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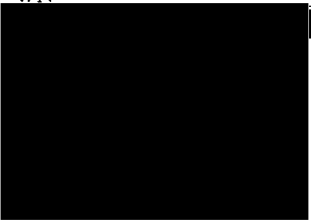
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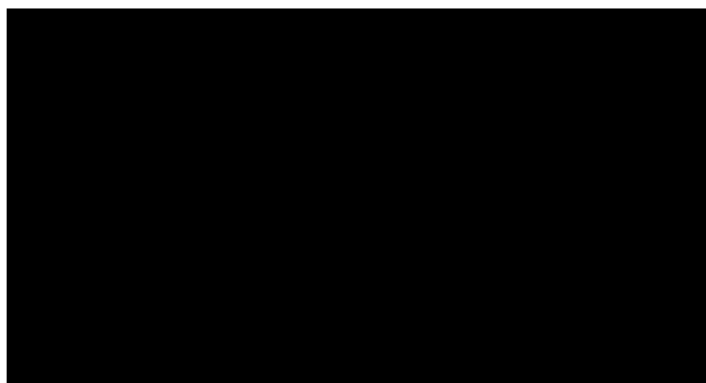
**Directorate of
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Japan: Evolving Policy Toward the Third World



An Intelligence Assessment



~~**Confidential**
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Japan: Evolving Policy Toward the Third World

Since the late 1970s Japan's policy toward the LDCs has evolved as Tokyo's own view of Japanese national interests has changed and as Japan has responded to US pressure to play a global role commensurate with its economic power.¹

Traditional LDC Partners

Economics have always dominated Japanese ties to developing nations. To Japan, the LDCs are sources of raw materials, fuels, and foodstuffs indispensable to its survival and industrial growth and important markets for Japanese manufactured exports. Japanese officials argue that the long-term stability of the Japanese economy requires stable trading relations with the LDCs.

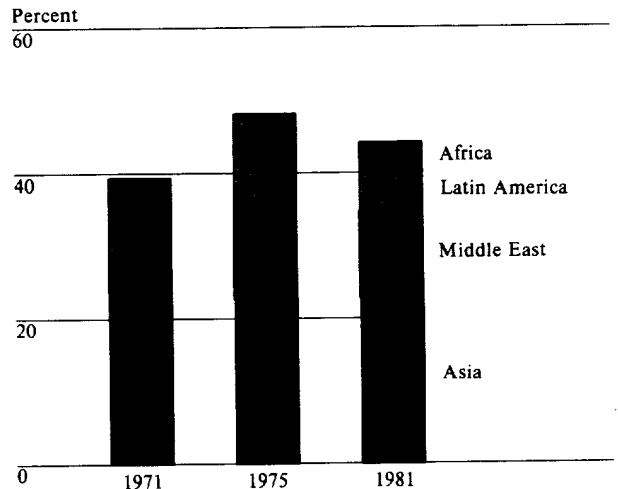
Aggregate trade and investment numbers tell the story. Japan's dependence on LDC markets and sources of supply has been increasing. In 1981 LDCs absorbed 44 percent of total Japanese overseas sales, up from 39 percent in 1971 (see figure 1). LDCs also supplied nearly 60 percent of Japanese imports in 1981 compared with 42 percent a decade earlier, in part because of higher oil prices. Moreover, Japan is more dependent on the LDCs than is the United States or Western Europe. The United States marketed only 37 percent of its exports in the LDCs in 1981 and drew only 44 percent of its imports from those countries. For Western Europe, the shares were even smaller.

In terms of major commodities, LDCs supplied 25 to 35 percent of Japanese food imports and 40 to 45 percent of raw materials over the past decade. LDCs have been particularly important as sources of supply for fuels; they meet almost 90 percent of Japan's requirements, including almost all oil and liquefied natural gas (LNG).

Asia stands out among LDC regions, both as a supplier of a broad range of commodities and as a

¹ Official Japanese trade, investment, and aid data were used in this report.

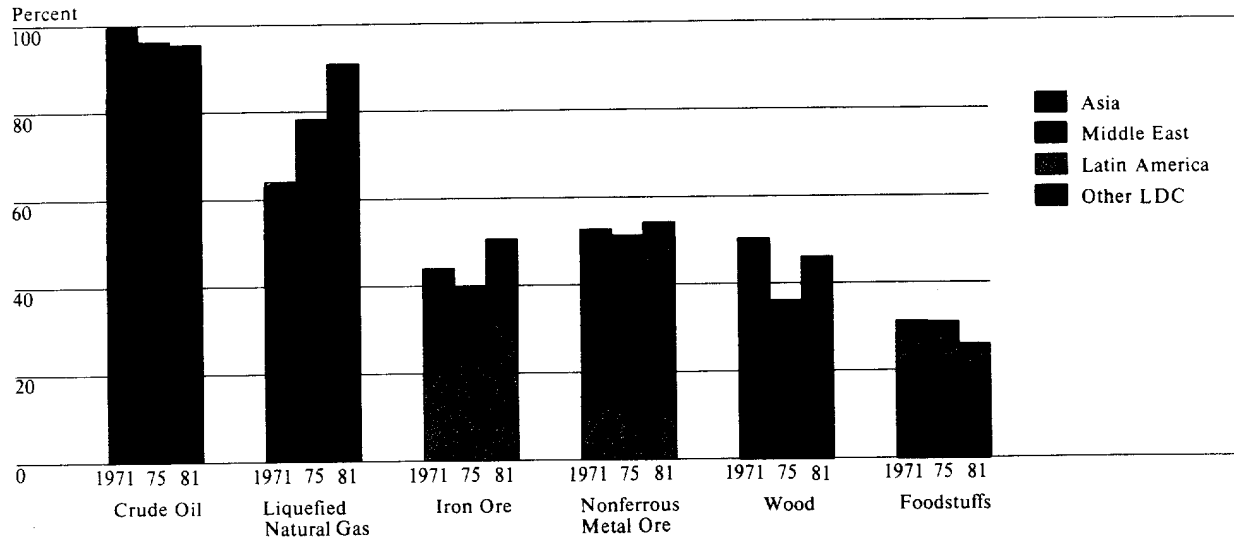
Figure 1
Japan: LDC Share of Total Exports,
by Region



market for the manufactured capital and consumer goods that dominate Japanese overseas sales. Asia ranks first as a source of supply for foodstuffs, wood, nonferrous metal ores, and LNG; second for crude petroleum and iron ore (see figure 2). It also absorbs about half of all Japanese exports to the LDCs. The Middle East continues to supply most of Japan's oil needs and much of its LNG. It also is Japan's second-most-important LDC regional market.

Reflecting Tokyo's drive to line up secure sources of fuel and raw materials, LDCs had received \$19.7 billion in direct investment by 1981, more than half of

Figure 2
Japan: LDC Suppliers of Crucial Commodities, by Region



Japan's overseas investment worldwide. Major resource development projects were undertaken in Indonesia (oil and gas), Brazil (iron ore), and the Kuwait neutral zone (oil).

Nonetheless, the aggregate statistics mask the extent to which Japan's economic interests have been concentrated on a fairly small number of LDCs:

- The fast-growing East Asian LDCs.
 - The raw material suppliers in ASEAN.²
 - Oil producers in the Middle East.
 - A few countries in Africa and Latin America with high-growth potential or large raw material bases.
- Five LDCs—Indonesia, Brazil, South Korea, Hong Kong, and Saudi Arabia—account for 53 percent of Japanese investment in developing countries.

New Political Considerations

In the late 1970s Tokyo began to take another look at its relationship with the LDCs. The immediate causes

of this reevaluation were Vietnam's invasion of Kampuchea in 1978 and the Soviet invasion of Afghanistan in 1979. To the Japanese, these Soviet or Soviet-backed advances directly threatened the security and stability of the Middle East and Southeast Asia, the LDC regions of greatest importance to Japan.

Tokyo's new perspective also reflects a more basic change in Japan's overall foreign policy. Through most of the 1960s and 1970s, Tokyo had stressed Japan's determination to be on good terms with all countries in order to maximize access to foreign markets and sources of supply and to minimize tensions in Japan's relations with foreign governments, including the Soviet Union. As the spirit of East-West detente evaporated in the mid-1970s and Tokyo became more conscious that Japan's actions had an impact on big power relations, the Japanese Government began to emphasize its commitment to the

² The Association of Southeast Asian Nations comprises Indonesia, Malaysia, Singapore, Thailand, and the Philippines.

Japan: Evolving Policy Toward the Third World

Key Judgments

*Information available
as of 1 December 1982
was used in this report.*

Strategic considerations have begun to figure more prominently in Japanese policy toward LDCs as Japan's own view of its national interests evolves and as Tokyo responds to US pressure to play a global role commensurate with its economic power. The Japanese approach, however, continues to be driven by economic imperatives.

Tokyo's reevaluation of policy toward the LDCs was stimulated by Vietnam's invasion of Kampuchea in 1978 and the Soviet invasion of Afghanistan in 1979, which threatened stability in ASEAN and the Middle East. Underlying this, however, is a larger change still under way in Japan's overall foreign policy that reflects growing appreciation of the Soviet threat, a deepening self-confidence stemming from Japan's economic success, as well as US demands that Japan use its economic power to help deal with the Soviet challenge.

Tokyo places a high priority on maintaining stable commercial relations with the LDCs, which are valuable markets for Japan's manufactured exports and supply much of the fuels, foodstuffs, and raw materials indispensable to Japan's survival and industrial growth. Japanese interest thus focuses on the relatively fast-growing East Asian LDCs, the raw material suppliers of ASEAN, and the oil producers in the Middle East. The key policy tool has been economic assistance.

Japanese foreign aid increased rapidly in the late 1970s and, although tight budgets have forced a slowing of the growth rate, Tokyo remains committed to further expansion of aid. Southeast Asia—particularly Thailand, ASEAN's "frontline state"—has been the principal beneficiary of Japanese economic assistance. Japan has also boosted aid to Turkey, Egypt, Oman, and other strategic countries in or adjacent to the Middle East.

International pressure and Japan's own estimate of its strategic requirements will continue to push it toward a more active relationship with the LDCs. The new Nakasone government will, if anything, move further in this direction. Nonetheless, there are limits to how far and how fast Japan will proceed:

- Aid policy will continue to be driven by economic imperatives, and Asia will continue to receive the lion's share of foreign assistance.

- A severe budget crunch is likely to keep foreign aid from expanding rapidly.
- The strategic rationale for economic assistance will remain politically controversial in Japan, as was demonstrated most recently in aid negotiations with South Korea.



Japanese Aid to Strategic LDCs in 1981 ^a *Million US \$*

Asia	1,448 ^b
ASEAN	1,113
Indonesia	462
Thailand	286
Philippines	234
Malaysia	114
Singapore	18
South Korea	335
Middle East Area	288
Turkey	95
Pakistan	90
Egypt	72
Kenya	15
Somalia	6
North Yemen	4
Jordan	2
Sudan	2
Oman	1
Central America/Caribbean	18
Jamaica	10
Honduras	4
Costa Rica	2
Dominican Republic	1

^a ODA, commitment basis.

^b Because of rounding, components may not add to totals shown.

Within Asia, more than half of ODA is directed toward ASEAN. The dramatic increase in aid to ASEAN that occurred after the fall of Saigon and the invasion of Kampuchea reflects Tokyo's decision to use economic resources in support of political/strategic objectives (see table 1). Indonesia has ranked first, not only within ASEAN but among all aid recipients, but Thailand—ASEAN's "frontline state"—has benefited most from the new Japanese approach. Between 1976 and 1981 Japanese aid commitments to Thailand grew from \$14 million to \$286 million; Bangkok's share of bilateral Japanese aid grew from 1.4 to 8.3 percent.

Outside of Southeast Asia, Tokyo has boosted aid to a heterogeneous collection of states in and around the Middle East. Although most aid decisions in this area were colored by a desire to stabilize a region crucial to Japan's oil supply, the rationale in each case was usually more complex:

- [redacted] Tokyo committed aid to the Sudan, North Yemen, Oman, Somalia, and Kenya.
- The Soviet invasion of Afghanistan strengthened Pakistan's claim on Japanese aid.
- Tokyo increased aid to Egypt and Jordan because it viewed both countries as essential to the Middle East peace process.
- Turkey, a member of NATO and well outside Japan's traditional area of concern, has nonetheless received Japanese ODA, primarily because Tokyo hopes this will help to burnish its credentials as a member of the Western Club. [redacted]

Countries in Central America and the Caribbean, although on the periphery of Japan's foreign policy interests, are now receiving more Japanese ODA, albeit still in modest amounts. We believe Tokyo sees Jamaica, the Dominican Republic, Costa Rica, and Honduras as places to demonstrate to Washington that Japan is a cooperative ally. Japan's own interests in Latin America focus on the major raw material exporters of Mexico, Brazil, and Venezuela, which together account for almost half of Japan's trade with the region. Japan's involvement includes far more investments, trade credits, and bank loans than economic aid. Reflecting its belief that Mexico is an important LDC, however, Tokyo is heavily involved in multilateral efforts to solve Mexico's international financial problems [redacted]

Over the past decade, the share of Japanese aid going to Africa has increased even though the relative importance of trade with the continent has declined. In part the Japanese are motivated by humanitarian concerns; aid for refugees and for food has increased.

alliance with the United States and its concern over the policies of the USSR. We believe the underlying factors in this process, which is still in progress, include:

- Increasing concern about the Soviet threat stemming from a perceived erosion in the US strategic position and the growing Soviet military presence in East Asia.
- Growing Japanese self-confidence stimulated by the rapid growth in Japan's economic power.
- US demands that Japan use its economic power to help deal with the Soviet challenge. [REDACTED]

Tokyo never considered military aid or the deployment of military force, because such measures would have violated Japan's constitution and certainly would have aroused the Japanese public and provoked strong attacks from the press and the opposition parties. Instead, the government opted to use economic assistance (supplemented by loans and investment) as its key policy tool for influencing the LDCs. Based on official statements and Japanese Government documents, we believe Tokyo's goals are to:

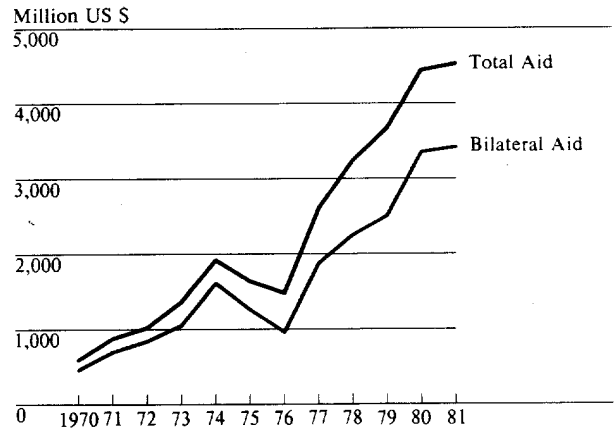
- Strengthen the economic underpinnings of LDCs and reduce opportunities for Soviet intervention.

[REDACTED]

Tokyo pledged in May 1978 to double foreign aid over the next three years. In fact, between 1977 and 1980 total Official Development Assistance (ODA) disbursements increased from \$1.4 billion to \$3.3 billion. In January 1981 Tokyo followed up by setting a new goal for ODA of \$21.4 billion in 1981-85, up from \$10.7 billion in 1976-80. [REDACTED]

The Japanese Government favors bilateral over multi-lateral aid. The Japanese want maximum awareness among the recipients of where the aid comes from (see figure 3). Bilateral aid commitments denominated in US dollars increased rapidly in the late 1970s, growing by 33 percent in 1980. Since then, however, the rate of increase has slowed as Tokyo has tried to trim its fiscal deficit and the yen has depreciated against the dollar. In 1981 bilateral aid expanded only 2 percent. Nonetheless, compared with most other

Figure 3
Japan: Foreign Aid Commitments^a



^a Official Development Assistance (ODA)

[REDACTED]

government accounts, economic assistance has fared well. In the government's budget for 1983, it will probably increase by about 10 percent. [REDACTED]

Shifting Country Focus

Although aid is not accelerating as rapidly as it did during the 1970s, countries of less economic significance and more political importance are receiving greater amounts of aid. The shift is evident in the share of LDC trade accounted for by the 10 top aid recipients. In 1970 the top 10 accounted for 41 percent of Japan's total trade with LDCs; by 1981 only 29 percent [REDACTED]

Although Asian LDCs continue to be the favored recipients, they now receive only about two-thirds of Japan's ODA, compared to 95 percent in 1971.³

³ Part of the decline is traceable to the 6-percent share of Japanese aid China received in 1981. As a Communist state, China falls outside the set of LDCs [REDACTED]

As in the Caribbean, Tokyo also wants to demonstrate its international responsibility. In its first involvement in a UN peacekeeping activity, for example, Tokyo has volunteered equipment and civilian personnel to the prospective UN Transition Assistance Group for Namibia [REDACTED]

Egypt—A Case Study

Egypt is a good example of how the Japanese Government is assigning a greater role to political/strategic considerations in its approach to the LDCs. Japanese Foreign Ministry officials believe that Egypt is the pivotal country in the region because of its military, political, and cultural position in the Arab world and because of its critical role in the US-sponsored peace process. Although the country's economic importance to Japan is insignificant—only 0.3 percent of total Japanese foreign trade—Tokyo extended \$71.7 million in aid, representing 2.1 percent of total bilateral aid commitments and 62 percent of Japanese aid to the Middle East in 1981. Japan has provided funds to improve communications, public health, and agriculture and to increase the capacity of the Suez Canal. [REDACTED]

Prospects

International pressure and Japan's own estimate of its national interest will, we believe, continue to push it toward a more active relationship with LDCs. At former Prime Minister Suzuki's request, for example, a Japanese think tank recently completed a study of the Soviet threat to global stability. It concluded that Soviet expansion into LDC areas abundant in energy resources and raw materials constituted a serious threat to Japanese interests [REDACTED]

[REDACTED]

Nonetheless, there are limits as to how far and how fast Nakasone will move. Economic interests will continue to drive Japan's policy toward the LDCs. We believe Asia—particularly ASEAN—will continue to

receive the majority of Japanese aid, although individual countries will move up and down on the annual list depending on particular projects and priorities [REDACTED]

Slower Japanese economic growth, a severe budget crunch, and adverse shifts in exchange rates probably will keep Japanese foreign aid from expanding rapidly. The Foreign Ministry is already predicting it will be very difficult for Japan to fulfill its pledge to double its aid. Although in absolute terms Japan is now the fourth-largest aid donor, the burden on the Japanese economy was only slightly heavier last year than it had been a decade earlier. In 1980 aid represented 0.32 percent of GNP compared to 0.23 percent in 1971. In 1981, because of a decline in multilateral aid, the ratio was only 0.28 percent. [REDACTED]

In addition to economic constraints, continued domestic political sensitivity to any involvement in the security affairs of other countries will force Tokyo to proceed cautiously. A Japanese diplomat recently explained to US officials during consultations on Africa that Tokyo must "camouflage" the strategic considerations shaping aid policy and in public maintain that aid is motivated by humanitarian concerns. At most, Japanese officials can publicly acknowledge that aid can be used to promote Japan's economic security. [REDACTED]

The protracted, acrimonious aid negotiations between Seoul and Tokyo since mid-1981 illustrate the financial and political dilemmas Tokyo occasionally faces in extending aid to strategic LDCs. South Korea, as a neighboring country directly threatened by Communist aggression, is of undoubted strategic importance to Japan. For that reason, Tokyo assembled a five-year \$4 billion package of loans and aid. This was generous by Japanese standards and reflected Tokyo's commitment to maintaining stability on the peninsula as well as its interest in appearing supportive of the US defense commitment to South Korea [REDACTED]

Prime Minister Suzuki, however, had to intervene before the various ministries could agree on the package. Some officials argued that South Korea's

status as one of the relatively wealthy LDCs made it ineligible for large amounts of concessional economic assistance. Still others were worried that giving way to Seoul might stimulate other aid recipients to step up their demands. [REDACTED]

The biggest obstacle, however, was Seoul's insistence on publicly justifying its aid request as Japan's contribution to supporting peace in Korea. Until the South Koreans decided to abandon this approach, negotiations almost broke down. Even so, the textbook controversy this fall has reduced Tokyo's enthusiasm and will probably delay final resolution of the aid issue for several more months [REDACTED]

