

HOME > AJISS-Commentary > A New Mission of Japan's Infrastructure-FDI Nexus Model in the 'Beyond-Aid' Era

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# A New Mission of Japan's Infrastructure-FDI Nexus Model in the 'Beyond-Aid' Era

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## Introduction

In his epoch making book *The Structure of Scientific Revolutions*, which launched the concept of paradigm shift, Imre Lakatos and Istvan Lakatos, and Thomas Kuhn stressed that the existing theory is to be reconsidered when it apparently cannot explain irregular phenomena (Kuhn 2012, p.6). Kuhn's proposition is, in my view, relevant to the development of East Asia and suggests that the studies of East Asia's 'irregular' and 'exceptional' experience are an important incubator of new paradigm of development.

## The belated spring for Japan's development cooperation

The trajectory of Japan's development cooperation, i.e. the total resource flows to develop the purpose of promoting development, in the last three decades, or during the *Heisei* era, given that it is composed of lights and shadows. On the one hand, Japan has lost the position of the world's largest aid donor as a result of longstanding stagnation after the burst of bubble. In addition, there is conce

persistent revival of commercial orientation, shown in the increasing tied conditions under the other hand, Japan's approach to development cooperation began to enjoy the 'belated observe, the East Asian mode of aid and development is "progressively gaining momentum" (32). A former high ranking official of the OECD-DAC admits "that Japan and other East Asia are able to provide a model that worked well in growing economies" (Manning 2016: 291). Paying attention to the spread of positive assessment in the international community, this is an opportunity for Japan's approach to development cooperation in the 'beyond-aid' era. In this era, such as emerging economies and private sector are to assume crucial roles, replacing the traditional donors.

## Path from periphery to the center of stage

It is to be admitted that neither the East Asia's development achievements nor Japan's approach to development cooperation has been treated seriously by the mainstream economists for long time. The prevailing views seem to have come from the fact that the East Asian development strategy as well as the development cooperation approach are not necessarily in accordance with the set of prevailing ideas that have been invented and promoted by the traditional donors.

Many prominent scholars and professionals regarded what occurred in East Asia as unsustainable. A notable example is Krugman 1994. Also many predicted after the financial crisis of 1997-98 that corruption and nepotism would lead East Asia to stagnation that had happened in Latin America" (Gill and Williamson 2009: 167-177). On the same token, Japan as an aid donor has never been free of criticism, as was illustrated in Saidi/Wolf's 1994 international criticism of twelve points, such as lack of philosophy and an 'overly commercial approach' (Saidi/Wolf 1994: 167-177). Under the circumstance, Japan has been urged to follow the dominant international norm. Japan has watched carefully how other donors behave, and tried the best to follow them. A notable exception is the emphasis on infrastructure, more specifically the assistance to export-led industrialization through infrastructure-FDI (foreign direct investment) nexus model.

The tide was turned as the East Asian success stories began to be taken for granted. The tide was accelerated by the rise of China as a global power and development cooperation provider, and the endorsement of OECD experts, Saidi/Wolf and Manning. The turn of tide became further apparent in the Sustainable Development Goals (SDGs), which contains an infrastructure related target; there was no infrastructure target in the preceding Millennium Development Goals (MDGs).

Needless to say, Japan's development cooperation is not irrelevant. To put it differently, it is difficult to dissociate the East Asian achievements from Japan's development cooperation, as Japan is the largest bilateral aid donor and the largest investor in the region.

## Rationale of the infrastructure-FDI nexus or the synergy among aid, investment and East Asia

As is well known, the emphasis on economic infrastructure is a central feature of East Asia. East Asian policy makers have persistently put a high priority to infrastructure construction. But the idea of infrastructure-FDI nexus is more than that. The basic scenario is as follows: infrastructure is constructed. It improves conditions for investors, in particular foreign investment, in conjunction with socio-political stability; rural development is crucial for this purpose. Attraction, in particular export-oriented one, would strengthen international competitiveness, increase capacity of foreign currency acquisition that determines the domestic resource mobilization, self-reliance or graduation from the status of aid recipient. Figure 1 illustrates that the policy pillars are reliable infrastructure system.

This is exactly what occurred in East Asia, and obviously, in contrast to the charity based philosophy of the traditional western donors. Most importantly, two types of concerted actions streamline the above scenario. The first is a cognitive model being shared by the East Asia. In 1985, the five ASEAN economies<sup>1</sup> jointly urged the Japanese government to accelerate export-oriented industrialization. One Japanese response was the 'New AID Plan (New Asia Plan)', which was launched by the former MITI (Ministry of International Trade and Industry) with the idea of 'trinity' of aid, investment, and trade (promotion of manufacturing export). It is imagined that China copied Japan's idea of 'trinity'. Although this is seemingly a popular idea, the reality is more complicated. The strategy of '*Da Jingmao*' (The Broad-Based Strategic Economic Cooperation) of 1992, which stressed close linkage between aid, investment and trade, is a Chinese foreign aid strategy. Afterwards, since the mid-1990s, the Chinese scholars and economists have studied Japan's 'trinity' approach. Combining the endogenous idea of '*Da Jingmao*' and the Japanese approach, current Chinese foreign aid model, which asserts 'win-win' effect, emerged (Wang, 2010). Another type of concerted action is found between public sectors and private investors. The representative case appears in the linkages among public investment in infrastructure, private investment in industrial estate and the production facilities of export-oriented manufacturing. The mutual result of concerted actions have made enormous contribution to industrial development. It is stressed that "anchor firms", whose products, such as an automobile, are composed of great number of parts, play important roles in the industrial clusters in East Asia. Once an anchor firm locates its factory, other firms and materials suppliers follow. The backward linkage makes the production facilities closely linked. Examples are the accumulation of aid-funded infrastructure and privately constructed industrial estates in the Eastern Seaboard (today it is called 'Eastern Economic Corridor') in the outskirts of Bangkok and the Haiphong corridor' in the northern Vietnam. It should be stressed that it is not easy to find Chinese funded industrial estates in abroad<sup>3</sup>. Here is a clue to differentiate the Japanese foreign aid cooperation.

The concerted actions were promoted by similar expectations or understanding of what others would do and how the world works. In other words, shared 'cognitive model' among the stakeholders is the key to the concerted actions. A shared cognitive model was created neither by force nor order in East Asia. Instead, each actor knows what others would do and everybody knows that others know it.

## New opportunities for the Infrastructure-FDI nexus in the 'Beyond-Aid' era

Since the Busan Partnership for Effective Development co-operation of the 4<sup>th</sup> High Level Effectiveness of 2011, the strong demand for the 'new partnership', between traditional and public-private partnerships, is emerging. The SDGs has accelerated the inclusion of new and furnishes the Japan's development cooperation approach with an ample opportunity, as the development cooperation trajectory in East Asia, in particular the infrastructure-FDI nexus feature of that model is seamless and closely-knitted public-private collaboration. Unfortunately East Asian providers, except Korea, are not well equipped as far as the collaboration with private actors; it is a notable weakness in this region. This article, accordingly, focuses the collaboration with the private companies.

As a matter of fact, the effective new partnership, or more specifically the effectively connect two sectors, cannot be achieved by the prevailing *explicit* knowledge, which can be stated and so on. What is crucial is a set of tacit knowledge based on experiences (Polanyi 2009: previous section, the concerted actions were promoted by sharing similar expectations or other actors would do. The infrastructure construction is to be started, on the basis of knowledge investment is to follow; the conviction comes from a series of detailed researches on the past investment strategies. In other words, *market-oriented* public investment is the key of effective partnership.

The accumulation of the above tacit knowledge in East Asia has the feature of Thomas Kuhn's irregularity, it is expected to contribute to the policy issues in the 'beyond-aid' era as an alternative development norm.

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<sup>1</sup> Indonesia, Malaysia, Philippines, Singapore, and Thailand.

<sup>2</sup> Such as ports, airports, highways, bridges, telecommunication networks, power plants, transmission lines.

<sup>3</sup> In China, there are industrial clusters with anchor firms.

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