



Shoko Nakano

Donor's Economic Interests

Foreign Aid Policy and Practice in the United States, Japan and China

Topic and Research Question

The concept of foreign aid has evolved from a unilateral instrument for providing aid from developed countries to less affluent nations. South-South cooperation has become more common with the rise of emerging countries. While donors used to conduct foreign aid for charity purposes a few decades ago (Fukuda-Parr 2016), there have been different forms and purposes of foreign aid in recent years.

Among the factors motivating donors to fund foreign aid projects, economic benefits are widely acknowledged as a significant driver. This situation led the author to the following research question: How do the United States, Japan, and China seek to benefit their own economies through foreign aid?

This research helps people in both recipient countries and donor countries to better understand the considerations of donor governments when providing aid. In particular, for those in recipient countries, it would be critical for their security to have a clear picture of what the donor's intentions are in providing assistance to them.

State of the Art

Foreign aid is provided for the development of the recipient country in the first place; however, there are not many aid efforts whose sole purpose is to help the recipient country. Rather, since donors are spending money, they should have a mixed motive behind it. The donor's aims appear to be diverse today, including diplomatic, religious, historical relations, and other purposes (Adhikari 2019; Blackman 2018; Alesina and Dollar 2000). For example, for diplomatic reasons, some donors provide more funding to countries that take a position closer to their own country in the international community (Adhikari 2019, 529-530; Neumayer 2003, 144). Domestic political reasons, such as the status of elections and the intentions of interest groups, often influence a donor's foreign aid (Mosley 1985, 378; Eng and Urpelainen 2015, 303-304; Kleibl 2013, 367). In essence, it is clear that donors are providing foreign aid for their own purposes, and these objectives vary from donor to donor.

One of the factors that attracted many donors is the diverse economic advantages.

Methodology and Approach

The state-of-the-art revealed that most donors pursue economic interests through their contribution to foreign aid. Regarding economic benefits, donors in much of the literature have benefited in three main areas: promoting domestic firms' overseas expansion, promoting trade between donors and recipients, and capacity building of human resources. Based on this review, this research established these three items as the criteria for comparing donor policies and practices. In the empirical section, this paper examines the three main criteria along with their respective sub-criteria.

This paper adopts the United States, Japan, and China as cases for this study due to their various backgrounds. This research aims to discuss current trends in foreign aid by broadly covering donor policies and practices, clarifying their motivations behind contributions.

| | Criteria | Sub-criteria |
|---|--|---|
| 1 | Promotion of overseas expansion of private enterprises | Support for overseas business expansion Stabilizing business activities in recipient countries |
| 2 | Trade | Increasing exports from donor countries Securing imports from recipient countries |
| 3 | Capacity building of human resources | Private sector in donor countries Public sector in donor countries Local human resources in recipient countries |

Main Facts

Promotion of overseas expansion of private enterprises

All three countries directly or indirectly promoted the overseas expansion of their own companies, although the style differed among the donors.

In Japan and China, the language barrier gives domestic companies an advantage when bidding for foreign aid projects funded by their own governments. The U.S. and Japan actively collaborate with the private sector on foreign aid projects and are particularly active in working with Small and Medium-sized Enterprises (SMEs). In contrast, China has not been as dynamic as these two countries in terms of concluding partnerships with private companies.

Overall, the U.S. tends to provide more software assistance, while Japan and China are more focused on hardware assistance. In particular, Japan and China are working intensively to develop and construct economic infrastructure, such as Special Economic Zones (SEZs), ports, industrial parks, etc. After their construction, they even get the right to operate them for a certain period of time (JICA 2021f; Kamigumi 2019; Moramudali 2020).

Trade

All three donors expect foreign aid to bring benefits to their own trade. However, they have different policies regarding the procurement of foreign aid projects related to exports. The U.S. has the clearest regulations of the three countries, restricting procurement from developed countries and ensuring fairness in foreign aid projects (USAID 2012, 5). Japan also values fairness yet has a special scheme for loan projects to give preferential access to Japanese firms (MOFA 2014, 18-19). As for China, the press releases and original documents for the procurement are basically published only in Chinese, although no rules were found that limited them to their domestic companies.

For imports, donors provide aid to countries, including those that have large amounts of natural resources that are important to them. Three of them have distinct styles of providing aid, with China actively undertaking projects to exploit natural resources. On the other hand, the U.S. is not directly implementing the project, but is working to improve the environment, such as by increasing transparency of the resource industry. Although Japan is not involved in extracting resources, it is engaged in human resource development and technical support for natural resource exploitation.

Capacity building of human resources

This paper divides the study of human resource development into private and public human resources in donor countries and human resources in recipient countries. The U.S. and Japan have concluded many partnerships to collaborate with the private and public sectors, including local governments. On the other hand, although China does not have many partnerships, its government targets include the number of workers in foreign aid projects, and even educational institutions in strategic areas are under government management.

Results

The first and most important finding of this research is that all of the donors in this paper examined are, to varying degrees, seeking to benefit their own country economically through foreign aid. Conventionally, Asian donors such as Japan and China have tended to be treated as commercial donors, but in all the criteria in this paper, the U.S. also showed a willingness to gain economic benefits.

Moreover, donors are implementing foreign aid projects with multiple objectives. In this paper, many efforts were observed not only to gain economic benefits but also to deal with domestic problems in their own countries. For example, Japan has addressed the domestic labor shortage by attracting trained human resources from recipient countries, and the U.S. has addressed the racial disparity issue as well. Donors consistently seek multiple benefits and engage in foreign aid practices.

Lastly, the foreign aid practices of the three donors explored in this paper show some notable trends in their respective countries. The U.S. is the most rule-following and tends to follow international norms. Although Japan participates in the international framework, it adds its own rules based on its interpretation and practice. China is less engaged in the international voluntary framework, with its own practices not limited by international norms being particularly standing out. Whether or not a donor belongs to an international group has a significant impact on its foreign aid practices.

Further research on the economic interests of various donors, including those from the West, is needed to better understand current donor behavior.

References

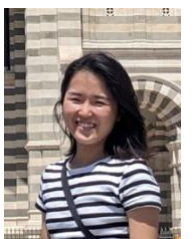
All references can be found in the full version of the MA thesis available at <https://theses.univie.ac.at/>

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