoto. Professor David Arase is extremely critical about Japanese ODA, indeed, he affirms that the Japanese ODA system is disorganized and inefficient, to the extent of being 20 years behind if compared with the American and European ODA systems; furthermore, he laments an excessive focus of Japanese ODA on the development of industrial production and trade of the developing countries, to the detriment of other social related sectors that should have the priority. In addition, Professor Arase also criticizes the Japanese ODA system for the role Japanese industrial lobbies play in the procedures of concession of the ODA projects, and in particular for the influence of the Japanese sector private interests over the Japanese government. On the other hand, Professor Jin Xide sustains that Japanese ODA had performed a fundamental role in boosting the economic development of China, especially through the construction of economic infrastructures (above all transportation infrastructures). Nonetheless, Professor Jin claims also that the Chinese population is not aware of the relevance of Japanese ODA for the Chinese economy, due to the lack of publicity of Japanese ODA among the Chinese population; furthermore, he asserts that Chinese people are more influenced by the remembrance of the atrocities Japan committed in China during the Second World War, then by the economic advantages brought to China by the Japanese ODA, when they think about Japan. On the contrary, Aoki Naoto is angry with the Chinese and the Japanese government, since he claims that Japanese ODA funds were used by China with different scopes than the ones accorded in the Japanese ODA plans, and that the infrastructures which were successfully built under Japanese ODA financing were concealed to the Chinese public, and passed off as Chinese government built infrastructures. Moreover, Aoki laments the continuous delays in the completion of ODA projects works and the incompetence of Chinese companies, as well as the lack of visibility of Japanese ODA projects among the Chinese population, and the ingratitude of Chinese people toward Japan. To sum up, we can say that even if there are different and conflicting points of view about Japanese ODA to China, we cannot deny that Japanese ODA had a positive effect on the development of the Chinese economy, and that the Japanese private sector earned many advantages from the ameliorated investment environment created by Japanese ODA in China; as a matter of fact, the new ODA built infrastructures were able to solve many of the problems linked to economic development of China, such as economic infrastructures shortage, human resources development, and protection of the environment.

An important effect produced in China and in all the other recipients of Japanese ODA in the Northeast and Southeast Asian regions by the intervention of both Japanese ODA and FDI was the creation of a regional network of division of labour, that is the main pillar of the Japanese investment strategy in Northeast and Southeast Asia. As a matter of fact, as Professor Vanolo affirms, the processes of regional division of labour adopted by Japanese multinational companies are among the most outstanding examples of a functional international division of labour in Asia; however, this was possible to implement in the Asian regional system which provided peculiar advantages to Japanese multinationals, that other countries in the world could not provide. This is due according to my work to the ODA interventions of Japan in many countries of the East Asian Region, where Japan built a series of economic infrastructures that boosted the economy of the recipient countries, and at the same time favoured the entrance of Japanese FDI in the Region, creating a Japanese regional production network, rotating around a series of Japanese production clusters scattered all around Northeast and Southeast Asia, specialized in the manufacturing of certain components and goods. This type of investment strategy adopted by Japan is peculiar of the

East Asian Region and perhaps is difficult to replicate the same favourable investment conditions elsewhere in the World.

In our specific case, the reasons why the Japanese delocalization strategy in China was so successful in comparison to other examples, originate from five main local advantages provided by China, that according to Professor Vanolo are:

- The late opening of China to FDI in 1978, with the consequent investment boom that followed.
- The numerous peculiar advantages of China: low cost of labour, low cost of raw materials, low cost of transportation, favourable work regulation, favourable environment protection law, qualified working force.
- The presence of many ETDZ along the Chinese coastline, where an advanced level of technology was already available (also thanks to the Japanese ODA and WB interventions).
- An enormous domestic market to penetrate.
- The worldwide popularity of China as an FDI attracting destination, with a consequential accumulation of FDI in the Chinese territory, and the formation of many industrial production clusters, facilitating the entrance of latecomers FDI.

These outstanding advantages granted to Japanese investors by China, together with the geographical and cultural proximity of these two nations, much facilitated the processes of delocalization, that Japan carried out in the Chinese territory; a representative example that can help us to understand the logic of Japanese investors in China is Mitsubishi. This company produces car engines in the cluster of Shenyang, then it move the engines through the Japanese built railway to Dalian port, where suitable port infrastructures for the handling of steel products were built through a Japanese ODA, in order to export them to Shanghai, where Mitsubishi assembling facilities are located; here, using steel plates produced from Baosteel (a steelwork built in cooperation with Nippon Steel and the Japanese government), bearings produced from NSK in the Kunshan Japanese production cluster, and other automotive parts produced in the industrial clusters along the Yangtze river, Mitsubishi assembles its automobiles and exports them to Europe, USA, or South East Asia.

The Japanese investment strategy in China partly changed in 2001, owing to the entrance of China in the WTO, that allowed Japanese companies to make sales in the Chinese domestic market; in this new framework the infrastructures built in China through Japanese ODA, and through Japanese FDI for exporting to the international markets were partially transformed by Japan in platforms for the penetration of the Chinese national market. The most representative examples are Shanghai, for its geographical characteristics providing the access to the Chinese internal market of the Yangtze, and Tianjin, for its proximity to the rich people living in Beijing, who became the main target customers of the Japanese automobile fairs organized in Tianjin by local Japanese automobile manufacturers. The Toyota automobile production cluster created in Tianjin starting from 2002, in collaboration with the Chinese Tianjin FAW, is one of the most outstanding examples of this new investment strategy aiming at conquering the Chinese domestic market. This new investment strategy of Japan in China is peculiar of the period after the entrance of China in the WTO, and it consists for the Toyota case in the full scale delocalization of production processes in Tianjin, including the local supply of high-tech components and all the other automotive parts necessary to the assembling of automobiles, and in the creation of a network of sales rotating around the establishment of a

nationwide launching platform for Japanese automobiles, through the organization of Tianjin automobile fair, for promoting the visibility of Japanese automobiles in China. This new strategy aiming at the conquest of China internal market was successfully implemented thanks to the previous Japanese investments (ODA and FDI), that created a suitable investment environment in Tianjin for the construction of the automobile production cluster by Toyota.

From these examples we can see how the double functionality of Japanese ODA built infrastructures allowed Japanese investors to use China ports, firstly as export processing platforms for the international markets, and secondly, as production basis for the penetration of the Chinese domestic market. As a result, the theory proposed at the beginning of this thesis is confirmed, given that for two of the three examples analysed in the case study, a strong connection existed between Japanese ODA and FDI. Indeed, in the case of Dalian and Shanghai the ODA built infrastructures provided important advantages to Japanese companies operating in the regions served by these two seaports; whereas in the case of Tianjin, even if the ODA built infrastructures contributed only marginally to favour the entrance of Japanese FDI, they became part of one of the most successful examples of Japanese production clusters in China. As a consequence, we can assert that the Japanese Official Development Assistance provided an important support to Japanese companies for their investments in China, both during the period of focus on the Chinese exporting platforms and during the period of focus on the Chinese domestic market; therefore, Japanese ODA can be considered as the main instrument utilized by Japan for facilitating the establishment of Japanese companies in China, and consequently as the enabler of FDI.

Appendices

In the following pages I reported all the detailed tables concerning the data illustrated in the linear graphs of Chapter 3.

Aid Donors	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Belgium	0	0	22	22	21	19	21	23	4	50	29	3	7	4	27	16	3	14	10	8	10	-6	5	1	0	-3	-6	-2	-3	-4	-1	2	-3	-3
France	0	0	0	7	6	13	18	19	21	86	236	328	133	211	216	152	140	116	125	73	43	70	79	74	125	98	122	145	161	133	193	349	317	273
Germany	0	3	13	20	151	250	162	276	105	49	73	185	320	154	247	323	375	739	520	495	420	415	337	264	226	190	292	284	269	287	385	326	322	459
Japan	0	7	11	70	1037	930	1017	1008	896	856	921	1199	1069	783	1304	1465	1473	1271	924	684	1486	1387	838	853	1078	930	1113	1267	712	564	320	148	-193	-446
Korea	0	0	0	0	..	..	..	..	..	..	0	0	0	0	0	1	3	6	40	16	28	31	19	23	35	20	28	20	9	6	16	1	3	-1
Netherlands	0	0	0	0	..	..	..	1	6	6	69	80	29	12	6	20	16	21	4	12	20	54	44	46	28	22	30	32	34	25	15	5	4	2
United Kingdom	0	0	0	1	1	1	2	4	7	9	71	46	48	49	78	64	69	66	77	58	67	72	108	68	45	53	71	54	48	135	156	118	87	61
United States	0	0	0	0	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	1	49	2	6	20	30	25	26	20	43	67	53	86	51
ADB Special Fund	0	0	0	0	..	..	..	..	0	1	5	6	3	20	19	23	23	22	..	..	..	..	..	..	..	..	1	1	4	4	12	13	..	1
IDA	0	0	0	0	2	167	316	539	587	713	930	860	772	903	1107	1245	925	996	1029	966	793	573	457	341	139	-8	-137	-168	-232	-269	-294	-333	-350	-1442

Table 1. ODA total amount toward China from 1978 to 2011, OECD

Aid Donors	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	
Belgium	0	0	0	1	1	1	1	3	3	7	8	3	7	4	6	8	5	6	5	5	4	5	8	5	8	4	4	3	3	4	5	8	3	2	
France	0	0	0	7	6	13	18	19	21	21	19	19	26	17	16	15	16	13	17	17	23	28	39	51	77	101	125	143	170	179	162	176	181	163	
Germany	0	3	13	19	30	33	45	58	66	127	128	125	133	135	145	130	132	140	142	173	177	157	161	201	225	314	342	371	365	353	366	365	353	328	
Japan	0	7	9	30	109	136	108	111	157	202	212	236	298	260	322	325	345	357	352	317	436	469	405	372	417	456	431	321	418	361	326	309	360	278	
Korea	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	3	6	4	4	3	8	9	5	7	6	7	6	6	7	13	6	6	4	
Netherlands	0	0	0	0	0	0	0	1	6	4	6	5	2	1	4	15	16	23	16	25	33	67	56	57	40	37	37	35	36	27	18	7	6	4	
United Kingdom	0	0	0	1	1	1	2	4	7	9	71	46	48	49	78	64	69	66	77	58	67	72	55	61	77	52	74	65	59	74	76	77	55	23	
United States	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	49	2	6	20	30	25	26	20	43	67	53	86	51	
ADB Special Fund	0	0	0	0	0	0	0	0	0	1	5	6	3	20	19	23	23	22	0	0	0	0	0	0	0	0	0	1	1	4	4	12	13	0	1
IDA	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Table 2. ODA grants toward China from 1978 to 2011, OECD

Aid Donors	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	
Belgium	0	0	0	1	1	0	1	1	2	7	6	2	2	3	5	7	4	5	4	4	3	4	6	3	3	3	2	2	3	1	1	2	2	0	
France	0	0	0	7	6	13	18	19	21	21	19	17	18	17	16	14	15	13	16	15	19	26	36	48	67	94	117	131	160	169	149	164	169	16	
Germany	0	3	13	19	30	33	45	58	57	93	102	106	103	118	120	114	107	105	104	110	123	127	142	167	211	278	320	348	345	337	339	343	325	303	
Japan	0	7	9	24	38	54	71	81	110	118	140	153	242	184	233	266	246	281	326	299	387	395	348	344	345	367	373	281	394	341	305	295	347	266	
Korea	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	3	4	2	2	2	2	2	3	4	3	4	5	6	6	5	4	4	3	
Netherlands	0	0	0	0	0	0	0	1	3	3	5	5	2	1	2	2	3	3	5	1	8	3	7	10	4	7	15	10	11	7	4	2	3	2	
United Kingdom	0	0	0	1	1	1	2	4	7	9	16	19	12	20	19	22	18	21	26	20	19	18	22	27	32	26	15	11	10	9	22	6	1	7	
United States	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	1	2	6	18	27	20	22	17	7	5	5	13	9	
ADB Special Fund	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
IDA	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Table 3. ODA technical cooperation toward China from 1978 to 2011, OECD

Aid Donors	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	
Belgium	0	0	22	21	19	18	19	20	1	43	21	0	0	-1	20	8	-2	8	5	3	6	-11	-3	-4	-8	-7	-10	-4	-6	-7	-6	-6	-6	-6	
France	0	0	0	0	0	0	0	0	0	65	217	308	108	194	200	137	123	103	108	56	20	42	40	24	48	-3	-3	3	-9	-47	31	173	136	110	
Germany	0	0	0	0	121	218	117	218	39	-78	-55	60	187	18	102	193	243	600	379	322	243	258	176	63	1	-124	-49	-87	-96	-66	19	-39	-31	132	
Japan	0	0	2	40	929	795	909	897	739	655	710	962	771	524	982	1140	1128	914	571	367	1050	918	433	481	662	474	682	946	294	203	-6	-161	-553	-725	
Korea	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	36	11	25	24	9	17	28	13	22	14	3	-1	3	-5	-3	-5	
Netherlands	0	0	0	0	0	0	0	0	0	3	63	75	26	11	2	5	0	-1	-12	-13	-12	-12	-12	-11	-11	-15	-7	-4	-3	-3	-2	-2	-2	-2	
United Kingdom	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	53	7	-32	1	-3	-12	-11	61	80	41	32	38
United States	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
ADB Special Fund	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
IDA	0	0	0	0	2	167	316	539	587	713	930	860	772	903	1107	1245	925	996	1029	966	793	573	457	341	139	-8	-137	-168	-232	-269	-294	-333	-350	-1442	

Table 4. ODA loans toward China from 1978 to 2011, OECD

Sector	Year	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	
	I. Social Infrastructure & Services		861	690	648	552	484	435	667	480	701	505	611	811	675	790	761	736	672	679	659	651	840	803	960	878	1585	1817	2052	2078	2412	2642	2960	3498	3659	4160
I.1. Education		440	395	474	406	381	291	255	288	287	289	290	374	332	411	357	305	261	234	228	207	213	263	224	260	156	393	441	321	381	614	515	829	751	986	
I.1.a. Education, Level Unspecified		..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	169	133	134	144	162	115	152	57	119	123	132	177	292	170	424	333	459
I.1.b. Basic Education		..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	34	30	42	82	92	91	86	263	315	185	202	276	303	332	268	397
I.1.c. Secondary Education		..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	9	12	9	13	14	14	13	9	6	2	1	1	1	5	14	53	59
I.1.d. Post-Secondary Education		..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	55	49	34	13	5	3	5	4	5	1	1	1	45	36	59	97	71
I.2. Health		62	79	56	44	42	60	76	86	104	65	65	82	131	79	112	117	113	135	154	198	164	160	295	173	395	365	237	274	365	498	488	609	698	839	
I.2.a. Health, General		..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	135	45	174	75	98	123	116	254	256	141	145	234	221	287	216	698	214
I.2.b. Basic Health		..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	109	24	90	62	171	58	141	109	96	129	131	277	202	393	..	625	
I.3. Population Pol./Progr. & Reproductive Health		..	..	..	..	..	..	..	..	..	7	14	2	3	8	29	36	38	44	40	37	102	94	107	82	127	153	193	295	262	343	375	409	515	586
I.4. Water Supply & Sanitation		31	41	7	2	..	..	..	13	199	8	42	110	90	90	70	78	64	54	63	53	70	68	57	55	24	35	29	43	47	87	143	116	157	161
I.5. Government & Civil Society		281	109	78	52	45	47	45	48	53	54	71	70	100	107	192	168	175	105	115	95	168	109	148	204	727	732	1062	1054	1251	916	1210	1212	1134	1231	
I.5.a. Government & Civil Society-general		1054	1239	762	880	812	844	954
I.5.b. Conflict, Peace & Security		12	154	330	400	291	277
I.6. Other Social Infrastructure & Services		46	67	34	49	16	36	292	45	58	83	129	173	20	94	2	32	21	107	60	61	123	110	130	103	156	139	90	93	105	184	229	323	403	357	
II. Economic Infrastructure & Services		808	1035	485	78	744	573	885	216	433	499	695	671	677	965	412	378	314	378	350	234	330	335	233	296	289	384	446	222	191	975	943	1037	677	748	
II.1. Transport & Storage		749	303	89	7	80	348	89	72	133	277	214	242	243	265	109	86	47	129	125	86	108	101	91	91	87	101	120	41	45	74	75	143	179	141	
II.2. Communications		21	72	4	6	1	34	12	..	..	47	86	16	103	10	23	12	9	16	12	12	19	19	8	18	..	1	6	13	20	27	30	75	113	90
II.3. Energy		38	660	392	65	664	191	748	115	280	149	382	388	301	670	177	194	184	170	129	97	98	146	84	63	97	178	187	55	67	33	48	74	134	242	
II.4. Banking & Financial Services		..	..	..	..	..	..	35	30	21	23	10	5	1	2	3	5	10	33	53	14	99	63	41	103	89	54	46	49	24	819	765	716	197	228
II.5. Business & Other Services		..	..	..	..	..	..	..	..	3	4	20	30	18	100	82	64	29	30	24	6	6	10	21	17	49	86	63	35	22	25	29	55	47	
III. Production Sectors		1637	2218	1099	860	787	847	362	396	517	699	249	392	544	508	503	385	331	330	309	231	334	387	449	282	359	303	268	264	224	223	204	254	535	442	
III.1. Agriculture, Forestry, Fishing		391	519	166	140	147	241	343	254	208	255	232	261	356	280	300	241	206	251	212	185	214	259	225	163	245	235	179	156	122	100	81	143	153	215	
III.1.a. Agriculture		..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	182	141	132	145	192	150	98	197	184	138	117	100	78	67	108	114	162
III.1.b. Forestry		..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	46	41	40	55	50	52	45	33	34	30	25	21	18	12	35	35	49
III.1.c. Fishing		..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	24	30	13	14	16	23	19	16	17	11	15	2	4	2	0	4	3
III.2. Industry, Mining, Construction		91	197	118	171	239	390	19	142	309	441	26	123	181	213	161	115	88	73	92	44	113	112	220	112	94	47	66	73	52	78	45	36	157	150	
III.2.a. Industry		..	..	..	..	..	11	1	..	60	149	80	82	158	39	57	60	39	75	32	86	93	72	48	48	36	38	48	41	45	44	34	150	85	
III.2.b. Mineral Resources & Mining		..	..	..	..	..	8	141	309	360	12	22	45	26	98	42	24	21	18	13	25	21	147	63	43	8	18	3	1	4	1	1	7	25	
III.2.c. Construction		..	..	..	..	..	..	..	..	21	23	21	54	16	24	16	5	13	-1	0	2	-1	1	2	3	3	10	23	9	28	0	1	1	1	40
III.3.a. Trade Policies & Regulations		..	..	..	..	..	..	..	..	3	4	4	5	11	42	28	5	5	4	1	2	3	3	6	19	20	23	34	51	44	77	75	209	73	
III.3.b. Tourism		..	..	..	..	..	..	..	..	1	..	3	2	3	1	1	1	0	0	0	5	14	0	1	..	..	..	..	..	0	0	1	16	5	
IV. Multi-Sector / Cross-Cutting		196	83	69	7	10	6	7	8	28	..	..	..	..	..	..	..	..	85	102	88	93	76	269	147	92	116	91	322	135	280	275	779	1442	931
IV.1. General Environment Protection		..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	45	60	41	23	18	17	15	47	43	51	60	27	89	108	572	892	187
V. Total Sector Allocable (I+II+III+IV)		3501	4026	2301	1496	2025	1861	1921	1100	1679	1702	1555	1874	1896	2263	1677	1499	1317	1472	1419	1204	1598	1602	1911	1603	2325	2620	2856	2886	2962	4120	4383	5569	6314	6281	
VI. Commodity Aid / General Prog. Ass		194	115	94	93	91	93	98	130	51	440	420	528	290	288	432	295	422	201	227	137	204	237	568	244	13	16	116	71	108	651	747	562	815	565	
VI.1. General Budget Support		..	..	..	..	..	..	..	..	..	..	96	146	138	..	..	13	139	71	76	71	124	339	83	..	..	..	..	71	108	573	604	550	650	422
VI.2. Dev. Food Aid/Food Security Ass		99	51	44	63	48	51	55	97	25	37	51	45	31	51	71	72	116	..	..	..	..	..	..	..	..	..	..	..	79	143	13	165	143	
VII. Action Relating to Debt		27	115	384	144	90	89	96	109	98	83	73	78	129	177	168	77	112	..	-2	370	531	138	201	502	762	147	778	3417	3248	64	490	43	164	171	
VIII. Humanitarian Aid		19	10	12	5	8	10	31	116	62	42	54	54	55	160	78	284	381	327	272	206	203	272	446	345	503	637	512	608	772	432	595	741	570	664	
VIII.1. Emergency Response		..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	242	228	187	174	268	433	314	404	531	450	544	772	409	557	648	501	583
VIII.2. Reconstruction Relief & Rehabilitation	
VIII.3. Disaster Prevention & Preparedness		23	28	54	10	3
IX. Unallocated / Unspecified		2672	1085	244	421	359	291	631	517	578	533	543	425	483	370	220	230	346	308	498	561	482	491	445	984	934	1124	1246	1246	1506	871	744	810	502	628	
Total (V+VI+VII+VIII+IX)		6413	5352	3036	2160	2573	2344	2778	1972	2467	2800	2645	2959	2852	3259	2573	2384	2579	2308	2414	2477	3019</														

Year	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Donor																	
<u>Belgium</u>	3	3	2	11	3	5	2	10	3	2	2	2	3	3	3	2	1
<u>France</u>	32	55	5	8	43	25	55	80	84	114	118	168	179	151	168	171	163
<u>Germany</u>	61	..	48	0	82	124	146	258	262	385	47	313	485	443	469	458	497
<u>Japan</u>	317	329	222	469	38	649	263	608	912	1111	986	844	932	298	283	356	282
<u>Korea</u>	..	..	..	..	..	..	..	..	..	..	..	4	3	4	4	3	3
<u>Netherlands</u>	7	3	28	7	30	23	8	5	0	3	3	10	14	9	1	5	2
<u>United Kingdom</u>	9	15	11	68	146	28	5	94	134	56	18	116	80	17	62	34	40
<u>United States</u>	..	..	..	..	..	..	3	6	19	34	31	28	54	54	32	47	24
<u>IDA</u>	475	334	234	130	287	..	..	..	..	..	..	..	..	..	..	..	..

Table 14. ODA dedicated to the social infrastructure sector in China from 1995 to 2011 by donor country, OECD

Year	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Donor																	
<u>Belgium</u>	0	..	1	0	..	..	0	1	1	0	0	0	0	..	..	..	..
<u>France</u>	26	15	12	3	172	5	100	1	17	56	171	..	..	59	1	2	0
<u>Germany</u>	108	1195	23	9	434	7	194	22	234	129	19	359	29	366	295	428	63
<u>Japan</u>	2649	934	1791	1566	..	819	993	734	436	243	9	13	6	2	2	2	1
<u>Korea</u>	..	..	..	..	..	..	..	..	..	..	..	1	3	1	0	0	0
<u>Netherlands</u>	12	2	12	41	14	4	23	1	1	0	1	..	1	3	1	..	..
<u>United Kingdom</u>	23	92	76	2	11	12	4	1	0	..	..	..	1	123	77	47	13
<u>United States</u>	..	..	..	..	..	..	2	6	2	3	2	3	9	29	19	21	3
<u>IDA</u>	..	125	..	..	61	..	..	..	..	..	..	..	..	..	..	..	..

Table 15. ODA dedicated to the economic infrastructure sector in China from 1995 to 2011 by donor country, OECD

Year	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Donor																	
<u>Belgium</u>	2	1	1	2	1	2	1	0	..	..	0	..	0	1	5	0	0
<u>France</u>	34	8	0	2	0	45	1	4	1	1	1	0	1	0	0	50	0
<u>Germany</u>	19	20	51	21	11	51	44	24	36	1	25	2	16	29	29	10	19
<u>Japan</u>	127	276	60	17	18	135	704	96	369	68	120	123	214	22	28	24	10
<u>Korea</u>	..	..	..	..	..	..	..	..	..	..	..	1	1	2	1	3	1
<u>Netherlands</u>	3	5	2	14	8	3	18	0	0	2	..	..	4	2	..	..	..
<u>United Kingdom</u>	..	0	0	..	0	102	5	0	10	4	41	1	1	0	15	7	23
<u>United States</u>	..	..	..	..	..	..	1	3	3	1	3	1	0	1	3	2	1
<u>IDA</u>	..	28	..	245	226	..	..	..	..	..	..	..	..	..	..	..	..

Table 16. ODA dedicated to the production sector in China from 1995 to 2011 by donor country, OECD

Year	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Donor																	
<u>Belgium</u>	..	1	1	0	0	0	1	1	1	0	0	1	0	0	0	1	1
<u>France</u>	9	6	6	1	4	1	6	5	4	9	3	13	3	132	269	216	116
<u>Germany</u>	..	..	133	10	153	12	21	23	22	39	132	26	34	107	25	35	54
<u>Japan</u>	2	266	141	155	5	718	254	425	98	186	190	332	503	8	8	9	11
<u>Korea</u>	..	..	..	..	..	..	..	..	..	..	..	1	0	1	0	0	0
<u>Netherlands</u>	0	4	6	42	18	5	29	36	0	3	4	17	2	1	..	0	..
<u>United Kingdom</u>	15	1	..	14	0	15	3	8	1	14	..	0	1	2	8	7	3
<u>United States</u>	..	..	..	..	1	2	3	6	4	12	3	16	4	16	12	26	9
<u>IDA</u>	..	209	226	31	3	..	..	..	..	..	..	..	..	..	..	..	..

Table 17. ODA dedicated to the multi-sector in China from 1995 to 2011 by donor country, OECD

Donor	Year	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Belgium		0	0	..	..	..	..	0	..	..	..	..
France		..	6	11	2	171	3	97	0	12	55	171	..	..	..	..	1	..
Germany		61	1121	4	..	285	..	180	0	163	39	3	262	2	151	157	341	0
Japan		1086	687	1108	525	..	754	591	476	1	1	0	2	1	1	0	0	0
Korea		0	..	0	..	0	0
Netherlands		10	2	12	13	..	1	0	..	..	..	..	..	..	1	..	..	..
United Kingdom		19	92	76	1	..	1	0	..	0	..	..	..	..	..	..	2	0
United States		1	5	0	2	0	2	3	0	3	2	2
IDA		..	125	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..

Table 18. ODA dedicated to the subsector of transportation infrastructure in China from 1995 to 2011 by donor country, OECD

Year	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Belgium	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	8	49	-378	47	85	542	-365	-144	-163	437
France	21	15	31	0	-11	-2	82	56	89	109	149	250	225	179	213	340	170	563	322	493	843	633	1248	1956	1830	1980	2206
Germany	21	6	19	46	7	0	140	88	109	251	535	1012	1149	642	672	819	729	624	1760	1490	3093	3143	2916	2719	5841	10718	14745
Japan	100	226	1226	296	438	349	579	1070	1691	2565	4591	2599	2015	1041	736	1019	1483	1718	3065	4539	6596	6164	6203	6480	6938	7160	12582
Korea	0	0	0	0	6	16	42	141	264	632	810	800	618	619	203	246	-272	0	1305	2291	0	3075	4913	4035	3545	5313	4977
the Netherlands	0	0	0	0	0	0	6	-32	-16	182	105	192	210	-21	260	57	388	156	-151	275	645	423	611	1203	139	762	543
The United Kingdom	0	0	0	0	10	0	30	35	32	12	80	318	116	-394	977	621	953	1136	505	988	1087	688	2285	531	535	1231	2107
USA	174	-113	103	98	100	30	40	74	556	1232	261	933	1250	1497	1947	1817	1912	875	1273	4499	1955	4226	5243	15971	-8526	7089	-1663

Table 19. FDI total amount invested in China from 1985 to 2011 by country, OECD

Year	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Food	18	13	26	37	77	137	137	207	118	105	29	25	14	91	138	113
Textile	15	31	95	155	268	349	455	212	274	51	44	30	42	90	114	120
Lumber&Pulp	2	2	2	4	48	10	68	44	36	10	4	6	27	26	6	61
Chemical	15	17	15	25	110	106	138	98	161	153	100	72	185	175	280	303
Metal	8	20	16	38	91	164	347	203	180	94	48	49	166	138	177	426
Machinery	57	74	39	65	265	137	463	319	232	114	44	95	163	191	399	461
Electrical	107	33	167	246	386	516	904	445	518	163	82	358	650	381	497	506
Transport	2	2	12	41	98	233	370	280	122	179	104	101	258	236	958	1.795
others	52	45	48	226	244	289	485	224	216	169	171	119	100	383	204	282
Farming&Forestry	0	2	3	7	5	3	17	0	0	0	0	0	0	0	0	0
Fishery	7	7	4	16	7	7	10	4	0	0	1	0	0	0	0	4
Mining	6	29	2	2	0	0	7	6	1	0	0	0	0	6	0	1
Construction	5	11	0	9	7	80	86	67	80	81	2	3	2	10	162	0
Trade	12	4	9	31	64	156	249	146	124	44	72	62	116	83	249	273
Finance&Insurance	13	4	14	1	12	1	0	22	0	39	0	4	39	146	175	175
Service	235	199	255	283	143	215	173	287	179	97	102	167	41	39	82	147
Transportation	20	1	2	34	29	23	47	23	33	11	19	5	0	5	23	21
Real Estate	11	14	22	85	47	146	261	195	131	45	3	15	11	5	15	16
Branches	1	4	56	76	53	109	101	46	32	22	36	3	3	146	74	208

Table 20. FDI sectorial allocation of Japan in China from 1989 to 2004, MOF

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