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# Edward M. Feasel, *Japan's Aid: Lessons for Economic Growth, Development and Political Economy*, Routledge, 2014, 268 pp. $139 Hardcover.

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## Book Review

*Japan's Aid* provides an exciting look into the world of development assistance through the lens of Japan's unique experience and policies. It gives insight into the development-aid nexus through a comparative approach between Japan and other major donors. The author, Professor Edward M. Feasel, brings his econometric toolkit to the effort to examine the main findings which are threefold: Japan's aid played an instrumental policy role in stimulating exports from the country during its economic reconstruction and takeoff in the postwar era; it also played a critical role in the political economic relations between Japan and the rest of the world, both aid recipient countries and donor partners; and, finally, evidence shows it is more effective at helping developing countries escape poverty and middle income traps than emphasizing structural reforms and infrastructure development as Western aid usually targets.

The first theme, the role of Japan's aid in stimulating exports is covered in chapters 2 through 4. Feasel begins by highlighting the role of infrastructure development in Japan's rapid economic expansion in the postwar era, providing statistics comparing Japan and other developed and developing countries during the period. While a clear positive relationship between economic and infrastructure development is established, it is less obvious that one can conclude that causation runs from the latter to the former. Nevertheless, Feasel does paint a compelling argument of how Japan's reconstruction experience resulted in an emphasis on infrastructure development that became ingrained in the country's aid and development philosophy, especially as carried out in Asia.

Feasel, however, is more careful to examine the issue of causality in investigating the role of exports and economic aid, finding evidence that aid to developing Asia was an important factor in the promotion of Japanese exports to that region of the world. Chapter 4 presents evidence from case studies which provides historical context on the evolving political and economic relationships between Japan and aid recipient nations in Asia, for many of whom aid commenced as part of war reparation agreements. The chapter provides econometric evidence as well as a historical narrative suggesting Japan pursued a more nuanced approach to utilizing aid to promote exports. In early recipient countries such as Indonesia and the Philippines aid served as the initial means to

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reopen relations and create a channel for Japanese exports. In other, often later cases, such as China and India, relations were slower to evolve and aid played a reciprocating role for opening up markets to Japan's goods and to further expansion. Chapter 4 also highlights the main challenges facing Japan moving forward including overcoming the challenge of history and territory, especially in the case of China and Korea.

Following the exposition on Japan's use of aid to promote its own exports and development, chapter 5 provides an insightful overview of the evolution of Japan's aid policies highlighting the political aspects of policy making in the Japanese political system. There are varying perspectives on discourses within aid policy as represented by the Ministry of Foreign Affairs, more sensitive to international pressure and international relationships, and the more pragmatic export promotion strategy advocated by the Ministry of Finance and Ministry of Economy, Trade and Industry. As the Japan International Cooperation Agency now takes over as the central body overseeing Japan's aid policy, Feasel shows a bifurcated policy has evolved where the original infrastructure emphasis is maintained in one set of countries, whose development prospects are more positive, and a second Western soft-aid approach is applied in countries not ready for economic takeoff. One major contribution of the presentation is the argument that 9/11 infused a security dimension into the aid discourse that has increasingly dominated policies and one that Japan has also been engaged in to varying degrees, although again in a bifurcated manner where the security approach is utilized in a particular group of countries, with the efforts aimed at appeasing criticism from Western donors.

Chapter 6 turns to the second main finding, foreign aid has been an important politicoeconomic tool for Japan to manage relations with Western donor partners and developing nations who have both had substantial trade deficits with Japan over the years. Using panel data the author convincingly shows that increased exports leads to increased negative sentiment toward the Japanese government. The author shows, however, this is not only true of Japan but of other major governments as well. Aid, however, results in improved sentiment toward the Japanese and other governments. This is consistent with the important role that aid played in the international relations between Japan and other nations, a fact both the case in chapter 4 studies and the narrative on the evolution of the aid discourse in chapter 5 suggests. In addition, solid empirical evidence is presented to confirm this important role of aid. This is a significant contribution to the empirical literature on the political economy of foreign aid and its consequences.

The third finding of the book is examined in chapter 7 using panel time series data: Japan's aid is more effective at promoting economic growth compared to other donors. Professor Feasel examines the growth impacts of Japan's aid versus the US, other OECD Development Assistance Committee (DAC) members, and international agencies using data from a panel of 99 countries for the period 1998 - 2011. He finds the strongest as well as robust effects for Japan and temporary positive effects for international institutions. In contrast there is no effect for the US and other DAC members. Feasel attributes the varying growth impacts to the degree of emphasis the donors place on infrastructure development. Two other samples are examined, one containing six of the fast growing Asian nations from 1963-1995, a period when these countries were aid recipient countries, and another sample containing four fast growing Asian nations that have emerged in the post-Soviet period. In all cases Japan has pronounced growth effects. While other DAC and international institutions have positive growth impacts in the early sample of Asian nations, there is no effect in the post 1990 sample. The author again argues that in the earlier sample all donors had greater emphasis on infrastructure development and that this explains the strong growth effects across all donor

groups, whereas only Japan has the infrastructure emphasis in the post 1990 sample. The author does provide statistics on percentage of aid dedicated to infrastructure and economic sectors to support his claim and Akramov (2012) also found strong growth impacts from aid devoted to infrastructure development. It is clear that Japan emphasizes promoting economic growth to accomplish poverty reduction through infrastructure development and that this policy is in stark contrast to the policy of Western donors, who have instead focused on good policies and governance without necessarily addressing poverty traps and social exclusion. While Professor Feasel has not shown directly that it is the infrastructure approach that can account for the difference in results across donors, there is clearly a stronger growth impact to Japan's aid, consistent with its stated goals. It does seem the likely explanation would be the infrastructure approach given Japan's persistence in its application in the postwar era.

In the concluding chapter the author turns to lessons and implications of the main results. First, evidence is presented that new donors such as China, India, and Korea have pursed a similar approach to aid delivery as Japan using econometric evidence to identify correlates of new donors' aid levels with export promotion and a focus on infrastructure development. In this regard there is the potential for Japan to play an important role in bringing the new donors into the fold of the development community. This is in fact an important point as tension between new donors and DAC members appears to be increasing with each passing year. In fact, WTO negotiations have been challenging and both China and India appear to be pursuing their own course of development assistance. In such a climate, Japan might potentially play an important mediating role. The author then turns to provide further evidence to the Japanese claim that economic growth is the strongly correlated with poverty reduction while at the same time criticizing the West's insistence on conditionality of good governance. This is indeed a main point of contention between Japan and Western donors. The author presents evidence of a strong relationship between per capita GDP growth and poverty reduction. While the reader is educated on the two approaches, the evidence is not conclusive enough to end the debate. Professor Feasel's analysis may be illuminating for the treatment of the Eurozone sovereign debt crisis where the emphasis is put on structural reforms and austerity.

At the same time, Feasel pushes forward stating the main lesson of the Japanese development model for the developing world is that export led growth focused on the manufacturing sector was a key component in Japan's success. Utilizing an accounting framework the author extends his application of decomposing Japanese productivity growth on an industry basis performed in chapter 2, which showed that increases in productivity and standards of living were largely driven by the manufacturing sector, to a similar analysis for Asian, Latin American, and African nations. The evidence points to manufacturing as the main sector accounting for productivity growth in the fastest growing Asian, Latin America and Africa nations. Statistics on merchandise exports are presented to make the tie to export led growth. Feasel suggests that this evidence points to a major shortcoming of Japanese aid policy: while there is evidence on the importance of industrial policy and manufacturing growth behind overall productivity growth in the development experience of Japan and other Asian nations, Japan has not pursued a policy of promoting this in aid recipient countries, with the exception of a few examples including Vietnam and Ethiopia. This is certainly a more controversial proposition and the literature is full of evidence quite skeptical of the benefits of industrial policy.

As a final conclusion Professor Feasel rightly brings the reader back to the continuing challenge of foreign aid: overcoming aid dependency and its relation to

debt and chronic current account deficits. No silver bullet is offered here, just a clarification of the issue and identification of those nations most in danger – mostly in Africa. The author suggests the Japanese aid model combined with an industrial policy of export led manufacturing growth could be the answer. In the end, the book's reexamination of Japan's aid highlights a model of aid and development that lies in stark contrast to the current Western model. The author may be right that a new Asian model could emerge to transform the landscape of the aid and development discourse and practices. Nevertheless, Japan's Aid provides an insightful overview into the various facets of Japanese development assistance and in doing so provides an interesting look into the current state of aid policies in major donor countries today. It is an excellent resource for students, researchers and, most importantly, policy makers interested in exploring a comparative approach on the subject, something unfortunately very few resources provide today.