**ODA, Democratic Transitions, and Consolidating Democracy:**

**Japan and Korea vs. the United States and Thailand**

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**ABSTRACT: ODA, Democratic Transitions, and Consolidating Democracy: Japan and South**

**Korea vs. the United States and Thailand**

Japan’s Official Development Assistance (ODA) was long criticized for its low quality, but more recent investigations have shown it to be less economically self-interested and more sensitive to humanitarian goals than originally thought. These differences seem to be irreconcilable, but they can be explained by the different approaches analysts took in their evaluations of Japanese ODA. Which side offers a better understanding is important to be sure, and we address this debate by focusing on Japanese ODA and democratization, a question that neither side addressed very thoroughly. Specifically, we ask if Japanese ODA helped promote democratic politics in some recipient nations even though the promotion of democracy was not its intention. Our analysis will show that the answer is positive, and to demonstrate how this occurred, we complete two tasks. First, we develop a theory of how foreign economic aid encourages democratic political development in authoritarian nations, and, second, we test it using the economic and political experience of post-armistice Korea.

Evaluations of the quality of Japanese Official Development Assistance (ODA) are characterized by areas of agreement and disagreement. On the one hand, all assessments agree that the content of Japan’s ODA, that is, such things as the ratio of ODA that is tied versus untied and the ratio of multilateral to bilateral aid has improved over time. Scholarly assessments also agree that, in the last two decades, the content of Japan’s ODA has revealed a growing concern with environmental outcomes.[[1]](#footnote-1) Moreover, all scholarly and professional evaluations have concluded that the increasing quality of Japan’s ODA has rendered it more reflective of the ODA practices of other Development Assistance Committee (DAC) members of OECD.

On the other hand, there is disagreement over whether the quality of Japan’s ODA was actually as low in quality as initial assessments had concluded. The 2004 peer review of Japan’s ODA agreed that it deserved low grades for both political and economic reasons. Economically, Japan’s ODA received low grades because higher than average shares of its ODA had to be used by recipient nations to purchase goods and services produced in Japan.[[2]](#footnote-2) Second, Japan’s ODA received low grades for its economic quality because it contained higher than average shares of loans as opposed to grants, and, third, because it had lower than average proportions that went to the world’s least developed countries.[[3]](#footnote-3) Politically, Japan’s ODA received low grades for quality because, among other things, it did not reflect any concern with the human rights records of recipient nations or whether those nations were making progress toward democracy.

These descriptions were empirically accurate, and, as criteria for judging the quality of a country’s aid practices, they supported the conclusion that the quality of Japanese ODA could be improved. Later assessments did not dispute that Japanese ODA involved high proportions that were tied, bilateral, and perhaps distributed more to potential trading partners than the least developed economies of the world. They did, however, conclude that Japanese ODA was of higher quality, both politically and economically, than earlier assessments granted.[[4]](#footnote-4)

These starkly different conclusions can be explained by how these two groups of analysts proceeded to determine the quality of Japan’s Official Development Assistance. One group focused on the Japanese government’s motivations for extending international economic aid by gleaning the country’s preferences from ODA-related documents published by those ministries and bureaus that were involved in determining which countries would get which type of ODA and in what amounts. These include such agencies at the former Ministry of International Trade and Industry (MITI) as well as the Ministry of Foreign Affairs (MOFA) and conclusions followed very closely the well-known script that Japanese ODA was a tool of the nation’s foreign economic policy to promote Japanese companies. Later, more positive assessments were obtained by analysts conducting large-N statistical analyses that used the amounts of ODA received by various countries as the indicator of ODA quality. Specifically, these methods examined the actual characteristics of those countries that received what relative amounts of Japanese ODA to paint a more positive picture of the quality of Japanese ODA.

While differences of approach account for these contrasting assessments of Japanese ODA, the fact that differences of opinion persist over its quality in political terms is puzzling. First, most assessments have simply ignored this question of the political impacts of Japanese ODA simply because, by design, Japanese ODA has been overtly non-political.[[5]](#footnote-5) Indeed, Japanese officialdom purposely kept its foreign giving out of politics, and this official position relegated any justification a scholar would have for studying such a relationship.

There is little doubt that the motivations behind Japanese ODA were principally economic,[[6]](#footnote-6) which is why it is puzzling that the findings of such scholars as Tuman et. Al. (2006 and 2009) found its distribution patterns to reflect attention to and concern about political goals. This puzzle then suggests to us that it is quite possible that the provision of foreign aid that is utterly economic in intent, Japan’s ODA can be attendant to distinct political impacts. This is the problem we address in this paper and we do so by focusing on how Japanese ODA that has been economic in intent could be attendant to sizable political impacts, particularly, the promotion of democratic political development.

To determine whether Japan’s ODA helped promote democratic political development in recipient nations, we depart from the manner in which scholars have traditionally evaluated the quality not only of Japanese ODA in particular but also of all foreign aid in general. This is not a criticism of the extant literature because we acknowledge that existing scholarship was skillfully directed to the problems it was designed to address and has advanced our understanding of how foreign aid can both enhance and inhibit a recipient nation’s progress toward democratization.[[7]](#footnote-7) Rather, we pursue a different approach because we know that Japan’s ODA was not officially distributed to achieve political goals, and this has kept analysts from examining its political impacts in a way that could adequately address this question.[[8]](#footnote-8)

We intend to show that, even though Japan’s ODA was designed and implemented with its own economic interests in mind, it nonetheless helped promote democratic political development in certain cases. One of these cases was South Korea, which provides an opportunity for us to uncover the mechanisms that connect economically motivated foreign aid to political changes that ultimately result in transitions to democracy that are consolidation. The case of ODA relations between Japan and Korea is also important because it reveals how economically motivated ODA can help lead to a democratic transition in a different way than delineated in the literature. Specifically, Wright (2009) showed that the ability of foreign aid to induce dictators to initiate democratic reforms is tempered by the size of their distributional coalitions and the level of economic growth in their respective countries.[[9]](#footnote-9) The Korean case, however, offers a somewhat contrary example as the values that measures of these factors took on were frequently in ranges that should have made its democratization less likely.[[10]](#footnote-10)

We begin this effort with a more in-depth discussion of how past scholarship has evaluated the quality of Japanese ODA and then turn to the theoretical perspective we employ to determine how foreign aid can promote democratic political development even when its primary intent is to benefit a donor nation economically.

**Evaluating Japan’s Official Development Assistance**

Japan’s postwar Official Development Assistance began as reparations to the nations that were occupied by its military forces in the Pacific War and before.[[11]](#footnote-11) Reparations payments continued for many years, but, throughout the postwar period, their amounts declined as the Japanese government replaced these monies with economically oriented ODA. Over time, Japan Increasingly became a major actor in the distribution of economic aid to the developing world, particularly in Asia. The period from the late-1980s to the 1990s is particularly significant because it is at this time that the aid amounts Japan provided to recipient nations dramatically increased, leading it to become the world’s largest provider of ODA for a period of time.[[12]](#footnote-12)

It is also at this time that Japan’s ODA was increasingly scrutinized both by DAC members and by Japan scholars. Initially, evaluations of Japanese foreign aid focused on ODA at its source, that is, how programs for providing funds to recipient nations compared to DAC standards for such giving.[[13]](#footnote-13) Criticisms at this time noted that Japanese ODA was essentially economic in orientation and designed to promote Japanese business interests, specifically, exports in finished goods and imports of needed raw materials. These kinds of negative evaluations should be no surprise because many analysts viewed Japanese ODA as the international expression of a domestic economic policy that was designed to create advantage for Japanese companies while actively promoting domestic economic growth and technological development. This view of Japanese ODA, and that of Japan’s political-economic system overall, is the product of what is known as the “revisionist” or “developmental state” model of Japan.[[14]](#footnote-14) While scholars relied on it to different degrees in their assessments of Japanese ODA, virtually all agreed that ODA was the principal economic tool used by the Japanese government to promote trade with recipient nations, providing Japanese firms with benefits they otherwise would not enjoy.

Subsequent to these initial assessments, a different set of scholars reexamined Japanese ODA. While they were similarly interested in the quality of Japanese ODA, they proceeded in a different manner, specifically, by focusing on its actual distribution across recipient nations. The analyses they produced were mostly large-N statistical studies that found Japanese ODA to be distributed across recipient nations in ways contrary to those assessments that accepted the basic premise of the “development state” model, and, thus, of higher quality than initially thought.[[15]](#footnote-15) For example, Tuman, et. al., (2009) found that a recipient country’s level of trade with Japan and GDP per capita were both negatively associated with the amount of Japanese ODA they received, which indicates that more Japanese ODA went to the world’s LDCs compared to countries with which Japan shared higher values of trade.[[16]](#footnote-16) This same study also found that countries engaged in human rights abuses received relatively lower shares of ODA from Japan, indicating that its foreign aid was more sensitive to international political norms than originally suggested.

While the different conclusions of these two sets of studies seem irreconcilable, they do reflect the fact that, even though Japanese ODA was primarily economic by design, its distribution across recipient nations may have reflected certain political goals. We know that Japan’s ODA decisions were, from time to time, directly subjected to political influences. Sato (1994) notes that the Ministry of Foreign Affairs, in response to criticisms the country received given some of its past foreign policy decisions, had begun to issue statements that Japan should pay more attention to such political matters as human rights.[[17]](#footnote-17) Moreover, there are numerous cases where the Japanese government deliberately used its ODA to accomplish political goals. These include all instances where Japan used foreign aid to reestablish and improve diplomatic relations with selected nations, particularly former enemies in the Pacific War, and they also include Japan using its ODA to get the Korean government to commute the death sentence it initially imposed on Korean opposition leader, Kim Dae-Jung.[[18]](#footnote-18) To be sure, such instances suggest that Japan’s ODA distribution patterns have been more complicated than the original view allowed, but they also reinforce the importance of the larger question of whether ODA that is essentially economic by design must at the same time be “…indifferent to human rights and democratization, ” as Arase (1994a) has argued.[[19]](#footnote-19)

As the literature discussed above suggests, the issue is that economically oriented foreign aid can lead to certain desirable political outcomes, like support for the process of democratization, but this literature has not provided us with a theoretical perspective that helps us be very specific about how economic aid that promotes the donor’s economic interests by promoting trade with recipients. Again, while scholars recognize that there is an overall correlation between economic development and democracy, the literature on democracy promotion generally assumes that foreign aid must be politically targeted to promote democracy in recipient nations.[[20]](#footnote-20) Contrary to this, we will show below that foreign aid that is designed specifically to serve the economic interests of a donor nation, by encouraging trade with recipient nations, can still help promote democratic transitions, and this effort begins with a discussion of the theoretical perspective that reveals how this happens.

**Foreign Aid and Democratic Political Development: A Theoretical Perspective**

Completing an analysis of the political impacts of Japanese ODA requires a theoretical perspective that tells us how and why economically motivated foreign aid can promote democratic political development. This is not to say that scholars have ignored this issue because many aspects of this relationship have been explored theoretically.[[21]](#footnote-21) Rather, as stated above, the point is to emphasize that determining whether or not ODA’s economic impacts are partner to encouraging democratic political development in authoritarian countries that are ODA recipients requires a different approach than witnessed in the literature. First, we must investigate how foreign aid affects a recipient nation’s level of international trade with donor nations as well as other nations, and, second, we must also determine how any increases in international trade brought on by ODA affects extant political conditions in recipient nations. The latter determination point requires that we offer a way to assess whether such impacts have the potential to lead to a democratic political transition.

The relationship between a nation‘s level of international trade and how it divides politically begins with the seminal work of the economists Wolfgang Stolper and Paul Samuelson (1941), who developed a theory of the impact that trade protection had on real wages in order to explain who gains and who loses from expansions of free trade. This is the well-known Stolper-Samuelson Theorem which, in conjunction with the Heckscher-Ohlin general equilibrium framework out of which it was derived, posited that owners and intensive users of abundant factors will gain from expansions of free trade while owners and intensive users of scarce factors will benefit from protection. This means that, when ODA leads to the expansion of a recipient country’s international trade,[[22]](#footnote-22) the owners and intensive users of that country’s abundant factors will benefit economically while the owners and intensive users of that country’s scarce factors will be hurt economically.

Expansions and contractions of international trade can be partner to profound political implications. As Rogowski (1989) noted in his seminal work, the beneficiaries of expanded trade will endeavor to maintain and promote its expansion,[[23]](#footnote-23) while those who are hurt by expansions of trade will prefer and seek protection.[[24]](#footnote-24) Moreover, Rogowski (1989) noted that, as the beneficiaries of expanded trade become more economically powerful, they also become better able to engage in the political action necessary to advocate for maintaining the expanded trade that provided them with increased economic benefits in the first place. This means that such groups become more able to overcome the collective action obstacles they encounter in attempts to maintain their increased wealth and growing power.

These observations lead to a set of expectations about how foreign aid that encourages expanded international trade will affect the political dynamics of a recipient nation, and to determine if such impacts involve promoting democratic political development, we must define the groups that are in power versus those that are potential challengers. While undoubtedly oversimplified, we begin with a simple definition of power relations in an authoritarian country by dividing economically (factor) based groups into those that are within the authoritarian government’s distributional coalition and those that are potential challengers to that government. We next assume that the total amount of political power (PT) in the authoritarian country being examined can be represented as the sum of the power possessed by the government and its distributional coalitions, PG, and those who would be challengers, PCH. This distinction leads to the following identity, PT = PG + PCH.[[25]](#footnote-25)

Before ODA is dispensed to a recipient nation, we assume that the owners and intensive users of those factors who support the government will be more powerful than the owners and intensive users of factors who do not. Expressing this relationship as a ratio, we have PG / PCH > 1. Given that ODA can result in increased international trade, power relations between government supporters and challengers may change, and this depends on whether government groups and potential challengers are the owners/intensive users of abundant or scarce factors. When the owners and intensive users of the recipient country’s abundant factors are within the authoritarian government’s distributional coalition, something we would expect in authoritarian countries that have large trade portfolios, foreign aid that increases trade will benefit the authoritarian government economically, increasing its ability to maintain itself in that country’s dominant political position. Under such circumstances, receipt of ODA that expands trade is very unlikely to lead to democratization. Specifically, this is the scenario where economically oriented foreign aid is least likely to lead to a democratic transition as it represents the case where the post-aid power ratio is greater than the pre-aid power ratio, that is, (PG / PCH )t < (PG / PCH)t+n.[[26]](#footnote-26)

On the other hand, when the owners and intensive users of the recipient country’s abundant factors are potential challengers to the incumbent authoritarian government, receiving foreign aid that increases trade will help create the conditions that make a democratic transition more likely. This is because, as the ODA helps increase the level of international trade in which a recipient country engages, the result will be not only an increase in the wealth of the potential challengers but also a growth in their overall political wherewithal. These changes will result in shifts in the relative power of these two sets of groups, which will then raise the likelihood that the benefitted groups will challenge the government and perhaps initiate a democratic transition. This is the scenario where economically oriented ODA is likely to lead to a democratic transition, that is, when the post-aid power ratio is less than the pre-aid power ratio or (PG / PCH )t > (PG / PCH)t+n.

With these relationships defined, we now have a set of expectations about how economic aid, such as the aid that Japan extended to Korea, will influence a recipient country’s potential for a democratic transition. These expectations are summarized in Table **1**. We define the impact of ODA as either helping to expand the level of trade in which a recipient country engages or exerting no impact in which case a recipient country’s level of trade remains the same.[[27]](#footnote-27) In the case where aid helps increase trade, democratic transitions become more likely when potential challengers are the owners or intensive users of the country’s abundant factors and these groups are not part of an authoritarian government’s distributional coalitions. On the other hand, when governing groups are the owners/intensive users of abundant factors and ODA increases trade, the authoritarian government gets stronger, rendering a democratic transition increasingly unlikely.

**Political and Economic Developments in Post-Armistice Korea**

As mentioned above, we test this set of expectations by using the case of post-armistice Korea.[[28]](#footnote-28) Today, the Republic of Korea is an economically vibrant and solidly democratic country in Northeast Asia. According to 2011 data, South Korea is the 12th largest economy in the world, exporting high tech goods, like sophisticated electronics and automobiles, as well as capital. What is interesting, however, is that it was only a short time ago that Korea was one of Asia’s most economically underdeveloped nations. Indeed, in the 1970s, Korea’s GDP was smaller than that of the Philippines. In terms of economic progress, this means that Korea’s economic ascendance is not only a relatively recent phenomenon but also something that is truly remarkable in terms of its scope.

Korea’s post-armistice political trajectory, while somewhat different in terms of timing, has been no less dramatic. Because it remained in a virtual state of war after the 1953 armistice, forces opposed to Korea’s democratization enjoyed a position of political strength, rendering the emergence of democratic politics not just difficult but unlikely, even in the long term. This authoritarian advantage, which persisted long after the Armistice of 1953, does not mean that there were no attempts by opposition movements to make the country more democratic but rather that the status quo was maintained in large part by the strength of the authoritarian leadership. To be sure, there were elections to the Korean presidency, and there were movements that advocated for democracy. However, the signature authoritarian government in Korea during this period achieved its power through coups and maintained it with the aid of a very strong and alert military. As a result, movements advocating democratization were suppressed and sometimes brutally.[[29]](#footnote-29)

This pattern of successful repression to any regime challenge in Korea persisted until the late 1980s. It was at this time that Korea, once again, witnessed movements for democracy. The pro-democracy movements of the late 1980s, however, were different in that they succeeded in effecting a complete transition to democratic politics. This change in Korea’s political system is clearly reflected in measures political scientists use to capture a country’s level of democracy.[[30]](#footnote-30) As shown in Figure **1**, until the early 1980s, Korea received some of the lowest possible scores on the Polity IV and Freedom House scales. From this time to 1987, Korea’s level of democracy was upgraded slightly but still remained solidly negative. These negative polity and Freedom House scores changed at the end of the decade when the country successfully transitioned to democracy, after which it continued to solidify its democracy, earning very high, positive scores on both indicators. The point is that, unlike other countries struggling with the democratization process, once the transition occurred in Korea, there was no turning back as its democratic politics became stronger as time elapsed.

What is interesting about Korea’s political transformation is not just that it resulted in a consolidated democracy as quickly as it did, but rather why the democratization movement in the late 1980s was successful but earlier attempts were suppressed. As stated briefly above, Korea experienced numerous movements for political change prior to the late-1980s. Indeed, the Japanese surrender to the U.S. south of the 38th parallel at the end of the Pacific War was immediately followed by citizen movements to establish a new regime for an independent Korea.[[31]](#footnote-31) These movements involved extensive citizen participation that often met with repressive efforts that sometimes became violent. Korea’s movement for democracy of the late 1980s, however, led to an entirely different outcome despite the fact that it challenged an increasingly strong authoritarian state that initially responded with repression and some violence. The question then is why the late 1980s produced such a different political outcome, and we answer this question in the following section by connecting Japanese aid to Korea’s growing international trade and ultimate democratization in accordance with the theoretical perspective discussed above.

**Aid, Trade, and Korean Democratization: An Empirical Mapping**

A political transition that leads ultimately to a consolidated democracy is undoubtedly the result of a number of factors. Among the most important are how widely the movement is supported in the population at large and the strength of the incumbent authoritarian state against which challengers are arrayed.[[32]](#footnote-32) The latter factor helps explain the differential success of democracy movements in a number of cases, but alone it cannot account for developments in the Korean case, especially the democratic breakthrough that occurred in the late 1980s. This is because increases in the country’s wealth in the previous two decades made the Korean state, and the military that supported it, stronger in the 1980s than at any previous time in the post-armistice period. In other words, it was not any weakness in Korea’s authoritarian state but rather some other factor that led to the democracy movements that broke out in the late 1980s being successful.

The factor referred to here was the underlying strength and breadth of the opposition movement that opposed the incumbent authoritarian regime. Specifically, the manner in which increases in international trade helped drive growth in Korea’s economy resulted in the empowerment of groups that could not only challenge the incumbent authoritarian regime but also do so in a way that made a transition to democracy and its consolidation highly likely. To show how this occurred, we must make three empirical points. First, we must show how Korea grew economically and, more importantly, that the rapid economic expansion it experienced, especially that in its GDP and GDP per capita, was driven, at least in part, by growth in its international trade. Second, we must show that this remarkable growth in Korea’s international trade over the decades of the post-armistice period led to the empowerment of the owners and intensive users of Korea’s abundant factor, labor, and that it was the empowerment of the owners and intensive users of this factor that helped Korea transition to democracy. Finally, we must show that the growth that Korea experienced in its international trade can be explained—again, at least in part—by the foreign economic aid that Japan increasingly provided it in the post-armistice period.

Data on Korea’s economic growth, shown in Figure **2**, reveal very clearly that the Korean economy grew rapidly in the post-armistice period and that its pattern of economic growth is perhaps best described as an increasing expansion of its per capita GDP with each succeeding decade.[[33]](#footnote-33) Specifically, in the decade of the 1960s, Korea was undoubtedly a poor country as its per capita GDP was less than $200. In the following decade, Korea remained a relatively poor country even though its per capita GDP more than doubled to just less than $500. By the 1980s, however, Korea had begun to become more prosperous as growth in its per capita GDP accelerated to over $5,000. Although it suffered economic declines in the next two decades due to the Won Crisis of the mid 1990s and the financial crisis of 2008,[[34]](#footnote-34) Korea’s per capita GDP has continued to increase. Its per capita GDP is now over $15,000.

What is most relevant about this growth for our purposes is not the pattern that Korea’s per capita GDP revealed from the mid-1950s to the present, but rather that, in the post-armistice period, the level of international trade in which Korea engaged followed a similar pattern of accelerated growth over time, even though growth in the country’s international trade took off somewhat earlier. Specifically, in 1960, Korea’s total international trade was just over $300 million, but, ten years later, it had grown by over 900% to over $2.8 billion. In the next decade, Korea’s total trade grew even faster—over 1000%—to $40 billion, and, in the next two decades, Korea’s total international trade continued to grow but at somewhat lower rates. In the 1980s, total trade grew by over 300%, and, between 1990 and 2000, growth dropped to just over 200%.

That growth in Korea’s international trade preceded that of the country’s GDP and per capita GDP suggests that the former certainly contributed to the latter. As revealed in Figure **2**,[[35]](#footnote-35) it is growth in Korea’s international trade that ultimately pulled along increments in its GDP per capita, and, thus, this relationship holds up statistically even when we test it in a statistical model at one and five time-period lags.[[36]](#footnote-36) This relationship is equally strong when we pair growth in total international trade with gross national income (Figure **3**).[[37]](#footnote-37) This is an excellent indicator of Korea’s overall prosperity, and the data in the figure are clear that its relationship is similar to that of per capita GDP.[[38]](#footnote-38) Specifically, these two are strongly correlated, and, like the case of per capita GDP, this remains true at one and five year time lags as well as others.[[39]](#footnote-39)

An important reason for the expansion of Korea’s international trade is the fact that Korea possessed an ample supply of increasingly skilled and educated labor. In fact, labor was Korea’s abundant factor, and, when economic studies of Korea discuss its labor market, they begin with the fact that Korea is a late developer that never experienced a scarcity of labor.[[40]](#footnote-40) This was true during the colonial period, and it remains true even into several decades of the post-armistice period. Perhaps the best evidence for this is the fact that the Korean economy was not able to absorb all available labor early on in the post-armistice period. One study of the Korean economy noted that, in 1960, as much as 20% of Korea’s industrial and agricultural labor force was unemployed.[[41]](#footnote-41)

Another reason for this is that Korea’s workforce did grow throughout the post-armistice period, and this helped maintain a surplus in the country’s labor supply. However, as the Korean economy expanded and international trade assumed higher proportions of the country’s GDP, labor became increasingly absorbed. That Korean labor benefitted from this expansion is witnessed in a number of measures of worker and middle-class wellbeing. The data in Figure **4** reveal a fairly dramatic increase in Korea’s eligible working population as well as its labor force overall. That labor became increasingly absorbed is important because it helps explain the rise in wages that occurred, even though they were strictly controlled by the central government. In light of the theoretical perspective set out above, we would expect Korean labor as the country’s abundant factor to experience increasing economic and political benefits as Korea’s level of international trade increased, and the data presented above suggest strongly that this is exactly what happened as the post-armistice period progressed.

Consider the data in Figure **5** which reveal the dramatic growth that occurred in the country’s real GDP per worker. Specifically, between 1972 and 1995, this growth was over 250% from well under $7,500 to over $25,000. This increasing prosperity of the Korean worker led to more demands for the ability of workers to organize for their specific interests and to take action to promote these interests.[[42]](#footnote-42) Over the long term, this pressure was aided by the fact that laborers became more prosperous and, thus, possessive of the wherewithal to be more politically active and able to advocate for their essential interests. This resulted in Korean workers obtaining increased political rights, as indicated by the corresponding rise in democracy depicted in Figure **5**. Specifically, Korean workers were able to secure a limited expansion of political rights in the 1980s, corresponding to the wealth gains they experienced from the country’s growing international trade. However, the expansion of political rights they experienced was at its greatest when the country transitioned to and consolidated its democracy. Again, this process would not have been possible without labor, as the country’s abundant factor, experiencing the economic gains it did from the country’s rapidly growing international trade.

Finally, we must show that growth in the level of international trade in which Korea engaged was, at least in part, pushed along by the provision of economic aid from Japan. To make this case, we begin with the fact that economic aid from Japan to Korea did not begin until the implementation of its reparations agreement. Prior to this, Korea had been receiving aid, but primarily from the United States and much of the economic aid that went to Korea was to make up for shortfalls in its national budget.[[43]](#footnote-43) Indeed, the economic aid provided by the United States to Korea was necessary to keep the Korean state afloat. As Steinberg (1985) notes in his USAID study, between 1953 and 1961, 90% of donor flows to Korea came from the U.S., making up as much as one-third of the Korean national budget.

As the Cold War continued to unfold, the United States’ international burdens increased, which rendered its aid relationship with Korea unsustainable. As a result, the United States was not only interested in reducing its financial commitment to Korea but also in encouraging Japan to assume a more important aid role.[[44]](#footnote-44) The U.S.’s desire for this policy change was encouraged by disagreements it had with the regime of President Rhee Syngman, whom the United States viewed as ill-advisedly using American aid not just to prop his government but also to purchase consumption goods from the U.S. rather than investing in capital goods that could spur Korea’s economic development. Unfortunately for the U.S., disagreements with President Rhee also extended to making amends with Japan and allowing it to replace the U.S. as Korea’s principal provider of economic aid. This impasse continued until President Rhee was forced from office in a student revolt and his democratically elected successor, Prime Minister Chang Myon, was removed in a military coup that placed General Park, Chung-Hee in Korea’s Blue House.

General Park did not harbor the same level of animosity toward Japan as did his predecessor, and, as a result, he was agreeable to U.S. desires for Korea and Japan to mend relations and reestablish economic ties.[[45]](#footnote-45) Fortunately, many government leaders in Japan were also eager to get beyond their past differences and grow their country’s economic ties with Korea. Japan’s elected leaders were under pressure from business leaders to reestablish economic interactions in order to secure access to raw materials and to open markets for the export of finished goods. Japan’s business leaders also wanted to have Korea become a source of Japanese investment so that Japan could grow its own international trade. The problem, however, was that the San Francisco Treaty of 1952 ended formal hostilities between Japan and Korea, but it did not settle ongoing differences, which would require additional negotiations that would have to include an agreement on the amount of reparations Japan would need to provide. While there was resistance on both sides, the early 1960s offered the best opportunity as both countries were governed by leaders who were committed to solving the two nations’ differences and restarting economic interactions.[[46]](#footnote-46)

The full reestablishment of economic and political relations between Korea and Japan began with the Reparations Agreement of 1965, where Japan extended Korea $300 million in the form of reparations, an additional $200 million in long-term credits, and a commitment for foreign direct investment from Japanese businesses that was close to the amount of reparations Japan would send to Korea as part of this agreement. The result was an enormous initial sum of money extended to the Korean government that elevated Japan to the status of Korea’s third largest donor. Although the amounts Japan extended to Korea, did fluctuate widely over time, Japan remained a very important provided of economic aid to Korea for some time. Indeed, as we see from the data in Table **2**, virtually all of Korea’s aid came from the United States. However, over the next thirty-five years, the U.S. share declined as it was increasingly replaced by ODA from Japan. By 1980, Japan provided 60% of all of aid received by Korea, and this amount increased to over 80% by 1990.

Receiving aid from Japan was politically unpopular in Korea, but former General Park felt that Japanese aid was important enough for his economic goals that he withstood the pressure his government received and accepted as much aid as he could get from Japan. The Park government was interested in using the funds it received from Japan to expand Korea’s international trade, both with Japan and other countries, and to promote the economic development of his country overall. What is perhaps even more interesting is that the Japanese government was interested in exactly the same thing, increasing Japan’s trade with Korea for the benefit of Japanese businesses and the country as a whole. Indeed, Japanese leaders were not the least bit cryptic that the principal purpose of their extending this money to Korea was to serve Japan’s economic interests by encouraging the development of trade between the two countries. A good part of the reparations money Japan extended to Korea then had to be used for the purchase of goods and services from Japan. This was also true for subsequent economic aid to Korea that was delivered in the form of grants.

Most important is that while Japanese aid undoubtedly increased the direct trade that occurred between the two countries, it also helped Korea engage in higher levels of trade with other countries. The data provided above reveal how Korea’s international trade continually expanded throughout the post-armistice period in a dramatic fashion. While this growth in Korea’s international trade was clearly part of President Park’s and his successors’ strategy to sustain Korea’s economic development, receiving significant amounts of ODA from Japan clearly spurred this growth even when this ODA was specifically tied to the purchase of Japanese goods and services.

Throughout the post-armistice period, Korea’s trade and wealth grew so dramatically that it ultimately became a member of the Development Assistance Committee (DAC) of OECD and is now a net exporter of Overseas Development Assistance.[[47]](#footnote-47) Clearly, this tells us that Korea has become an advanced nation with a strong market economy and with a truly democratic political system. It also tells us that the relationships and concomitant mechanisms we have laid out in the preceding analysis not only tell an interesting story about how Japan’s selfish, economically oriented, aid helped begin a continuing expansion of Korea’s international trade that ultimately empowered the groups that finally brought about the country’s democratic transition.

These results are important not just for telling Korea’s post-armistice development story but also for what this story suggests about the effectiveness of economic aid that is focused on expanding trade with a recipient country versus aid that is targeted directly to promoting aid like the USAID’s democracy promotion assistance that has been distributed for many years now. The most important point of this analysis of the Korean case then is that, in certain cases, democracy promotion aid may be less effective at achieving the goal of encouraging successful democratic transitions than the economically self-interested aid that Japan provided not just to Korea but also to most of the other nations that have been recipients of its ODA. This is an important point to be sure, but making it in a more convincing way will require a carefully designed large-N study that compares the political impacts of Japan’s economic aid versus the democracy promotion aid provided by the U.S. While such an effort will have to be the topic of future research, we hope that this work has offered a basis on which such a research effort can be built.

**Table 1: The Expected Impact of ODA on Trade and Democratization**

|  |  |  |
| --- | --- | --- |
| **Governing Groups** | **Impact of Foreign Aid on Trade and Democratization** | |
| **Trade Increases** | **No Increase/Trade Declines** |
| Owners or Intensive Users of  Abundant Factors | Government Gets Stronger/Low Potential for Democratic Challenge | Government Power Stable or Declines/Moderate Potential for Democratic Challenge |
| Owners or Intensive Users of  Scarce Factors | Challengers Get Stronger/ High Potential for Democratic Challenge | Challengers Weakened/Low Potential for Democratic Challenge |





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| --- | --- | --- | --- |
| **Table 2**  **Sources of Economic Aid Received by South Korea, 1960-1995** | | | |
|  | **U.S.** | **Japan** | **Others\*** |
| **1960**  **1965**  **1970**  **1975**  **1980**  **1985**  **1990**  **1995** | **99.32%**  **73.13%**  **56.17%**  **39.56%**  **22.48%**  **6.03%**  **1.36%**  **0.00%** | **0.00%**  **22.39%**  **38.86%**  **34.10%**  **60.08%**  **72.83%**  **81.67%**  **87.43%** | **0.68%**  **4.48%**  **4.98%**  **26.34%**  **17.43%**  **21.14%**  **16.97%**  **12.57%** |
| **\* Includes economic aid from multilateral sources**  **Source: compiled by the authors from OECD ODA data .** | | | |

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1. See e.g., Hicks, et. al. (2008), Sunaga (2004), and Tonami and Muller (2013). [↑](#footnote-ref-1)
2. This is a reference to aid that is tied versus that which is untied. Fukushima (2000) notes that, throughout the postwar period, Japan continually untied its Yen loans but kept its grants tied, albeit at a declining rate as well. See e.g., OECD (2004), passim. [↑](#footnote-ref-2)
3. The bulk of Japanese ODA has gone to the nations of Asia which have grown faster than the countries of sub-Saharan Africa. [↑](#footnote-ref-3)
4. The most notable examples of such assessments can be found in Chan (1992), Tuman and Strand (2006), and Tuman, et. al., (2009). [↑](#footnote-ref-4)
5. As we discuss in more detail below, some assessments have mentioned the political impacts of Japanese ODA but only in passing and generally to dismiss any political content to Japanese international economic assistance. [↑](#footnote-ref-5)
6. See e.g., Arase (1995). We do note in more detail below, however, that there have been a small number of instances that the Japanese government did use its aid to accomplish certain political goals. [↑](#footnote-ref-6)
7. On the former point, see e.g., Wright (2009) and, on the latter point see e.g., Dunning (2004), Goldsmith (2001), and Knack (2004). [↑](#footnote-ref-7)
8. The best example of overtly political aid is that provided by the USAID for democracy promotion. See e.g., Carothers (1997) and Steele and Scott (2011). [↑](#footnote-ref-8)
9. See also Wright and Winters (2010), who focus more on the impact of political institutions in this process. [↑](#footnote-ref-9)
10. Korea made the transition in the late 1980s, and, despite its inauspicious beginnings, it remains one of East Asia’s fully consolidated democracies. [↑](#footnote-ref-10)
11. We say “before” here because, prior to the outbreak of the Pacific War, nations like Korea and Taiwan were already part of Japan’s colonial empire. Also, we would like to point out that, between 1954 and 1977, Japan concluded reparations agreements with thirteen nations. See Arase (1995). [↑](#footnote-ref-11)
12. Japan was the largest ODA provider until 2001, when the United States reclaimed that position as the world’s largest distributor of ODA. Despite many years of little or no economic growth, Japan remains one of world’s three largest providers of ODA. [↑](#footnote-ref-12)
13. See e.g., Arase (1994a, 1994b, and 1995), Inada (1989), Orr (1990), Rix (1993), and Yasutomo (1986). [↑](#footnote-ref-13)
14. See specifically, Johnson (1982). [↑](#footnote-ref-14)
15. See e.g., Chan (1992), Schneider, et. al. (1998), Tuman and Strand (2005), and Tuman, et. al., (2009). [↑](#footnote-ref-15)
16. This is exactly what Chan (1992) found in his examination of earlier data. [↑](#footnote-ref-16)
17. The reference here is to such decisions as Japan’s tepid response to the tragic events of Tiananmen Square, its support of such manifestly authoritarian governments as those in the Philippines and Myanmar, and its exploitation of indigenous peoples in Indonesia and Malaysia for the acquisition of those countries’ natural resources. Sato (1994) also notes that the Ministry of Foreign Affairs has paid more attention to Human Rights violations and that Japan has much opportunity to perform better on this dimension in its ODA programs. [↑](#footnote-ref-17)
18. We should note that even though the Japanese government did not always act politically when distributing ODA, it did sometimes alter its ODA distribution patterns in response to ***gaiatsu*** (foreign pressure) that was directed to achieving certain international political goals. [↑](#footnote-ref-18)
19. See Arase (1994), pp. 87-8. Again, there are other studies that argue that Japan’s aid was more sensitive to human rights and other political factors than its reputation has suggested. [↑](#footnote-ref-19)
20. This means that ODA and its continuation is predicated on progress toward democratization or that it is provided directly to support courts, elections, and other institutions that help promote and sustain democratic politics. [↑](#footnote-ref-20)
21. The literature on this problem ranges from scholarship that is broadly gauged and generally negative, like the results found in Knack (2004), to that which is more positive and focused on conditionality (Wright, 2009) and the impact of political institutions (Wright and Winters, 2010). [↑](#footnote-ref-21)
22. While straightforward on its face, this can be somewhat complicated because, while ODA can increase a recipient country’s trade with the donor nation (direct impact), it can also lead to increased trade between the recipient and other nations (indirect impact). [↑](#footnote-ref-22)
23. Again, this would be groups whose members are the owners or intensive users of a nation’s **abundant** factors. [↑](#footnote-ref-23)
24. Again, this would be groups whose members are the owners or intensive users of the nation’s **scarce** factors. A good example would be Korean farmers, especially beef producers, who sought protection from U.S. beef exports during the period that the country’s overall international trade was expanding. [↑](#footnote-ref-24)
25. It is true that some countries may contain socio-economic groups that may neither be part of a government’s support constituency nor potential challengers, which means that PG + PCH < PT. While this may be empirically accurate, the more important relationship rests not with the total political power in a country but rather the relative power of the government’s supporters compared to that of potential challengers. [↑](#footnote-ref-25)
26. The subscripts t refers to the pre-ODA period and t+n refers to some time period after ODA is extended to the recipient nation. [↑](#footnote-ref-26)
27. We recognize that, even in cases where the extension of ODA has no direct impact on a recipient nation’s level of international trade, it is possible that that nation’s level of international may not remain the same and that other factors may lead it to increase or decline. In such cases, the impact on political groups defined as owners and intensive users of abundant and scarce factors will be the same. However, for the purposes of specifically investigating the operation of our theoretical perspective, we proceed under the assumption that a recipient nation’s level of international trade will remain the same when ODA has no direct impact on its economic interactions with the donor and other nations. [↑](#footnote-ref-27)
28. In the discussion that follows, we use Korea interchangeably with South Korea and the Republic of Korea. [↑](#footnote-ref-28)
29. The best illustration of this would be the Kwangju Incident. The City of Kwangju is in Southern Cholla province and the home town of former opposition leader and President, Kim Dae-Jung. From May 18 to 27 in 1980, citizens of the city rose up in protest of the Chun Doo-Hwan regime who established himself as president in a coup in the wake of Park Chung-Hee’s assassination. Protests turned violent as citizens took up arms and looted police stations. Ultimately, regular units of the Korean Army moved into the city on the 27 of May and crushed the uprising in a brutal fashion. Disagreements remain over the number of casualties, but estimates range from 200 to 2,000 citizens and military. [↑](#footnote-ref-29)
30. Among the more oft-used measures are Freedom House’s 7-point scale and Polity IV’s authoritarian-democracy scale, which is based on such things as the autonomy of elected officials and the freedom of elections to the highest offices. It ranges from -10, most authoritarian, to +10, most democratic. [↑](#footnote-ref-30)
31. See Cummings (1981) who noted that People’s Committees had formed governing groups in the South’s various provinces but were suppressed by the occupying U.S. Army which replaced Japanese rule with a military government. [↑](#footnote-ref-31)
32. We should note that it is not just the strength of an authoritarian state but rather its disposition to use its strength to suppress challenges to its position as the head of a government. [↑](#footnote-ref-32)
33. Please note that the size of Korea’s per capita GDP is indicated by the values on the Y-Axis on the **right side** of Figure **2**. [↑](#footnote-ref-33)
34. Between 1997 and 1998, the Korean Won lost nearly half its value vis-a-vis other currencies like the U.S. Dollar. [↑](#footnote-ref-34)
35. Again, please note that the values of Korea’s total trade are shown on the left side of Figure **2**. This is important because while the total trade curve is below and to the right of the Per Capita GDP curve, it is much larger in value as the different scales on the left and right Y-Axes make clear. [↑](#footnote-ref-35)
36. The strong relationship reported above between trade and GDP growth is similarly robust at one and three and one and four time lags as well. These models reveal that a $1 million increase in Korea’s total trade led to an increase of just over $50 in its per capita GDP. [↑](#footnote-ref-36)
37. Like the previous figure, it is necessary to keep in mind the different scales of the two curves when examining the relationship between the two. [↑](#footnote-ref-37)
38. We must also point out that international trade became increasingly important in its contribution to overall GDP, growing from just over 15% of GDP in 1970 to just under 60% in 1995. [↑](#footnote-ref-38)
39. What is also important is that international trade became increasingly important in its contribution to Korea’s GDP, growing from slightly over 15% of GDP in 1970 to just under 60% of GDP in 1995. [↑](#footnote-ref-39)
40. See e.g., Kuznets (1977) and Amsden (1989). [↑](#footnote-ref-40)
41. See Reeve (1963). [↑](#footnote-ref-41)
42. On the obstacles that Korean workers faced in attempting to organize and form trade unions, see Amsden (1989). [↑](#footnote-ref-42)
43. Again, see Kuznets (1977). [↑](#footnote-ref-43)
44. At the same time, most of Japan’s leaders were interested in stabilizing the regional environment for security and realized that this would require solving outstanding problems with Korea. [↑](#footnote-ref-44)
45. This was to include Japan replacing the U.S. as Korea’s principal source of economic aid. [↑](#footnote-ref-45)
46. As mentioned above, this was former General Park, Chung-Hee in Korea and Prime Minister Ikeda Hayato, in Japan whose number one policy priority was to grow the Japanese economy agreed that a settlement with Korea would assist in this goal. [↑](#footnote-ref-46)
47. Approval for the Republic of Korea to become the 24th member of the OECD Development Assistance Committee occurred on November 25, 2009. Korea’s DAC membership then formally began on January 1, 2010. [↑](#footnote-ref-47)