Research Note

Japan’s ODA Policy toward Central Asia and the Caucasus
An Analysis of Japanese Assistance to Economic Development in Kyrgyzstan and Armenia

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Since the end of the Cold War, establishing partner relationships with other regions beyond Southeast Asia, such as Central Asia and the Caucasus, has served as a primary goal for Japan in asserting its foreign policy. Japan has been active in the wider Central Eurasian region, namely, in Armenia and Kyrgyzstan, over the last two decades, mainly through provision of its official development assistance (ODA) and implementation of international cooperation projects. Japan’s foreign aid allocation to these countries was primarily aimed at the achievement of balanced and sustainable economic growth as part of its ODA policy in the region. This paper aims to provide an extensive overview of bilateral relationships between Japan and the countries of Central Asia and the South Caucasus in the context of formulation and implementation of Japanese ODA programs. The paper starts by elaborating on the main features of Japan’s foreign aid policy towards the target countries in the region and then outlines the main policy objectives behind Japan’s ODA allocation towards Armenia and Kyrgyzstan. The discussion concerning Japanese engagement in the region will be focused on Japan’s economic development practices and their impact on ODA recipient countries.

Keywords: Japanese Foreign Policy, ODA, Economic Development, Armenia, Kyrgyzstan

Introduction

The official standpoint of Japan, as a donor country, is articulated in the ODA Charter provided by the Japanese Ministry of Foreign Affairs of Japan, which declares a clear preference for Asian countries. As stated in the Charter, Japan’s priority for the Asian region is justified by the notion that “Asia [is] a region with [a] close relationship to Japan and which can have a major impact on Japan’s stability and prosperity.” The top ten recipients of Japan’s ODA are thus located in Southeast Asia, and almost 60% of Japan’s ODA is distributed to these countries (OECD 2017). The geographical preference of Japan for aid distribution has been the same for a quite long time but this tendency seem to be fluctuating since the end of the Cold War (Nishigaki and Shimomura 1998).

Japan has been active in the Central Eurasian region, namely in Armenia and Kyrgyzstan, over the last two decades, mainly through provision of its ODA and active participation of Japanese businesses in pursuit of Japan’s economic interests (Dadabaev 2013). The priority area for Japanese aid allocation in respective countries is predominantly connected with the achievement of balanced and sustainable

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2 The term “Central Eurasia” is used in this study as a reference to the geographical area comprised of Central Asia and the South Caucasus.
economic growth. The majority of projects implemented under the established country assistance plan deal with infrastructure development and provision of technical assistance, which lack prospects to generate economic opportunities and value for local development (Dadabaev 2016). Only few projects, such as educational grants and grants for agricultural producers, seem to have had an impact on local economic revitalization (Dadabaev 2016, Yuasa 2007, Len 2005). The existing literature on the impact of Japanese aid on economic growth and development in Central Eurasian countries suggests that, in most cases, the development projects implemented by the Japan International Cooperation Agency (JICA) lack direct impact on local communities and beneficiaries since the majority of projects are directed at the provision of humanitarian assistance or infrastructure development at the state level rather than the support of local economic development in Armenia and Kyrgyzstan (Marat 2008, Kawato 2008, Mangi 2011).

In recent years, the vast majority of academic works have stressed the importance of studying the relationship between aid allocation and its impact on the economic development of recipient countries. For instance, early studies commissioned by Papanek (1972) found a positive correlation between foreign aid and economic growth. Another scholar, such as Singh (1985), revealed that aid may have positive and strong effects on growth even without state intervention, while scholars such as Snyder (1993) pointed out the importance of country size in assessing the impact of aid on growth. On the other hand, Burnside and Dollar (1997) came to the conclusion that aid may be effective, that is, contribute to growth only in a good policy environment, which may maximize a donor’s efforts to bring a positive change though collaboration with policy implementing agencies in developing countries. Later studies, however, question the real benefit coming through aid allocation and found that aid may also have a negative impact on growth (Gallup, Sachs and Mellinger, 1999). One study conducted by Knack (2000) found out that with large amounts of aid inflow, the institutional quality in developing countries diminishes, while at the same time increasing rent-seeking and corruption attitudes, and therefore causing a negative impact on growth. Consequently, the investigation of the relationship between Japanese foreign aid and economic growth in developing countries possesses conditionality based on geographic context, aid flow and its type, and, from a methodological point of view, how it is being observed and the sources used (Gallup, Sachs and Mellinger, 1999).

One of the main objectives of this study and contribution to the existing literature on Japanese foreign aid topic is thus to review how the bilateral relationship between Japan and recipient countries, in the form of aid inflow to Armenia and Kyrgyzstan, has impacted the economic development of recipient countries. The correlation between foreign aid attainment and economic development discourse will focus on Japan’s efforts to encourage economic development prospects in recipient countries and identify the deviations in Japan’s approach to stimulate this process.

In order to assess this process, this study is designed in a way to reveal what motivates Japan to allocate foreign aid and what was the impact on recipient countries from explanatory and descriptive standpoints. Since the study strives to explore the process of relationship building between donor and recipient countries, the case study approach will be applied. The descriptive nature of the study sought to be important to form the contextual framework for the study and outline Japan’s ODA policy towards Central Eurasian states. On the other hand, the explanatory standpoint enables discussion of the different ways used by Japan to promote economic development and to understand the factors motivating Japan to undertake certain development policies in recipient countries.

This paper consists of four main parts. The first part aims to provide a brief explanation of Japan’s foreign policy objectives in Central Eurasia. The second and third parts discuss development projects implemented by Japan in recipient countries. The final part will provide a conclusion by summarizing the main findings of the study and will prescribe an assessment of whether the formulated Japanese ODA policy towards recipient countries contributed to economic advancement.

1. Japan’s ODA Scheme for Central Eurasia

(1) Japan’s Engagement in Central Asia and the Caucasus Region

Japanese engagement in the wider Central Eurasian region started shortly after the post-Soviet states gained their independence in 1991. This process was benchmarked by the establishment of diplomatic relations between Japan and the newly independent republics of Central Asia and the South Caucasus in 1992. Initially, Kyrgyzstan was one of the first out of five Central Asian states to attract the attention of Japan, however, as collaboration between Japan and other Central Asian states has evolved, more attention has been paid to other countries of Central Eurasia. For instance, despite the fact that Japan established its first diplomatic contact with Kyrgyzstan, Japanese embassies were first opened in
Tashkent, Almaty, and Dushanbe, and finally in 2003 in Bishkek. The most recent Japanese embassy was opened in Yerevan in 2015.

In general, Japanese engagement in the Central Eurasian region can be analyzed within three main periods: Starting from 1930 up until 1945, the countries of Soviet Central Asia were studied by a number of Japanese scholars who examined specific characteristics related to economic and political conditions as well as nationality problems in respective countries. The main goal for accomplishing these studies was to reveal the shortcomings and weaknesses of Soviet governance and, by doing so, securing the stability of the Japanese empire (Takeuchi 2000).

The second period of Japan’s interaction in the region is connected with the establishment of independent Central Asian states in 1991 up until 2004. This phase symbolizes the recognition of newly independent states by Japan and establishment of diplomatic relationships with them. Yet despite the fact that Japan maintained bilateral relationships with Central Eurasian states in the early 1990s, Japanese policy towards these countries remained unclear and fluctuating. According to Hook et al. (2001), during the second phase, Japanese policy-makers did not undertake any assertive steps towards maintaining closer interactions with Central Asian states and “were more eager for historical reasons to develop relationships with Central Asian Republics” (Hook et al. 2001).

The third and contemporary phase of Japan’s engagement with the Central Eurasian region starts with the introduction of the “Central Asia Plus Japan” concept in 2004. This process is also remarkable because, starting from 2004, the Central Asia and the Caucasus Division at the Japanese Ministry of Foreign affairs started to operate. The total ODA channeled into the region in 2014 constituted 290 million USD. Since then, Japan started to maintain full-fledged interactions with Central Eurasian countries in three major areas, including: (1) diplomatic/political interaction; (2) trade, and investment; and (3) aid and assistance (Dadabaev 2016).

(2) Japan’s Strategic Interests and Foreign Policy in Central Eurasia

Japan’s interests in the region can be reviewed within three main objective lines. Japan built up its framework for cooperation with the Central Eurasian states based on the main principles of ODA, which were associated primarily with the revitalization of Japan’s Silk Road narrative. For Japan, establishing partner relationships with other Asian countries beyond China served as a primary target in asserting its foreign policy objectives. The second main objective of Japan for engagement with Central Eurasian states was connected with the provision of assistance for these newly independent countries by facilitating their smooth transition from planned economies to market economies and, by doing so, supporting their sustainable development. The final objective for collaboration with the countries of Central Eurasia was based on strategic interests of Japan related to the extraction and use of oil and natural resources with the aim of diversification of its energy resources.

Given the fact that Japan’s territorial dispute with Russia suppressed Japan from utilizing the energy potential of the Sakhalin and Kuril Islands, Japan needs to secure its energy consumption from the Middle East (Tuman, Strand and Emmert 2009). In addition to these three main interests of Japan in the region, the geographical location and proximity of these countries to China also plays a role in the construction of Japan’s foreign policy towards Central Eurasia. China’s aspiration to integrate the countries of the region to its overall regional initiatives, such as through East Turkestan policy or “One Belt, One Road” initiative, also motivates Japan to maintain its own influence through increased aid delivery to the region (Muldavin 2000, Dadabaev 2016).

(3) Japan’s ODA Disbursements in Central Asia and the Caucasus

The interaction and implementation of Japan’s policy towards these countries started with the provision of development assistance within human rights, democratic, and free-market economic principles. The first batch of ODA donations to Central Asian states accounted for 2.57 million USD in 1993 and reached 108.48 million USD by 2008. The provision of ODA to Central Eurasian states was governed by Japan’s Four Guidelines of ODA, along with the main principles of the ODA Charter (Hook et al. 2001).

The ODA provided by Japan within the framework of these principles is presented in Table 1. Figure 1 displays the total ODA of Japan between 1992 and 2015.
Table 1  Japan’s ODA in Central Asia and the Caucasus from 2006 to 2015 (in USD millions)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Armenia</td>
<td>7.68</td>
<td>85.23</td>
<td>57.7</td>
<td>98.7</td>
<td>77.45</td>
<td>7.48</td>
<td>0.31</td>
<td>1.33</td>
<td>1.69</td>
<td>-5.31</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>4.06</td>
<td>11.36</td>
<td>-2.8</td>
<td>-2.03</td>
<td>-11.01</td>
<td>105.75</td>
<td>155.36</td>
<td>42.85</td>
<td>68.72</td>
<td>21.31</td>
</tr>
<tr>
<td>Georgia</td>
<td>11.63</td>
<td>7.01</td>
<td>2.42</td>
<td>12.31</td>
<td>6.48</td>
<td>4.97</td>
<td>30.66</td>
<td>45.07</td>
<td>57.39</td>
<td>39.72</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>24.87</td>
<td>43.31</td>
<td>37.9</td>
<td>37.13</td>
<td>-1.82</td>
<td>-20.73</td>
<td>-15.93</td>
<td>-6.32</td>
<td>-36.75</td>
<td>-33.23</td>
</tr>
<tr>
<td>Kyrgyzstan</td>
<td>17.22</td>
<td>15.68</td>
<td>12.35</td>
<td>17.75</td>
<td>23.16</td>
<td>30.62</td>
<td>19.57</td>
<td>17.48</td>
<td>21.24</td>
<td>42.12</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>8.04</td>
<td>9.43</td>
<td>8.06</td>
<td>26.24</td>
<td>43.42</td>
<td>35.59</td>
<td>32.98</td>
<td>26.66</td>
<td>23.55</td>
<td>17.82</td>
</tr>
<tr>
<td>Turkmenistan</td>
<td>0.62</td>
<td>-0.54</td>
<td>-1.54</td>
<td>-1.19</td>
<td>-0.94</td>
<td>-1.47</td>
<td>-2.21</td>
<td>-1.68</td>
<td>-1.6</td>
<td>-1.29</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>18.61</td>
<td>56.32</td>
<td>48.63</td>
<td>20.41</td>
<td>7.04</td>
<td>-1.79</td>
<td>-6.01</td>
<td>30.11</td>
<td>34.18</td>
<td>126.66</td>
</tr>
</tbody>
</table>


Note: Negative figures indicate that outstanding loans remain after repayment by respective recipients.

Figure 1  Japanese Total ODA in Central Asia and the Caucasus between 1992 and 2015


Note: Negative figures indicate that outstanding loans remain after repayment by respective recipients.

(4) JICA as an ODA Policy Implementation Tool

Established in 1974, the Japan International Cooperation Agency (JICA) serves as a main mechanism for the coordination and realization of Japan’s ODA policy in developing countries. The main principles of JICA include: addressing the global agenda, reducing poverty through equitable growth, improving governance, and achieving human security. Based on these main principles, JICA accomplishes aid coordination mission through provision of its support for the sustainable development of Central Eurasian states (see Figure 2).

JICA’s operations in ODA recipient countries are guided by preferences for certain sectors for aid distribution. Given the fact that Central Eurasian countries are considered to be landlocked and, thus, lack direct access to the sea for conducting their trade relationships, it is required from these countries to establish alternative routes of transportation and telecommunication to reach other regions of the world for attaining and sustaining their economic development. Acknowledging the importance of this

conditionality for the achievement of Japan’s policy objectives in the region, JICA concluded that “in the absence of adequate maintenance and management since independence, facilities have considerably deteriorated and are in urgent need of rehabilitation.” Therefore, one of the primary and biggest installments of Japanese ODA in 1995 was directed towards the implementation of projects related to infrastructure and transportation development in Kazakhstan. The total value of Japanese ODA grants accounted was 50.9 billion JPY and was used for the realization of the Railway Transport Capacity Development Project, the Irtysh River Bridge Construction Project, and the Astana Airport Reconstruction Project.5

Another ODA disbursement of 2.3 billion JPY was provided to Kyrgyzstan in May 1999 for the development of the transportation sector in the country. According to a JICA project administrator, the main objective for the provision of this development aid was:

“Considering the particular importance of the extensive rehabilitation and modernization of the deteriorated transportation network for the country’s development, JBIC has mainly provided support for the transportation sector. ODA loan commitments have been provided for the Bishkek-Manas Airport Modernization Project, which upgrades the Manas Airport in the capital of Bishkek to function as an international airport; and the Bishkek-Osh Road Rehabilitation Project to improve the condition of the main road linking the capital Bishkek with the second largest city, Osh. JBIC has provided ODA loans totaling ¥25.7 billion to Kyrgyz for six projects.”6

Similarly, in 1997, Japan provided 4.5 billion JPY for the Railway Transportation Modernization Project in Turkmenistan and 13.6 billion JPY for the Telecommunication Network Expansion Project (II) and the Three Local Airports Modernization Project (II) in Uzbekistan.7

The second biggest sector that attracts the most of Japanese ODA is the power sector. Due to the inherent Soviet period power-supply systems, Central Asian states possess power supply inefficiency and, thus, is confronted with a need for infrastructure development to operationalize it.

Since establishing its relations with Central Eurasian states, Japan has signed many bilateral aid agreements. According to one of these agreements, in 2006, the following policy areas were defined as priority by Japan for cooperation with Uzbekistan: (1) Support for building human-resource development systems needed for developing a market-oriented economy and industrial development; (2) support for rebuilding social sectors; (3) support for upgrading and improving economic infrastructure; and (4) promotion of intra-regional cooperation.8 Based on these priority areas JICA also established a framework for the implementation of activities in order to promote poverty reduction through economic growth and supporting regional cooperation through (1) developing a foundation including transport infrastructure; (2) support for social sectors and, (3) the Central Asia Plus Japan Dialogue implementation.9 Likewise, the following four priority areas were set by Japan in 2009 for the bilateral relationship between Japan and Tajikistan: (1) rural and industrial development; (2) transport and traffic; (3) border control; and (4) the upgrade of basic social services.10

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5 Ibid, p. 40.
6 Ibid.
7 Ibid, p. 49.
9 Ibid, p. 44.
10 Ibid.
Figure 2. The Evolution of JICA Programs in Central Asia and the Caucasus

![Graph showing the evolution of JICA programs in Central Asia and the Caucasus.](https://goo.gl/TNhxGY)


As stated earlier, starting from 1992, Japan has been using its development aid towards the countries of Central Asia and the Caucasus in order to establish a closer relationship with the countries of the region (Takamine 2005). Despite the fact that the strengthening of the relationship between Japan and the countries of the region was followed by the delivery of enormous foreign aid to the region, Japanese foreign policy during this period can treated as passive and unclear. From 1997 to 2004, the region witnessed a new phase of Japanese foreign policy orchestrated by then-Japanese Prime Minister Ryutaro Hashimoto known as “Hashimoto Doctrine” (Hook et al. 2001). The main attribute of this period and the objective of this doctrine was to further Japan’s relationship with the Association of Southeast Asian Nations (ASEAN) countries and using this partnership for addressing global pressing issues. With the outbreak of the East Asian financial and economic crisis in 1997, Japan’s aspiration for regional cooperation and a leadership role was once again manifested. According to a study by the Japanese Ministry of Foreign Affairs, Japan’s policy aimed at practicing a more enhanced bilateral relationship with other countries of the Asian region from mid-1997 onwards implies that “although Japan was certainly not abandoning its attachment to the bilateral norm and bilateral relationship with the U.S., these were beginning to be challenged in the midst of Japanese policy-making agents by the resurgent norms of Asianism and internationalism” (Hook et al. 2001, p. 224).

If we analyze the trajectory of development assistance provided to Central Asian countries by Japan between 1997 and 2004, we may observe that the total value of Japanese foreign aid to the region was reduced in 1997 owing to the implementation of the Hashimoto Doctrine, as shown in Figure 1. Yet, as depicted in Figure 3, after the 9/11 attack in 2001, the development assistance disbursement was increased once again. The main reason for the increase in the total value of Japanese foreign aid disbursements to the Central Asian region was based on Japan’s goal of maintaining peace and stability in the wider Asian region. It was important for Japan to secure its region (ASEAN) from the transmission and expansion of terrorism from the side of Afghanistan, and thus, Japan used foreign aid to prevent the development of such scenarios in Central Asia.
Since 2004, Japan has shown an increased interest in the region and been practicing more comprehensive cooperation with the countries of Central Asia and South Caucasus. The introduction and implementation of the “Central Asia Plus Japan” Initiative marked the new phase of cooperation between Japan and the countries of the region. The nature of cooperation between Japan and Central Eurasian countries since 2004 can be reviewed from a multi-approach perspective which is not limited to the delivery of development aid but also represents an enhanced interaction in different areas of mutual interest.\textsuperscript{11}

For Japan, which had been pursuing the goal of raising its role and position in international arena, practicing a more balanced mode of interaction with the countries of Central Eurasia, was important. In reviewing Japan’s post-Cold war efforts, one may acknowledge that, after the U.S. Japan had been providing the largest portion of foreign aid to the region. Given the fact that maintaining regional security

is vital for the realization of Japan’s strategic interests in the region, including access to natural and energy resources, Japan considers the military presence of Russia and the U.S. as crucial condition for practicing and sustaining a fully-fledged interaction with the countries of the region. Even though, Japan has strategic interests in the region, its efforts to support the democratic development and economic transition to a market economy of the countries of the region cannot be downplayed.

2. Japan’s Development Assistance Program for Armenia

(1) Japan’s ODA Policy towards Armenia

Japan’s engagement with Armenia started in the 1980s, when Armenia was part of the former Soviet Union. The initial assistance policy of Japan was formulated in the form of disaster relief after the Spitak earthquake in 1988. Japan sent disaster relief teams to Armenia three times in order to provide urgent rehabilitation and reconstruction support for the construction of equipment to remove the debris after the earthquake. Since 1991, after Armenia gained its independence, Japan has continued provision of its technical and humanitarian aid to refugees within the framework of its emergency disaster relief program. In addition, a number of Armenian officials were able to participate in technical training programs in Japan since then. Diplomatic relations between the governments of Japan and Armenia was established in 1992, and the first batch of Japanese ODA assistance was received by Armenia in 1994. A technical cooperation agreement between the two countries was signed in June 2005 with the aim of strengthening the economic cooperation between two countries. Based on the Country Assistance Policy formulated by Japan in 2012, two areas were outlined as priority areas, including: (1) the development of economic infrastructure and regional development, and (2) strengthening of disaster prevention measures. Along with these main policy objectives, achieving balanced and sustainable economic growth serves as a basic framework for policy implementation in Armenia.\(^{12}\)

The initial phase of cooperation between Japan and Armenia in the 1990s entailed the provision of technical support by nature and was based primarily on the implementation of ODA projects in the agricultural sector. One of the first ODA programs that was introduced in 1997 was related to the food production development program. According to Armenian Agriculture Minister Zaven Gevorkian, the Japanese government was very supportive in the refining process of the agricultural sector through provision of funding to address existing problems in the sector. For instance, in the 1997-2000 period, Japan allocated a 420 million JPY grant to the government of Armenia in order to support programs facilitating the development of the country’s agrarian sector. Under this program, the received funding was used by Armenia to buy agricultural machinery, equipment, as well as agricultural fertilizers.

Since 1998, Japan has provided technical and expert support to reform the country’s energy sector. Notably, a 40 million USD credit was received by Armenia and was used to build new capacities and modernize existing infrastructure in the energy sector. The Armenian government was obliged to repay the credit within 20 years with a 10-year grace period.

Along with the provision of technical support, under the established country assistance policy, the Armenian government also received two grants designed to advance the country’s cultural and healthcare sectors. The Japanese government allocated 500,000 USD grant for the purpose of strengthening the operational productivity of the Armenian Philanthropic Orchestra by enabling them to purchase musical instruments and build new recording studio. Most recently, Japan’s aid was delivered to the development of economic infrastructure, as shown in Figure 4. For the details of the different types of assistance provided by Japan to Armenia, refer to Table 2.

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Table 2. Performance of Japan’s Assistance to Armenia by Type of Assistance (in JPY hundred million)

<table>
<thead>
<tr>
<th>Aid Schemes</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>Total Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>ODA Loans</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>104.91</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>104.91</td>
</tr>
<tr>
<td>Grant Aid</td>
<td>1.36</td>
<td>0.09</td>
<td>2.12</td>
<td>9.71</td>
<td>2.23</td>
<td>0.36</td>
<td>0.09</td>
<td>0.26</td>
<td>0.33</td>
<td>16.55</td>
</tr>
<tr>
<td>Technical Cooperation</td>
<td>3.81</td>
<td>1.59</td>
<td>2.03</td>
<td>1.98</td>
<td>1.1</td>
<td>2.68</td>
<td>2.22</td>
<td>1.5</td>
<td>1.61</td>
<td>18.52</td>
</tr>
<tr>
<td>Acceptance of Technical Training Participants (persons)</td>
<td>62</td>
<td>47</td>
<td>44</td>
<td>37</td>
<td>41</td>
<td>46</td>
<td>40</td>
<td>36</td>
<td>35</td>
<td>388</td>
</tr>
<tr>
<td>Dispatch of Experts (persons)</td>
<td>9</td>
<td>13</td>
<td>3</td>
<td>1</td>
<td>1</td>
<td>6</td>
<td>10</td>
<td>11</td>
<td>10</td>
<td>64</td>
</tr>
</tbody>
</table>

(Unit: JPY hundred million for ODA loans, grant aid and technical cooperation, and the number of people accepted under Technical Training Participants and Dispatch of Experts program. “-” indicates “not applicable”)

Source: ODA Data Book and the attachment (reference data) of the Annual Report of JICA (2014). The performance of technical cooperation between FY2005 and 2012 includes the technical cooperation of all Japanese organizations, while that in FY2013 includes only the technical cooperation provided by JICA. The figures in the table are total (gross) amounts of disbursement.

The cooperation in the economic sphere started only after the establishment of the Japanese-Armenian economic committee in August 2000. The first joint session of the Japanese-Armenian Economic Committee was held in Tokyo in June 2001. Among the major topics discussed during the session, collaboration in the areas of high technology, the processing industry, and tourism were given a higher importance. As a result of the joint meeting, the two parties agreed to enhance bilateral trade and economic relations under the established legal framework on Avoidance of Double Taxation on Income and Property, and on Mutual Protection and Stimulation of Investment. This meeting was also remarkable since it enabled both parties to acknowledge the passive level of bilateral cooperation due to the absence of country representation in the respective countries.

The official visit of the Armenian President Robert Kocharyan to Japan in 2001 served as the foundation for the new level of bilateral relationship between the two countries. Although this visit can be treated as formal in nature, the agenda of the visit was pertinent to the discussion of economic interaction between two countries. During his visit to Japan, Robert Kocharyan met with the Economy, Trade and Industry Minister Takeo Hiranuma and stated that Tokyo serves as one of the main aid providers to Armenia and expressed his motivation to make a transition from aid recipient to a fully-fledged partner of Japan in the region. Stressing the need for enhanced bilateral economic relationship between the states, the president admitted that the Armenian government is “extremely interested in Japanese private investment in Armenia” and expressed his willingness to further the development of small- and medium-sized businesses in the country.13 At the end of the meeting, an interstate agreement, including a two-year program to develop Armenia’s mining industry with the support of JICA, was achieved.

Another turning point of the joint meeting between Japan and Armenia was the discussion around the potential of Silk Route re-opening. The two parties agreed on mutual collaboration in the revitalization process of the Silk Route and, in the course of negotiations, the Japanese Bank for International Cooperation pledged to provide financial assistance for the modernization of the Zvartnots Airport in Erevan.

As one may judge based on the above-mentioned timeline of events, the development of the relationship with Japan has become one of the priority directions of Armenian foreign policy in the course of bilateral cooperation. The press secretary for the Armenian president, V. Gabrielian, noted that maintaining mutually-beneficial cooperation in political and economic spheres with Japan is important for Armenia in order to support private sector development and advance the country’s economic capacity by attracting the necessary financial resources from donor countries like Japan.14

(2) Japan’s Development Assistance Projects in Armenia

The geographical landscape of Armenia makes it difficult for village populations residing in the mountainous areas to reach the city center, and thus significantly impacts the agricultural productivity. This also results in the accumulation of more than 60% of the Armenian GDP in the capital city of Yerevan. Taking into account this conditionality, the government of Japan has been assisting Armenia in narrowing down the proximity between urban and rural areas and boosting overall rural economic development processes through the provision of grants aimed at infrastructure building. The projects implemented in infrastructure and capacity building sectors, including construction of power distribution networks, formed the basis for sustainable economic development and contributed to raising people’s living standards. According to the Rolling Plan designed in April 2015, the Japanese government assured to implement: (1) the “Supporting Energy Sector Program;” (2) “Promoting Private Sector Development and Strengthening Basic Economic Structure,” and (3) the “Rural Development Program.” Among the planned projects, two ODA loan projects including the “Power Transmission and Distribution Network Improvement Project” and the “Yerevan Combined Co-Generation Power Plant Project”15 possess importance for the advancement of the country’s energy capacity and raising the productivity of power distribution networks. In addition to the implementation of projects in the power sector, the Japanese government has been also supporting small and medium-sized enterprises (SMEs) and local industries’ development through the implementation of technical cooperation projects such as the One Village, One

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14 Supra n.11.
Product (OVOP) Project.

It is apparent that due to the geographical location of Armenia, predominantly in the mountainous area, the occurrence of natural disasters such as earthquakes and landslides are quite often in the country. In this connection, Japan has been assisting Armenia to improve its disaster risk reduction measures by transmitting and sharing Japanese technologies during the prevention, emergency and reconstruction stages. The “Strengthening Regional Measures for Disaster Prevention Program” was designed to scale up these efforts and was included in the Rolling Plan for Armenia. In order to formulate the human resources development and disaster risk reduction capacity of Armenia, a number of technical cooperation projects, including the “Study on Landslide Disaster Management,” the “Project for Seismic Risk Assessment and Risk-Management Planning,” “Development of Communities Affected by Landslides,” and the “Landslide Disaster Management Project” have been implemented.16

In addition to the above-mentioned projects in the main policy areas, a number of projects directed at the improvement of services in the educational and healthcare sectors are being integrated into the current Rolling Plan for Armenia. According to this plan, technical cooperation projects dealing with the construction of health centers and provision of materials and equipment to rural schools have been also implemented.17

3. Japan’s Development Assistance Program for Kyrgyzstan

(1) Japan’s ODA Policy towards Kyrgyzstan

As mentioned earlier, in the first half of the 1990s, Kyrgyzstan, out of the five Central Asian countries, drew the most attention of the Japanese government, which was manifested by the Japanese Foreign Minister’s visit to the country in 1992 (Kawato 2008). Japanese interest in Kyrgyzstan was justified by its small-sized economy and lack of natural resources to uplift its development and, thus, it was assumed that Japan could play a significant role through provision of ODA to have a positive effect on the country’s further economic development. However, over the course of bilateral interaction between the two states, Japanese interest in Kyrgyzstan has slowed down since the Kyrgyz side was not ready for the implementation of Japan’s large-scale assistance projects and, therefore, Japan shifted its priority orientation towards Kazakhstan and Uzbekistan (Kawato 2008).

Despite the fact that Kyrgyzstan is not in the top five Japanese ODA recipient countries, Japan serves as one of the influential donors to the country, providing its support for: “(1) enhancement of transport infrastructure; (2) agricultural development; (3) social development; (4) human resource development in an open market environment; and (5) greater access to basic human needs, including humanitarian.”18

Japanese efforts to provide assistance for the country’s socioeconomic development was supplemented by the provision of foreign aid in the form of credits and grants. The total value of Japanese ODA to Kyrgyzstan from 1992 to 2005 was accounted at around 389 million USD.19 The major portion of this funding was channelled for infrastructure development projects, including the realization of two big projects such as the Bishkek-Manas International Airport Modernization Project (5.454 billion JPY), Bishkek-Osh Road Rehabilitation Project (total 8.266 billion JPY).20 Along with the realization of large-scale projects in the transportation field, Japanese ODA was also used for the overall improvement of the efficiency and maintenance of the country’s transportation sector through procurement of equipment and modernization efforts, as illustrated in Figure 5.21 The second most important direction of Japanese ODA is connected with the provision of funding for the reformation and advancement of Kyrgyzstan’s financial sector. Japan has been actively supporting the process of improvement in the country’s payment system

18 Erica Marat, “Kyrgyzstan: Japan’s Prime Partner in Central Asia?” in Christopher Len, Tomohiko Uyama and Tetsuya Hirose (eds.) Japan’s Silk Road Diplomacy: Paving a Road Ahead, Washington, DC: Johns Hopkins University, 2008), 87.
20 Ibid.
through setting a master plan and implementing a banking settlement reporting system (3.44 billion USD).  

During the period of 1993 and 1997, Kyrgyzstan received 200 million USD aid from Japan. Most of this funding was channeled for industrial development of the Kyrgyz Republic. The projects accomplished in this field were related to mining, including increasing the country’s potential for oil and gold and uranium mining, in the first place.  

By 2001, Japan had become the number-one donor of ODA disbursements for Kazakhstan, Kyrgyzstan, and Uzbekistan, and organized several in-house consultation meetings of donors for Tajikistan in Tokyo (Kawato 2008).

**Figure 5. Bilateral ODA to Kyrgyzstan by Sector, 2014-2015**

![Graph showing bilateral ODA to Kyrgyzstan by sector, 2014-2015.]

Sectors

- Other social infrastructure & services
- Economic infrastructure & services
- Production
- Education
- Healthcare & Population
- Humanitarian aid
- Multisector
- Programme assistance
- Other & unspecified


Economic cooperation between the two countries is regulated by the Kyrgyz-Japanese Economic Committee. The committee was set up to promote joint trade and bilateral business partnership activities. According to the joint meeting of the committee held in September 1997, both parties agreed to regulate the foreign direct investment process through facilitating the interaction between Japanese and Kyrgyz state structures and private companies. As a result of bilateral business development, Kyrgyzstan was able to absorb Japanese technological advancement products such as, cars, equipment for different fields of industry, and electronics. In return, Japan imported precious metal and various types of chemicals from Kyrgyzstan.

Japanese engagement with Kyrgyzstan went beyond established official channels of communication conducted by JICA, the Japanese Ministry of Foreign Affairs, and the Japan Bank for International Cooperation. Japan has been also actively using multilateral institutions such as the World Bank and Asian Development Bank for the delivery of its development assistance. The assistance

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provided through these channels represents Japanese capacity-building efforts accomplished in the form of human resources development training. Japanese classes, seminars for Kyrgyz entrepreneurs in business development, and tourism promotion. These capacity-building and technical cooperation projects are being organized and coordinated by the Japanese Center for Human Resources Development established under the Kyrgyz National University.

The official visit of Kyrgyzstan’s President, Almazbek Atambayev to Japan in 2013 has contributed to the advancement of the bilateral relationship between two states. Within the framework of his visit, Atambayev met with Prime Minister Shinzo Abe to discuss and exchange views on bilateral relations between two countries as well as issues pertinent to regional and international stability. As a result of this visit, the two parties signed the “Memorandum of Cooperation between the Ministry of Economic Affairs of the Kyrgyz Republic and the Ministry of Economy, Trade and Industry of Japan: Memorandum on Cooperation in the Field of Education between the Ministry of Education and Science of the Kyrgyz Republic and the Ministry of Education, Culture, Sports, Science and Technology of Japan.”

(2) Japan’s Development Assistance Projects in Kyrgyzstan

Since establishment of bilateral relationship between Japan and Kyrgyzstan, Japan has been providing substantial assistance for the Kyrgyz government to achieve democratic governance and transition into a market economy while stressing the need for the preservation of human security throughout the transition process. For example, Japan has been supporting the Kyrgyzstan’s transition into a market economy by allocating its loan aid for the improvement of transportation infrastructure and delivered grant aid for the improvement of the technical capacity of major medical facilities through provision of necessary medical equipment. The country assistance policy was formulated by Japan taking into account the country’s economic weakness and, thus, increasing the country’s economic potential was set as a top priority. Japan’s development assistance policy was sought to serve as the “catalyst” for promoting self-help efforts toward achievement of economic development and was accomplished in line with the Country Development Strategy (CDS) of the Kyrgyz Republic.

(3) Japan’s Contribution to the Development of Transportation Infrastructure

The geographical location of the Kyrgyz Republic at the intersection between East and West had been playing an important role for Kyrgyzstan to accomplish its commercial transactions and product channeling over the time. However, given the fact that Kyrgyzstan is landlocked and predominantly consists of mountainous areas with no direct access to the sea and Europe, the development of transportation infrastructure serves as an important condition for accomplishing its economic activities. Besides, since the Soviet times, overall road conditions in the country have worsened, making it difficult for rural people to reach the country’s remote areas at times when disasters occur or during the winter period. Proper transportation facilities as such are being considered by Japan to enable Kyrgyzstan to position itself as a regional distribution hub and gateway for the Central Asian region by connecting the east-west and north-south routes.

Japanese efforts to support the transportation infrastructure development were formulated taking into account Kyrgyzstan’s potential to facilitate regional cooperation and economic interaction with neighboring countries. Besides, the development of infrastructure was deemed by Japan as not only facilitating intra-regional trade with neighboring countries, such as China, but would also “stimulate the development of other areas of the economy, including mining and manufacturing, tourism, agriculture, and could serve as a precondition for enhanced intra-regional cooperation in each of these sectors.”

Taking into account the importance of this conditionality, Japanese ODA policy for Kyrgyzstan was concentrated “on the implementation of projects and programs aimed at the construction of road and bridges, provision of construction equipment for road reconstruction, and strengthening of road maintenance systems.” More specifically, Japan has been providing yen loans to the Kyrgyz government for the construction of main automobile roads and railroads. Along with bilateral aid, Japan has been also collaborating with other donors and the Kyrgyz government to implement projects

27 Supra n. 25.

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contributing to “the improvement of systems for promoting the efficiency of road administration, standardization of customs procedures, promotion of intra-regional distribution, and development of human resources for these areas.”

(4) Japan’s Contribution to the Development of Agricultural Sector

Although the agricultural sector of Kyrgyzstan is not internationally competitive and encompasses only 3% of the country’s landscape, it employs about 60% of the country’s labor force and more than 35% of country’s GDP is generated from the sector. In addition, some farm products are exported to the neighboring countries of Central Asia. However, after the collapse of the Soviet Union and the disintegration of large-scale collective farms, the availability of unharvested crops and farm equipment to cultivate them has also become one of the major problems in the sector.

The development of the agricultural sector is sought by Japan to contribute to the country’s industrial development since it is closely connected with other supporting industries, such as light industry, the food processing industry, and the handicrafts industry. For instance, the advancement of the food processing industry is believed to facilitate the marketing of value-added agricultural products and thus contribute to the development of agriculture overall.

The Japanese government’s support for the development of the agricultural sector of Kyrgyzstan was thus focused on infrastructure development through the provision of farming equipment, the development of irrigation, and the construction of the necessary processing facilities. These efforts were accomplished in order to stimulate Kyrgyzstan’s niche market so that the country can enhance its capacity to produce specialty goods and raise its competitiveness in relation to neighboring markets specializing on grain production. Alternatively, Japan has been also implementing capacity building and human resource development programs facilitating the improvement of the agricultural technique and farmers’ agricultural practices.

(5) Japan’s Contribution to Local Development

The dissolution of the Soviet Union left not only Kyrgyzstan’s industry in a vulnerable situation but also resulted in the bankruptcy of a number of factories and collective farms which used to be the main source of income for the vast majority of country’s population. This process has further led to the overall stagnation of country’s rural economy while also creating severe poverty, possessing a significant threat for human security. In addition, poor and inherent infrastructure in the fields of transportation, communications, healthcare and education has also contributed to the slowing down of the regional economic processes by eliminating the revitalization prospect. The southern region of Kyrgyzstan had become the hub for radical Islamic groups and joined Afghanistan’s drug trafficking route. Occurrence of this situation created an alarming prospect for the country’s national security with substantial threat beyond the regional boundaries of the country and threatening the overall stability of the region. Thus, the first priority for the Japanese government has become community empowerment through the introduction of local development projects.

In this regard, the introduction of the OVOP concept in certain regions of the country has served as an essential infrastructure development and capacity building method enabling the country to revitalize the regional economy and gain socioeconomic development. The local development program of Japan has also played an important role for the revitalization of the local community and the environment.

(6) Japan’s Contribution to Human Resources Development

Kyrgyzstan is well-known among Central Asian states for its introduction of fast-track transitioning into the market economy through its attainment of WTO membership, liberal approach towards privatization, land distribution reforms, and promotion of domestic trade and industry. Despite the favorable and utmost efforts of Kyrgyzstan to liberalize its economy, its efforts have not brought the desired results, because the majority of the country’s entrepreneurs have been practicing old business administration techniques since Soviet times. Besides, in most cases public officials tend to be confronted with the challenge of effective governance, given the fact that they lack adequate and proper knowledge.

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28 ibid.
30 Supra n.25.
31 ibid.
32 ibid.
on how to pursue public administration and tackle the problems arising throughout the process of transitioning towards a liberal market economy.

Therefore, one of the priority directions of Japanese assistance to Kyrgyzstan has become the provision of support for human resources development aimed at fostering the country’s transition to a market economy. In its efforts to facilitate the country’s human resources capacity, the Japanese government has been providing technical cooperation grants in order to support the “development of the legal system for the market economy, governance improvement for enhancement of democracy that affects development of sound market economy, and legal system improvement for the establishment of the rule of law.”

Another significant step undertaken by Japan in relation to human resources development can be observed in the example of Japan Centers for Human Resources Development that were established in three countries in Central Asia, including Kyrgyzstan. These centers tend to deliver the necessary capacity building training and share expert knowledge, and, therefore, serve as an effective tool for increasing country’s potential for economic growth.

5. Conclusion

As described in this paper, over the last two decades, Japan has been providing a significant amount in foreign aid to support the economic development process in Central Asia and the Caucasus. In addition to serving as a main instrument for the maintenance of regional development, Japanese ODA has also served as a main tool for establishing bilateral relationships and supporting Japan’s foreign policy objectives in recipient countries. Despite the fact that Japan has been pursuing a similar development policy objective — the achievement of sustainable economic development in both countries — Japan has been practicing different tactics to operationalize this goal in target countries.

The development policy areas for both regions were set taking into account the socioeconomic situation in respective countries and was focused mainly on stimulating economic development, human resources development, capacity development, and infrastructure development. These areas were set and deemed by Japan as important to gain a long-term impact on economic growth and regional development in Central Eurasia.

The study has shown that majority of Japanese development projects, in general, resulted positively on recipient countries. This was achieved owing to transmission of Japan’s funding and expertise through the established country assistance program. As exemplified in the paper, the ODA policy set by Japan enabled Armenia to benefit from receiving technical assistance to support its agricultural and private sectors. This in turn has served as an important factor in revitalizing the local economic development of the country. In Kyrgyzstan, Japanese efforts to support the revitalization of the Kyrgyz economy was limited to the provision of technical assistance and implementation of infrastructure development projects. These projects had less impact on economic development in the country since projects implemented under the Japanese ODA scheme had less exposure and generated less economic opportunities to scale up the country-wide development process. Nevertheless, unlike the Armenian case, in Kyrgyzstan, Japan’s efforts to spur the economic development of the country were accomplished by multi-vector operations in the areas of transport infrastructure, agricultural development, social development, and human resources development. These projects were deemed as crucial in supporting local communities and enabling them to benefit from Japanese expertise and technology.

Japanese interaction with countries beyond Southeast Asia also denotes its strong aspiration for maintaining extended and closer ties with the countries of Central Asia and the Caucasus. The ODA serves for Japan as a crucial postwar innovative mechanism for the transmission of its material and non-material resources that have been utilized by Central Asian and South Caucasian recipient countries for the achievement of their economic development gains. The further direction of Japanese development assistance to the target countries can make a greater contribution to the achievement of their economic development goals if it was focused on supporting not only infrastructure development projects but would also integrate local capacity building projects, which, in turn, may create a greater and significant economic value to spur the overall economic development of recipient countries. Provision of support to local community empowerment projects can also ensure that development projects implemented by Japan benefit not only the central government but may also increase grassroots development prospects.

33 Supra n.25.
References


