JAPAN'S TWO-TRACK AID APPROACH

The Forces behind Competing Triads

Saori N. Katada

The seemingly solid commitment of the Japanese government supporting the country's position as the world's largest aid donor since 1989 is now in question. In August 2001, the Ministry of Foreign Affairs (MOFA)—the main aid ministry—submitted an official development assistance (ODA) budget request for the 2002 fiscal year (FY) that was 10% below that of the previous year. Japan's decade-long economic recession and budgetary difficulties had produced a first attempt to reduce the ODA budget in 1997 when then-Prime Minister Hashimoto Ryutaro announced a 10% cut from the FY1998 ODA budget. But the move coincided with the onset of the Asian financial crisis, which required the Japanese government to continue providing significant amounts of foreign aid to alleviate the crisis's effects; as a consequence, the amount of aid remained high, standing at $15.3 billion in 1999.[1]

After having been criticized for the low quality of its aid for three decades, the Japanese government gradually built up self-confidence in its aid performance throughout the 1990s. By 1996, the Japanese government could

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1. Press statement by the Development Assistance Committee (DAC) chairman, May 12, 2000. Japan's ODA sharply declined in 2000 to $13 billion, but the country still maintained its top ODA donor status. Press statement by DAC Chairman Jean Claude Faure, December 12, 2001, <http://www.oecd.org/oecd/pages/home/displaygeneral/0,3380,EN-home-notheme-2-no-no-no-0,FF.html (accessed February 15, 2002).

state in its ODA White Paper that Japan's aid should not only address the problems of poverty, the global environment, and the population explosion but also improve the welfare of people in developing countries and thus protect, for example, the Japanese people's high standards of living.[2] But during this time, and with the government facing pressures from a struggling domestic economy, there emerged a curious bifurcation of aid objectives and approaches. On the one hand, the Ministry of International Trade and Industry (MITI) began pushing for aid to once again be tied to private sector activities, in this case, increased involvement in vast infrastructure projects around Asia financed by Japanese ODA. Along this same line, the New Miyazawa Initiative put forth by the Ministry of Finance (MOF) in 1998 earmarked the ODA increases of 1998 and 1999 for crisis-ridden Asia but with many strings attached. But on the other hand, MOFA has emphasized directing ODA outlays toward more humanitarian and "people-centered" aid projects, with a focus on the social sector and environment. The emphasis on aid quality helped Japan to become the top donor to many extremely poor African and South Asian countries and Japanese aid to these countries now has a significantly larger grant element.

Thus, the puzzle is why there was this increase in the internal inconsistencies of Japan's foreign aid policy in the 1990s. One track became concerned with Japan's business interests, particularly among relatively high-income Asian neighbors, while the other stressed Japan's benevolent side through humanitarian, environmental, and grassroots foreign aid activities. The inconsistency is all the more puzzling because the 1992 ODA Charter was introduced precisely to provide a consistent overall framework for Japan's foreign aid philosophy. As the 21st century begins, there are several questions on the direction of Japan's aid policy that are worth answering: What was it that motivated making these changes to the Japanese government's foreign aid policy in the 1990s? What constitute the underlying forces that produce inconsistencies? And finally, given that a substantial ODA budget cut is in the offing, in which direction is Japan's ODA going?

Hook and Zhang have already noted the emergence of two ODA discourses. They explained the humanitarian posture (MOFA discourse) of foreign aid as being a mere façade or rhetoric intended to circumvent criticisms from abroad and justify the country's ODA practices while in reality, Japan's traditional mercantilist aid (MITI discourse) continues.[3] Although there seem to be some elements in which the Japanese government's pursuit of humanitarian objectives resulted from peer pressure among donors, I argue

2. Government of Japan, MOFA, *Japan's ODA 1996* (Tokyo: MOFA, 1997).

3. Steven H. Hook and Guang Zhang, "Japan's Aid Policy since the Cold War: Rhetoric and Reality," *Asian Survey* 38:1 (November 1998), pp. 1051–66.

and demonstrate in the following sections that the schizophrenia of Japan's ODA in the 1990s is the product of domestic budgetary and political realities.

The MITI and MOFA discourses are meant to satisfy the different domestic audiences important to each ministry—the business sector in the case of MITI, the general public in the case of MOFA. MOFA is concerned about the interdependence that constitutes the basis of Japan's "people-centered" or "soft" foreign aid. In contrast, MITI (as well as MOF) has expressed its own concerns about the regional economy with respect to the regional concentration and retying of Japan's foreign aid seen since the mid-1990s. Just as each ministry has a specific domestic clientele, each of those clienteles has quite distinct interests when it comes to foreign aid policy. But importantly, institutional and budgetary constraints on foreign aid have made it inevitable that the MOFA discourse will have a great impact on Japanese foreign aid policy for the near future. The question then arises as to how this discourse's current predominance affects the future course of Japan's foreign aid.

On a theoretical level, the analysis that follows lends support to an institutionalist view of foreign policy. In it, I examine how bureaucratic and domestic politics interact to produce policy outcomes. The article begins with a brief outline of the existing debate on determinants of Japan's foreign aid. It then analyzes the evolution in Japanese foreign aid characteristics using statistical data and public information. The discussion next turns to the question of why two different trends, one of neo-mercantilism and the other of people-centered foreign aid, coexist. Finally, I conclude the article by tying these arguments to a theoretical discussion of international relations and Japan's current position as a large aid donor.

Japan as the Top Aid Donor

How are Japan's foreign aid policy goals determined? Driven by its own interests, Japan uses its foreign aid to overcome the constraints that both the domestic and international environment imposes on the government. In the past, two clusters of conventional understanding have dominated how the nature of Japan's aid giving is understood.[4] The first cluster holds that Japan's aid is mercantilist in nature. Although the amount of tied aid within Japan's overall ODA disbursement had significantly decreased by the early 1990s, many scholars argue that the country's aid determinations are still strongly

4. A newer third cluster considers Japan's "statecraft" in terms of aid sanctions. See William J. Long, "Nonproliferation as a Goal of Japanese Foreign Assistance," *Asian Survey* 39:2 (March–April 1999), pp. 328–47. For a summary of this perspective, see Saori N. Katada, "Why Did Japan Suspend Foreign Aid to China? Japan's Foreign Aid Decision-making and Sources of Aid Sanction," *Social Science Japan Journal* 4:1 (April 2001), pp. 39–58.

influenced by domestic business interests.[5] It was the corporatist nature of the Japanese state, with the close ties between the government and big business, that produced the close connection between foreign aid and business interests. Moreover, it has conventionally been understood that the very character of Japan's foreign aid, which is on a "request basis," has enabled Japanese businesses operating in the recipient countries to influence the specifications and allocation of the government's foreign aid.

The second cluster of conventional understanding is that Japan's foreign policy behavior has been shaped by the "reactive" nature of the country's policy making processes, particularly in response to U.S. pressure.[6] Scholars who take this view have discussed how the Japanese government has collaborated with the U.S. over the nature of its foreign aid policy.[7] Japan has also been highly sensitive to criticisms by other major donors. Obviously, international bodies such as the Organization for Economic Ccooperation and Development (OECD) and the consultative bodies on aid within it such as DAC provide fora for peer pressure on improving aid quality and policy coordination and Japan is not alone in being affected by this. Some scholars also explain such convergence of aid practice on the basis of international regime analysis. Pointing to the recent shift toward humanitarian objectives in the foreign aid behavior of many donors, Lumsdaine asserts that an international aid regime is emerging that is based on humanitarian morals and emphasizes values such as vision, hope, commitment, and conviction. He argues that it is not merely economic and political interests but humanitarian and egalitarian concerns in the donor countries that drive foreign aid and the international foreign aid regime.[8]

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5. Recent examples of this thesis can be seen in David Arase, *Buying Power: The Political Economy of Japan's Foreign Aid* (Denver: Lynne Reinner Publishers, 1995); and Margee Ensign, *Doing Good or Doing Well? Japan's Foreign Aid Program* (New York: Columbia University Press, 1992).

6. Kent E. Calder, "Japanese Foreign Economic Policy Formation: Explaining the Reactive State," *World Politics*, vol. 40 (July 1988), pp. 517–41. For the application of the theory on Japanese foreign aid policy, see Akitoshi Miyashita, "Gaiatsu and Japan's Foreign Aid: Rethinking the Reactive-Proactive Debate," *International Studies Quarterly* 43:4 (December 1999), pp. 695–731.

7. Those include William Brooks and Robert M. Orr, Jr., "Japan's Foreign Economic Assistance," *Asian Survey* 25:3 (March 1985), pp. 322–40; Dennis T. Yasutomo, *The Manner of Giving: Strategic Aid and Japanese Foreign Policy* (Lanham, Maryland: Lexington Books, 1986); and Ju-ichi Inada, "Japan's Aid Diplomacy: Economic, Political or Strategic?" *Millennium: Journal of International Studies* 18:3 (Winter 1989), pp. 399–414.

8. David Halloran Lumsdaine, *Moral Vision in International Politics: The Foreign Aid Regime, 1949–1989* (Princeton: Princeton University Press, 1993). For critique of Lumsdaine's perspective applied to Japan, see Kato Kozo review of *Moral Vision* titled "Moraru to kokusai seiji" (Morals and international politics) in *Rebaiasan*, vol. 19 (1996), pp. 157–68.

The two clusters of conventional understandings on Japanese foreign aid have come about from the observation of the country's aid behavior over the past 20 years as well as the changes that have taken place since the end of the Cold War. Some scholars have observed Japan's shift from a mercantilist to internationalist orientation in the mid-1980s and concluded that the country's foreign policy focus has gone from an "earning strategy" to a "spending strategy."[9] Pursuit of the former strategy links foreign aid with overseas economic interests and serves to protect export market shares, secure natural resource imports, and facilitate foreign direct investment. The latter strategy would have foreign aid directed toward burden-sharing and regional security. The changing global and regional economic and security environment, together with Japan's increased economic power in the world economy (especially from its massive current account surplus and the strong yen), made it necessary and possible for the government to shift its foreign policy strategy in the "spending" direction.[10] Finally, one must also be aware of the indications that overlapping, underlying structures exist in Japan's foreign aid policy-making, which allow multiple factors to influence the Japanese government.

None of these theories adequately explain the increasing divergence seen in recent years of the two tracks that constitute Japanese foreign aid policy. This may be because many observers dismiss the emerging humanitarian focus in the country's foreign aid as simply a façade. The persistence of Japan's mercantilist aid practices also remains apparent. However, the emergence of a second track targeting humanitarian aid in the latter half of the 1990s, as discussed in the next section, seems to be solidly grounded.

Two Dimensions of Japan's Aid Characteristics: Elements of Change

Domestic institutional constraints and budgetary limitations help explain how the coexistence of the two tracks has been possible. In that sense, I am extending the approach taken by the seminal work of Rix into the 1990s, which considers bureaucratic institutions as an essential part of Japan's foreign aid policy-making.[11] To illuminate these various constraints, I will consider below the elements of change made visible through an analysis of the available data.

9. Ming Wang, "Spending Strategies in World Politics: How Japan Has Used Its Economic Power in the Past Decade," *International Studies Quarterly*, vol. 39 (March 1995), pp. 85–108.

10. Disagreement over this alleged change in Japan's policy comes from Hook and Zhang, who argue that Japan's traditional "geo-economic" characterization still dominates Japan's aid giving in the 1990s. See "Japan's Aid Policy," pp. 1051–52.

11. Alan Rix, *Japan's Economic Aid: Policy-making and Politics* (New York: St. Martin's Press, 1980).

TABLE 1 *Top Ten Donors in the 1980s and 1990s* (US$ million)

	1985		*1989*		*1995*		*1999*	
1	U.S.	9,403	Japan	8,965	Japan	14,489	Japan	15,302
2	Japan	3,797	U.S.	7,677	France	8,443	U.S.	9,135
3	France	3,134	France	5,802	Germany	7,524	France	5,494
4	Germany	2,942	Germany	4,948	U.S.	7,367	Germany	5,478
5	Canada	1,631	Italy	3,613	Netherlands	3,226	U.K.	3,279
6	U.K.	1,530	U.K.	2,587	U.K.	3,202	Netherlands	3,134
7	Netherlands	1,136	Canada	2,320	Canada	2,067	Italy	1,750
8	Italy	1,098	Netherlands	2,094	Sweden	1,704	Denmark	1,724
9	Sweden	840	Sweden	1,799	Denmark	1,623	Canada	1,721
10	Australia	749	Australia	1,020	Italy	1,623	Sweden	1,643
Total DAC		30,743		45,735		58,926		55,993

SOURCES: OECD, DAC, *Development Report* (Paris: OECD, 1986, 1990, 1996, 2000); and DAC, "Net Official Development Assistance from DAC Countries to Developing Countries and Multilateral Organizations," at <http://www.oecd.org/oecd/pages/home/displaygeneral/0,3380,EN-document-notheme-2-no-1-2879-0,FF.html>.

Japan as the Largest Aid Donor

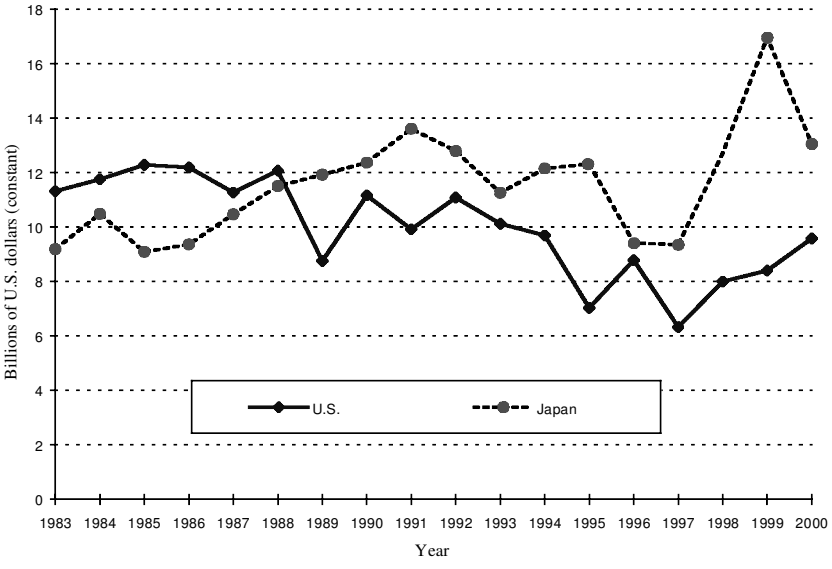
Japan has come a long way as an aid donor since it began its technical cooperation, reparation aid, and loan aid programs in the 1950s. By the mid-1980s, Tokyo had increased its aid commitment to such an extent that the country was praised by the OECD as one of the few aid donors to be rapidly increasing its aid to developing countries.[12] In fact, Japan was the only country among the top 10 aid donors to have demonstrated such a dramatic ODA increase that decade (see Table 1).

In absolute terms, Japan became the largest ODA donor in 1989. It is true that the marked increase of Japanese foreign aid in dollar terms was helped by the yen's rapid appreciation since the mid-1980s. But at the same time, the Japanese government continually increased the budget allocation to ODA, a fact indicative of the government's strong commitment to providing developing countries with additional financial resources. One-third of these funds traditionally have been disbursed through multilateral organizations such as the United Nations and multilateral development banks, while the remaining two-thirds have been distributed through bilateral channels.

Even compared to the traditional aid hegemon, the U.S., Japan's aid performance on the quantitative side has been quite impressive (see Figure 1). When the U.S.'s non-ODA (i.e., military aid) debt forgiveness was excluded from the figures and price and exchange rate changes are controlled, the

12. OECD, DAC, *Development Cooperation, Annual Report 1995* (Paris: OECD, 1995).

FIGURE 1 *ODA by Japan and the U.S., 1983–2000*



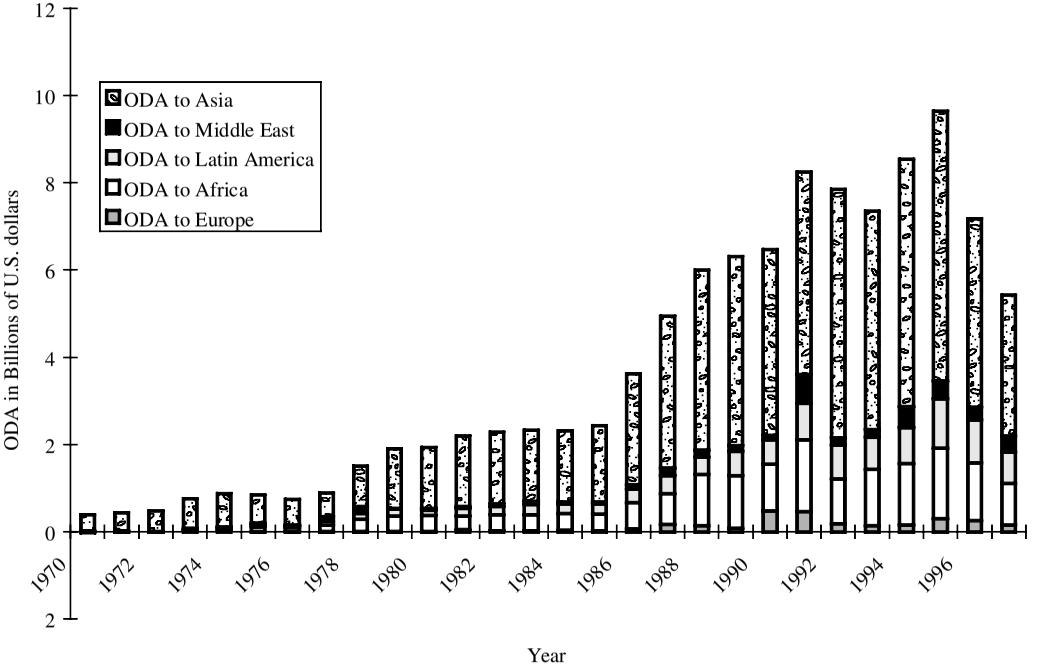
SOURCE: OECD, DAC, *Development Cooperation Annual Report* (Paris: OECD, 1995 and 2001), table 8.
NOTE: 1993 prices and exchange rates. For the U.S., figures for non-ODA debt forgiveness (1990–92) are excluded.

ODA trend between 1983–2000 shows that Japan has been the world's largest aid donor since 1989.

The regional allocation of Japan's ODA has been largely consistent with the government's emphasis on aid to Asia (see Figure 2). Even in the 1990s, when many of those Asian countries—particularly in East and Southeast Asia—saw rapid increases in their per capita gross national product and industrial capacity, more than 60% of Japan's ODA continued to go to the region. After the onset of the Asian financial crisis in 1997, the concentration of Japan's aid in the region strengthened.

Another aspect of Japan's position as number one aid donor can be seen from the recipient countries' perspective. In the 1990s, they experienced a dramatic increase in the share of Japanese ODA within their overall ODA receipts. Japan was the top donor for 28 countries in 1990; this rose steadily to 34 countries in 1993 and 55 in 1995 and 1997. These countries include not only the obvious ones of East and Southeast Asia—Indonesia, Singapore, Philippines, Malaysia, Thailand, and China—but also such poor South Asian

FIGURE 2 *Regional Allocation of Japan's ODA, 1970–1997*



SOURCE: OECD, DAC, *Geographical Distribution of Financial Flows to Developing Countries* (Paris: OECD, various issues).

and African countries as Bangladesh, Kenya, and Ghana. Among those countries for which Japan is the largest donor, Japanese ODA constitutes 30%–90% of their total aid receipts.[13]

The "Quality" of Japanese Aid

Besides the regional concentration of Japanese ODA in Asia, where per capita incomes have been relatively high since the mid-1980s, certain other characteristics of Japan's aid have continuously damaged its "quality" as described by the DAC. The first is its sector allocation. Historically, Japan has emphasized physical infrastructure: ports, roads, and dams. This has been considered an extension of domestic public investment projects, which the Japanese government finances and the country's general contractor (*zenekon*) construction companies implement. As a consequence, Japan's ODA is heavily concentrated on what the DAC defines as the "economic infrastructure and services" sector, which includes transportation, communication, and energy businesses as well as financial services and the like. The concentration was much more evident in the 1980s than the early 1990s (see Figure 3). In the early 1980s, 44% of Japan's ODA went to this sector and remained at comparable levels through the rest of the decade.[14] Although the concentration of aid to this sector declined somewhat in the early 1990s (33% in 1992/93),[15] it has bounced back as Japan's recession continues into the 21st century and remains significant.

At the same time, it is important to note that the Japanese government clearly started to allocate more of its ODA to the social sector in the 1990s. "Social infrastructure and services" accounted for 22% of Japan's ODA in 1996/97, an almost 10% increase from 1982/83 (see Figure 3). The numbers provide a mixed picture regarding Japan's real intentions: Is Japan improving its aid quality in accordance with DAC guidelines, or is it just sticking to the same old mercantilistic aid?

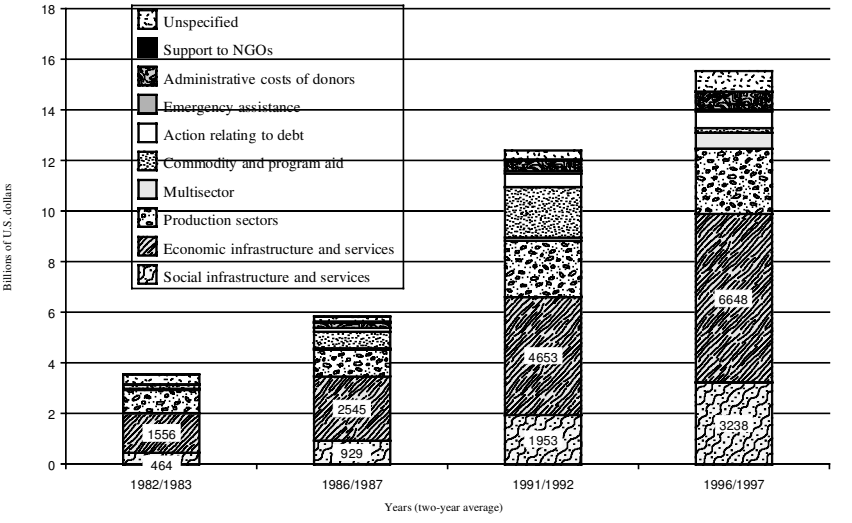
The other quality indicators of aid giving are the tying status and the grant element of ODA. In the early stages of Japan's foreign aid giving, developing countries as well as DAC members criticized the high level of aid that was tied to the recipient country's purchases, procurements, and contracting. The tying of aid is problematic because of the increase in costs associated

13. MOFA, *ODA Annual Report* (1992–99).

14. Comparison to other DAC members also indicates the strong concentration of Japan's ODA in this sector. In 1993, when Japan showed one of its lowest concentration of ODA in the economic infrastructure sector at 37%, the only other DAC member that exhibited higher concentration was Spain (45%). The average of all the DAC members between 1992/1993 was 17.6%. See OECD, DAC, *Development Cooperation, Annual Report 1995.*

15. OECD, DAC, *Japan 1999*, no. 34 of *Development Cooperation Review Series* (Paris: OECD, 1999).

FIGURE 3 *Sector Allocation of Japan's Bilateral ODA, 1980s and 1990s*



SOURCE: OECD, DAC, *Development Cooperation Review Series, Japan,* no. 13 (1995) and no. 34 (1999).

with it, which is estimated at 15% to 30% higher than market prices for the same services.[16] In addition, aid tying discriminates against other bidders (including those from developing countries) in favor of internal (or national) public works. Since the mid-1980s, the Japanese government has untied its aid, even the yen loans implemented by the government's Overseas Economic Cooperation Fund (OECF). As of 1996, Japan boasted one of the highest untied ratios in its ODA (98.9%), which was considerably higher than that of such countries as the Netherlands (82.2%) and Denmark (61.3%) that are thought to implement much more humanitarian aid than Japan.[17] The U.S. has one of the lowest untying ratios, with only 28.4% of its aid untied versus 71.6% tied. Nevertheless, as most of the aid channeled to Asia

16. Catrinus Jempa, *The Tying of Aid* (Paris: Development Centre of the OECD, 1991).

17. Critics of Japan's foreign aid have argued that these official numbers disguise the reality where many "behind-the-scene" and "political" connections make the difference in the bidding procedures. See Ensign, *Doing Good*, ch. 3.

through the 1998 New Miyazawa Initiative was tied, the ratio of Japan's untied aid declined measurably to 86.4% by 2000.[18]

Another indicator of aid quality is the grant element of ODA. Other donors had repeatedly criticized the Japanese government for the low level of the grant element in its ODA. Because almost half of the funds for Japanese foreign aid comes from the Fiscal Investment Loan Program (FILP, or *zaisei toyushi*) and the remaining half from the central government's general accounting budget, Japan's ODA has tended to be loan dominant.[19] Even though such yen loans carry extremely low or no interest and thus qualify as ODA, the predominance of concessional loans (as opposed to grants) makes the grant element of Japan's ODA low.[20] Japan's total ODA carried a 73.5% grant element in 1981 and 1982. In 1993–94, it still carried 78.9%. As of the late 1990s, Japan still maintains the lowest grant element of all the DAC member countries and, despite continuing criticisms, this trend persists.[21]

Japanese policy-makers often defend the continued preference for concessional loans over grants on several grounds. First, because of Japan's own developmental experience, its government believes in self-help. Foreign aid in the form of loans should steer recipient countries toward making conscious choices regarding the most efficient and wise use of financial resources as they make efforts to pay back what they borrow, thus avoiding waste and corruption. Second, the geographical distribution of aid loans and grants must be considered. Because much of Japan's ODA goes to relatively high-income Asian neighbors (see Figure 2), the government feels justified in its allocation of yen loans to these countries. Its grants tend to go to low-income countries with a lesser ability to pay them back. As the data show, the grant element of Japan's bilateral ODA to Least Developed Countries (LDCs) is around 94%, much higher than Japan's overall average, although these financial terms (essentially grant element numbers) for LDCs are the worst among all DAC members.

Finally, one must also bear in mind recent budget conditions in Japan that have made it more difficult to provide grants. To maintain the overall vol-

18. OECD/DAC Development Co-operation, *Annual Report,* 2001.

19. Most of the FILP comes from Japan's postal savings.

20. The grant element refers to the financial terms of aid commitment, which takes into account interest rates, maturity, and grace period (the interval to the first repayment of the principal). The higher the grant element, the closer it is to a pure grant. If a loan carries a market-interest rate, the grant element for that loan is zero. A concessional loan has to have a grant element that is higher than 25% to qualify as ODA.

21. Many countries have 100% grant element, meaning they give only grants. For the two years under consideration, the average was 90.0%. Japan's grant element was 86.6% in 1999–2000, which was an improvement for its performance, but during this time no other DAC members had a grant element lower than 90%. See DAC, *Development Cooperation, Annual Report, 2001*, table 20.

ume of ODA disbursements, especially to those Asian countries whose access to credit was (temporarily) cut off by the regional financial crisis, grant elements had to be sacrificed.

Other Elements of Change

There have been a few more important qualitative (not "quality") changes to Japan's aid policy in the 1990s that have not necessarily been reflected in the data. The first such transformation could be seen in the introduction of the "ODA Charter" (*ODA taiko*) in the middle of 1992. The charter is Japan's first attempt to codify and declare its aid philosophy. It emphasizes four pillars: *(a)* environmental protection and sustainable development; *(b)* no use of aid for military purposes; *(c)* attention to excessive military expenditures, production of weapons of mass destruction, and arms trade; and *(d)* promotion of market economy, democratization, and securing human rights. With the charter's codification, the government not only committed to certain values and goals in its aid giving, it also laid the basis for transforming its aid from a "request basis" model to a "consultative" one.[22] Having laid the foundation, the Japanese government began to take a country-strategy approach in which the government implements five-year programs specific to each participant country. As of 1998, 24 countries were engaged in such country program dialogues.[23]

The second qualitative transformation of Japan's ODA is associated with the country's ongoing administrative reforms. Unlike many major donor countries, Japan does not have a single ministry that oversees the ODA policy and implementation. Under the so-called four-ministry system (*yonsho taisei*) of aid, MOFA, MOF, MITI, and the Economic Planning Agency (EPA) coordinated Japan's foreign aid policy. When the Administrative Reform Council launched by Prime Minister Hashimoto in 1996 deliberated restructuring Japan's administrative system to streamline its bureaucracy, it considered the establishment of an Aid Agency or ODA Agency. Other interested parties responded with their own proposals. Keidanren (Japan Federation of Economic Organizations) advocated the most forthright scheme in April 1997, which called for the creation of an International Cooperation

22. Alan Rix, *Japan's Foreign Aid Challenge: Policy Reform and Aid Leadership* (New York: Routledge 1994), pp. 99–101. The charter also provides a basis for aid suspension to various countries on democratic and anti-military bases.

23. The 24 countries consist of 13 from Asia (Indonesia, Vietnam, Thailand, China, Philippines, Malaysia, Mongolia, Laos, India, Sri Lanka, Nepal, Pakistan, and Bangladesh), two from Middle East (Egypt and Jordan), five from Sub-Saharan Africa (Ghana, Kenya, Zimbabwe, Senegal, and Tanzania), and four from Latin America (El Salvador, Nicaragua, Brazil, and Peru). Each country has different developmental emphases ranging from BHNs to environment to economic infrastructure.

Agency. Despite such proposals, the administrative reform debate has yet to produce any drastic change in the administrative structure of ODA.[24] Nevertheless, the Council recommendation did lead the government to remove the EPA from the four main aid ministries and put MOFA in charge of aid coordination.

Moreover, as a part of the special corporations (*tokushu hojin*) reform initiated in the first half of the 1990s, the cabinet decided in 1995 to merge the OECF, Japan's ODA loan implementing agency, and the Export Import Bank of Japan (JEXIM Bank). The new institution, Japan Bank for International Cooperation (JBIC), began operating in October 1999, administering both ODA and non-concessional lending from Japan to developing countries under MOF jurisdiction. So far, the merger has not had any visible effect on Japan's aid performance. However, the merger has sparked some worries because the central objective of the JEXIM Bank, the larger of the two institutions, is to support commercial interests of Japanese businesses. Commenting on the development, the DAC noted in 1999 that the expected OECF/JEXIM merger aroused "concern over how the integrity of the ODA function can be preserved in the face of shared and [sic] technical staff."[25]

Furthermore and most importantly, there has been an ongoing and fundamental reform of the FILP. The changes will gradually phase out the FILP being allocated to various special corporations, to be replaced by many of these corporations issuing so-called FILP Institution Bonds starting April 2001. These are domestic bonds without government guarantee designed to make up for the corporations' revenue shortfall as result of the reduced FILP. Under this scheme, JBIC issued 5-year and 10-year domestic bonds in October 2001, each worth ¥ 50 billion ($400 million at $1 = ¥ 125).[26] It is clear that accountability, transparency, and the viability of the organization has become increasingly important for attracting investors. The reform of FILP

24. Hirata argues that the Administrative Reform Council did not pursue the idea of an Aid Agency further because *(a)* it wanted to reduce the number of ministries and agencies and not add one; *(b)* ODA involves too many ministries to achieve easy consolidation; and *(c)* the idea never became a priority in the council's deliberation. See Keiko Hirata, "New Challenges to Japan's Aid: An Analysis of Aid Policy-Making," *Pacific Affairs* 71:3 (Fall 1998), p. 332.

25. See DAC, *Development Cooperation Review: Japan* (Paris: OECD, 1999), p. 33. Actually, the OECF originally separated from the JEXIM about four decades ago.

26. See Government of Japan, MOF, "Summary of the Discussion Concerning Framework of the Fundamental Reform of the Fiscal Investment and Loan Program," <http://www.mof.go.jp/english/zaito/zae054b.htm> (accessed September 3, 2001>. JBIC also issued $2.3 billion worth of government guaranteed bond in FY2001. Thus far, the bonds have been issued only to fund the nonconcessional portion of JBIC's loan activities. See http://www.jbic.go.jp/japanese/investor/seihu/index.php> and <http://www.jbic.go.jp/japanese.investor/zaitou/index.php> (accessed February 15, 2002).

and general fiscal constraints have effected a major transformation of Japan's ODA funding environment.

Finally and concomitant with institutional and budgetary changes, the Japanese government went through a rethinking process over its ODA policy in the late 1990s. As discussed later, ODA reform was also MOFA's response to changes in the international and domestic environment for foreign aid. The topic was one taken up by the Council on ODA Reforms for the 21st Century, a MOFA consultative body comprising academics, businesspeople, members of the press, and nongovernmental organizations (NGOs). In January 1998, this body submitted its final report, recommending that humanitarian goals be adopted for Japan's ODA and emphasizing the importance of efficiency and effectiveness in implementing a uniform and consistent ODA policy.[27] Other government-related councils and committees recommended reform in the course of 1998 and 1999. These various recommendations ultimately fed into the medium-term policy on ODA announced in August 1999. It stressed the importance of "human-centered development" to achieve development that would be comprehensive and sustainable overall.[28]

In sum, the Japanese government managed to maintain the country's number one aid donor status for more than a decade despite an economic and fiscal downturn. Japan provides about a quarter of total ODA globally and is now the top donor to more than a third of the countries in the developing world. During these years, the nature of Japanese foreign aid has also seen a partial transformation. On the one hand, such developments as the introduction of an ODA Charter, an increase in soft ODA to social and human resource sectors, and some increase in grant aid, especially to the low-income developing countries such as those in Africa, demonstrate an overall shift in ODA policies toward humanitarian goals.[29] On the other hand, and especially in the latter part of the 1990s, Japan's ODA began to accommodate explicitly national economic interests. In the aftermath of the Asian crisis in particular, the retying of financial assistance and the involvement of the private sector in foreign aid policy for Asia became cornerstones of Japan's ODA policy. Interestingly enough, the two distinct directions in the coun-

27. MOFA, *Council on ODA Reforms for the 21st Century Final Report*, <http://www.mofa/go/jp/policy/oda/reform/report21.hml> (accessed August 23, 2000).

28. For background on both the recent ODA reforms and Japan's 1999 medium-term policy on ODA, see MOFA, *ODA Annual Report 1999*, <http://www.mofa.go.jp/policy/oda/summary/1999> (accessed December 20, 2001).

29. In addition, the "greening" of Japan's ODA has also become quite prominent, with a new emphasis on supporting environmentally friendly development. See Eric Altbach "Japan's Foreign Aid Program in Transition: Leaner, Greener—with More Strings Attached?" *JEI* [Japan Economic Institute] *Report*, February 6, 1998.

try's ODA policy are both derived from domestic and bureaucratic self-interest.

The MITI/MOF/Business Triad: Foreign Aid to Asia

As can be seen from the analysis of Japanese aid characteristics in the 1990s, business interests or the mercantilist nature of foreign aid continue to have an influence. Particularly intriguing is the fact that the government began to retie its ODA in the latter half of the 1990s after having presented one of the best performances among DAC members in untying aid. What explains this reversion back to Japan's "old ways" in foreign aid in the 1990s? Was it a continuation of the same mercantilist policies, or was there something else going on? I argue that the reemergent trend in tied aid to Asia is a product of Japan's domestic and bureaucratic political reality; more than just material and business interests are driving the government's policy making. Asia's experience of miraculous economic growth from the 1980s into the 1990s, the Japanese government's experience of a decade-long recession, and the events surrounding the Asian economic crisis of 1997–98 have all contributed to this relapse.

From the late 1980s into the 1990s, as Asia's "miracle economies" prospered and many began to discuss the so-called Japanese economic model and that country's leadership in the field of international development, the Japanese government promoted its original ideas and strategies for economic development via foreign aid and within development agencies. There was a major tug-of-war between the Japanese government and the World Bank regarding the government's role (especially its industrial policy) during the preparation of the Bank's 1993 publication, *The East Asian Miracle*. The still-confident Japanese of the early 1990s insisted that the neoliberal way to economic reform (i.e., the so-called Washington Consensus, which heavily emphasizes private market forces) pursued by international financial institutions (IFIs) was not the only way to enhance the economic development of poor countries. Supported by evidence from Japan's own economic growth experience and the economic successes of East Asian countries dependent on Japanese ODA, the Japanese government (mainly MOF) insisted that the Japanese model of development worked.[30]

Furthermore, economic development and the industrial upgrading of many Southeast Asian countries have been dependent on the "visible handshake" between the Japanese government and the Asian countries that ODA represents. As "the government-business network [in Japan] began promoting a

30. Robert Wade, "Japan, the World Bank, and the Art of Paradigm Maintenance: The East Asian Miracle in Political Perspective," *New Left Review*, no. 217 (May/June 1996), pp. 3–37.

new division of labor within the region [Asia]," ODA came to be the most important link tying Japanese business to the Japanese government in constructing a strong and stable regional economy and production alliance.[31] Therefore, foreign aid became an integral part of the country's economic regionalization strategy in the 1990s. As might be expected, MITI was at the center of both the strategy's elaboration and the government-business network around it.

But as Japan's recession continued into the mid-1990s, the government found itself the object of criticism from the business sector for having allowed many high-income developing countries to compete too successfully against Japanese firms on aid projects. By this time, such East Asian countries as South Korea and Taiwan had achieved high levels of industrial success and become economic rivals to Japanese manufacturing and construction companies. Because Japanese companies usually could not compete with companies from these countries on the cost of implementing aid projects, many projects went to Korean and Taiwanese firms.[32] Because it faced the tight budgetary environment, the Japanese government responded to these criticisms by increasing private involvement in the country's ODA projects. The initiative came from MITI's Economic Cooperation Committee in February 1996. It recommended that Japan's financial assistance to developing countries should be used primarily to lower the risks of infrastructure investment undertaken by private investors. It also called for ODA to be used to underwrite the elements of each project having a "public nature."[33]

Hence, Japan's economic relations with Asia have given the government strong reasons to continue its traditionally mercantilist and infrastructure-oriented aid. The objectives arising from this foreign aid track are first to defend Japan's approach to policy-led economic development in the region and second to solidify the hierarchy of the regional production network. Meanwhile, the tremendous economic and fiscal stresses on the private sector and big business have led them to intensify their pressure on the government (especially on MITI and, to some extent, MOF) to prioritize the commercial benefits of foreign aid.

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31. See Walter Hatch and Kozo Yamamura, *Asia in Japan's Embrace: Building a Regional Production Alliance* (Cambridge: Cambridge University Press, 1997), pp. 115–29.

32. A fairly substantial part of Japanese yen loans were LDC tied in the 1990s; these allow only companies from developing countries and Japan to engage in the bidding process. The complaint by the Japanese business sector was reiterated during my interview with an official from the Engineering Consulting Firms Association (ECFA), a semi-governmental consulting firm, in June 1997, Tokyo.

33. Christopher Johnstone, "Japan's Foreign Aid: New Approach, New Controversy," *JEI Report*, No. 40A, October 25, 1996.

The 1997 Asian crisis put additional pressures on the Japanese economy, given the private sector's large exposure and interests in the region. The government, particularly MOF, was also quite concerned as the so-called Asian economic model became discredited and many creditors began blaming Japan for the prolonged crisis. The government did take steps to alleviate the crisis. First, within a month after the onset of the crisis it helped assemble a $17.2 billion International Monetary Fund (IMF)-based rescue package for Thailand, the country that experienced the first of the series of regional financial crises. Then, despite Japan's own economic and budgetary difficulties, the government elected to continue its strong regional financial commitment as a means of solving the crisis. Overall, Japan had the highest bilateral financial commitment to the Asian countries that underwent IMF-led rescue operations (the Philippines, Indonesia, Thailand, and South Korea).[34]

The New Miyazawa Initiative was the highlight of the Japanese government's response to the crisis. Announced in October 1998, it was by far the most comprehensive of all the packages associated with managing the Asian crisis. A total of $30 billion in the form of medium- and long-term loans—both ODA and from the JEXIM Bank—and loan guarantees was committed to support Asian economic recovery. By the end of 1999, the government had earmarked $80 billion in support of the Asian economies of which about $7 billion came in the form of ODA projects.[35] These economic assistance programs, which increased Japan's ODA total in 1998 and 1999 despite the 1997 announcement of an ODA budget cut, were intended to support not only the Asian countries hit by the crisis but the Japanese private sector as well. As noted above, the money channeled to Asia through this initiative has been tied to contracts with Japanese companies. With the exception of a small component of soft aid for the socially vulnerable, the majority of the funding went to economic infrastructure projects and increasing capital flows to the target countries.

With its reputation and leadership at stake, the financial crisis thus forced the Japanese government to vigorously defend its economic model, once so successful in the region. At the same time, Japan's foreign aid was needed to benefit the domestic business sector that had been major supporters of the country's mercantilist ODA programs but had been weakened significantly by both Japan's ongoing economic problems and the Asian crisis. In this context, the interests of MITI and MOF converged to create solid bureaucratic backing for a reversal of "good manners" in Japan's foreign aid giving.

34. Saori N. Katada, *Banking on Stability: Japan and the Cross-Pacific Dynamics of International Financial Management* (Ann Arbor: University of Michigan Press, 2001), chapter 8.

35. This $7 billion ODA includes assistance for economic structural reform (total about $5.8 billion), assistance to the socially vulnerable ($0.8 billion), and assistance for foreign students ($0.5 billion). See MOFA, *ODA Annual Report* (1999), chart 18.

TABLE 2 *Japan's ODA Budget Allocation among Ministries and Agencies, FY2000*

Ministries and Agencies	*FY2000 (million JY)*	*Cross-Ministerial Allocation (%)*
Foreign Affairs (MOFA)	560,260	53.5
Finance (MOF)	362,687	34.7
Economy, Trade & Industry (MITI)	48,727	4.7
Subtotal of three ministries	*971,674*	
Education, Culture, SST	48,979	4.7
Agriculture	8,183	0.8
Health, Labor and Welfare	12,640	1.2
Land, Infrastructure and Transport	1,465	0.1
Environment	637	0.1
Other	3,017	0.3
Subtotal	*74,921*	
Total ODA budget	*1,046,595*	

SOURCE: Government of Japan, Ministry of Foreign Affairs, "Shochobetsu ODA yosan: Ippan kaikei" [ODA budget by ministries: General budget], January 29, 2002, <http://www.mofa.go.jp/mofaj/gaiko/oda/siryo/siryo_4/siryo_4f.html>.

The MOFA Triad: MOFA, the General Public, and the "International Community"

How can one, then, explain the emphasis of Japanese foreign aid policy toward a more "people-centered" and humanitarian posture? Is this alleged shift only rhetorical without substance, as many suggest? Or is there anything beyond the dynamics of the MITI/MOF triad that influences the Japanese aid giving behavior? I argue that the emerging humanitarian emphasis is beyond rhetoric and that the ministerial politics of MOFA provides critical support for humanitarian and people-centered ODA.

As noted earlier, MOFA is one of the main ministries that influences the formation of ODA policy in Japan. MOFA, with its jurisdiction over the Japan International Cooperation Agency (JICA), has strong control over the use of grant aid and technical cooperation and captures over 50% of Japan's ODA budget allocation every year (see Table 2). In addition and in accordance with the administrative reform of the late 1990s, MOFA is in charge of ODA policy making and planning coordination in three areas: common ODA guidelines, cooperation by means of the provision of ODA loans, and technical cooperation. Meanwhile, MOF to which is allocated about 35% of the central budget (a share that increases significantly once the FILP portion of ODA is included) oversees the yen loans overseen by the JBIC and Japan's

financial commitments to the IFIs. Together, these two ministries capture more than 85% of the central ODA budget, with the other 17 ministries and agencies receiving the remaining 15% (4.7% to MITI in FY2000). One would expect the ODA budget allocation alone to make MOFA the most influential ministry when it comes to ODA policy.

Unlike MITI or MOF, MOFA lacks domestic political power, because MOFA does not have any influential domestic constituencies.[36] This lack of a domestic power base is a mixed blessing for the ministry. On the one hand, MOFA is relatively free from domestic special interest pressures, but on the other, it has to rely on the general public—a very unpredictable base—for support of its policies. Furthermore, because it lacks a domestic base, MOFA usually relies on the "international community" to justify its positions. In a way, the ministry becomes the channel through which selective foreign pressures are transmitted. That is to say, those foreign pressures that are useful to MOFA are allowed to filter in and then utilized by the ministry to achieve its own goals.

In the latter half of the 1990s, MOFA began to face challenges to its foreign aid policies. First, the emergence of Japan as the number one donor put a spotlight on what the country does with its massive ODA expenditures.[37] It was not that, as in the 1980s, the international aid community and developing countries began pressuring Japan to perform better so much as it was that the Japanese government (especially MOFA) started to see the considerable importance of and possible benefits accruing from being the top aid donor. MOFA shoulders the burden of dealing with how to function under the spotlight's glow, which it does by creating strong liaisons with international organizations, especially the DAC. Being the world's top donor, Japan was praised for its strong and much improved aid performance during the DAC aid review in November 1995. Cited for particular attention was MOFA's role in taking its "Global Issue Initiative" on population, HIV problems, and South-South cooperation in 1994.[38] MOFA also claims to have had major input in the establishment of the 1996 DAC guidelines for future development cooperation.[39] Commonly known as "Development Partnership Strategy: Shaping the 21st Century," they emphasize the improvement of the

36. See Daniel Okimoto, "Political Inclusivity: The Domestic Structure of Trade" in *The Changing International Context*, eds. Takashi Inoguchi and Daniel I. Okimoto, vol. 2 of *The Political Economy of Japan* (Stanford: Stanford University Press, 1987), pp. 305–44.

37. Hirata notes that aid fatigue of other donors and Japan's number one aid donor status have "raised expectations toward Japan for a leadership role" and other donors "pressed the Japanese government to improve its existing ODA program so that it will be more beneficial to the recipient countries as well as to the entire world." See Hirata, "New Challenges," p. 313.

38. OECD, DAC, *Development Cooperation Review Series, Japan*, no. 13, 1996, p. 37.

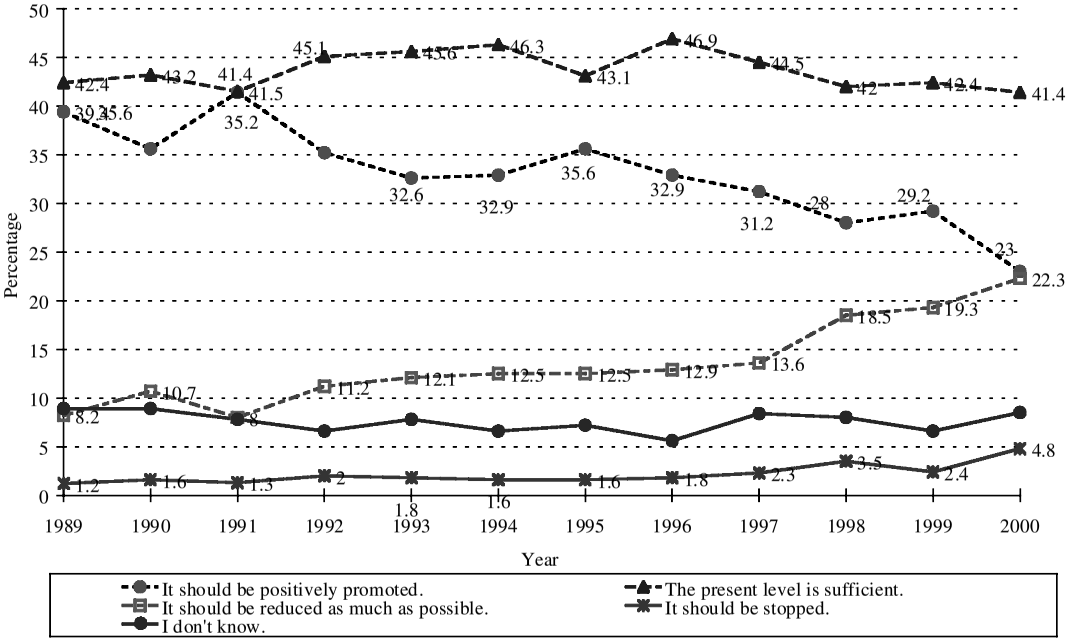
39. MOFA, *Japan's ODA: Annual Report 1999*, ch. 2, August 10, 1999, <http://www.mofa.go.jp/policy/oda/summary/1999/ref2_01.html> (accessed December 20, 2001).

living standards of the poor as the main objective of development cooperation. MOFA has taken such international consensus seriously, especially having played a major role in its creation. It tailored its 1999 mid-term policy on ODA closely to the international norm, translating it into the ministry's own mandate so as to create an ally for its stance against the MITI/MOF track.

A second challenge to MOFA's control over Japan's foreign aid policy direction came from domestic political considerations, including the country's constrained fiscal conditions. In the past and fortunately for MOFA, the Japanese public was quite supportive of the increased ODA (see Figure 4). This backing made it possible for the ODA budget to experience consistent growth since the 1970s and it was long considered a white elephant on the list of budget items. However, public opinion of ODA turned critical when Japan came to face its own economic and fiscal problems in the mid-1990s (see Figure 4). The percentage of those favoring an increase in ODA fell from 41.4% in 1991 to 23% in 2000, while those who thought ODA should be reduced as much as possible increased quite noticeably from 8% to 22.3% over the same period.

MOFA's response to these challenges has been to seriously transform the quality and targets of Japanese ODA and involve the public in helping others. Now that the government can no longer rely solely on the notion of "the more, the better," the quality and effectiveness of ODA have become critical. MOFA took various initiatives to improve the quality of Japanese ODA by incorporating soft aid that focused on basic human needs (BHNs) considerations, poverty alleviation, Woman in Development (WID) programs, and sustainable development including environmental aid. MOFA continues to support a general untied aid policy, which has been opposed by the business community. In addition, the ministry's foreign aid has also targeted to increase the involvement of Japanese citizens and NGOs. MOFA had established an NGOs' Assistance Division in the Ministry in 1989 and subsequently began actively offering financial support to domestic developmental NGOs. These funds grew tenfold from 1989 to 1997. The number of volunteers in the Japan Overseas Volunteer Cooperation also increased significantly through the 1990s, reaching 2,300 volunteers in 59 countries by 1998. Finally, in response to media criticism regarding corruption, inefficiencies, and a lack of transparency in Japan's ODA projects, MOFA began to contract citizen monitors to visit the aid projects it funds in developing

FIGURE 4 *Public Opinion Polls on Economic Cooperation, 1979–2000*



SOURCE: Prime Minister's Office, *Yoron-chosa (gaiko)* [Public opinion survey (foreign relations)], October 2000, <http://www.sorifu.go.jp/survey/gaikou/images/images/zu18.gif> (accessed October 20, 2001).

countries as another way to increase awareness and gain support from the general public.[40]

These efforts toward improving aid quality and the image of ODA among the Japanese public have allowed MOFA to respond to all three of the challenges it faces. First, improving the quality of aid has provided MOFA with a good international public relations tool it can use in the face of other donors and developing countries. More importantly, these soft aid projects require fewer funds than the larger economic infrastructure projects and thus do not constrain the limited ODA budget. Finally, the general public has welcomed the transformation of the country's ODA focus. In a 1999 survey conducted by the Prime Minister's Office, members of the public were asked to give reasons why Japan should promote economic cooperation. Almost half (46.5%) answered that because Japan is a rich country, it should help developing countries on a humanitarian basis. Furthermore, 26.9% of those who thought that ODA should be minimized said so because they believed Japan's ODA lacked transparency. For three-quarters of the public, then, it would seem that the humanitarian aid and citizen participation promoted by MOFA have appeal.[41]

Conclusion

More than a decade has passed since the developing world started to live in a reality that has Japan as the largest foreign aid donor, but analyses of Japan's aid giving behavior are still tied to old logic that sees Japan as an economic animal or a reactive state. In examining the various aspects of the transformation associated with Japan's aid performance in the 1990s, it is the domestic factors that stand out as keys to understanding the logic behind the new face of Japanese foreign aid. Three sets of conclusions can be drawn from this.

First, it is premature to conclude that certain elements of Japan's foreign aid are rhetorical and others are real simply because of the statistical predominance of one over the other. The humanitarian component of Japan's ODA arises from domestic reality as do the mercantilist ones and this domestic reality will support the continuation (and possibly strengthening) of the humanitarian position in the years to come. Second, although the end of the Cold War and increasing global economic interdependence have influenced Japanese foreign aid behavior, the changes in the country's aid policy in the 1990s cannot easily be explained by these structural factors alone. Agents—

40. See Hirata, "New Challenges," pp. 317–19; OECD, DAC, *Development Cooperation Review Series, Japan*, no. 34 (Paris: OECD, 1999); MOFA, *ODA Annual Report 1999*; and MOFA's ODA web page, <http://www.mofa.go.jp/policy/oda>.

41. Public opinion poll on foreign policy taken by Prime Minister's Office, October 2000, <http://www.sorifu.go.jp/survey/gaikou>.

in this case aid ministries and domestic actors—and their interests play a critical role at the time of transition in defining the direction of change. Finally, domestic politics and the institutional arrangements under which aid policy is formed have become an important part of Japan's foreign aid behavior. Because foreign aid decision making involves many actors with different interests, some inconsistency will inevitably arise. This explains the two-track aid approach.

In regard to more theoretical concerns, the foregoing analysis of Japan's foreign aid policy indicates how domestic institutions filter the pressures of domestic and international sources into policy outcomes. When the institutional foundation of certain aspects of foreign policy is fragmented, as in the case of Japan's aid policy, two (or more) clusters of policies can emerge.

One can predict with a certain level of confidence that foreign aid will continue to be an important part of Japan's foreign policy, for it is supported by both special and general domestic interests. However, given the ongoing political and budgetary pressure to reduce the ODA budget, the MITI/MOF/business triad's approach toward aid might become simply too expensive to persist at current levels. ODA budget cuts, which make it imperative for the government to streamline and rally public support, might actually be the blessing in disguise in favor of improving the quality of Japan's ODA in the future.