

**BUREAUCRATIC POLITICS AND JAPAN'S  
FOREIGN AID  
POLICY-MAKING**

by

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## **ABSTRACT**

The purpose of this thesis is to examine Japan's foreign aid programs at policy-making level. It is intended to explain how Japan's aid programs are shaped by decisions of the Tokyo-based bureaucracy as the aid policy-making is divided among various government agencies, all with competing interests.

To illustrate this point, the thesis firstly probes the domestic political environment of Japan's aid administration and examines the bureaucratic power of major ministries in aid policy-making. It demonstrates that Japan's aid policy remains largely the preserve of the bureaucracy. It then traces official attitudes toward foreign aid in order to reveal the underlying conflicts in bureaucratic interests. The distillation of official attitudes takes place over three distinct periods in the evolutionary process of Japan's aid policy, beginning with the years of war reparations until the implementation of the Fifth Medium-Term Target in the middle of 1990s. It finally describes decision-making procedures for different types of aid, namely, Capital Grants, Technical Cooperation, Yen Loans and Multilateral Aid. In so doing, it shows how major ministries compete, compromise and concede to produce Japan's aid policy.

**To my parents and my husband, for their deepest love**

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## **LIST OF ACRONYMS**

<b>ADB</b>	<b>Asian Development Bank</b>
<b>ASEAN</b>	<b>Association of South East Asian Nations</b>
<b>DAC</b>	<b>Development Assistance Committee</b>
<b>EPA</b>	<b>Economic Planning Agency</b>
<b>GNP</b>	<b>Gross National Product</b>
<b>JICA</b>	<b>Japan International Cooperation Agency (Japan)</b>
<b>LDC</b>	<b>Less Developed Countries</b>
<b>LDP</b>	<b>Liberal Democratic Party</b>
<b>LLDC</b>	<b>Least among Less Developed Countries</b>
<b>MAFF</b>	<b>Ministry of Agriculture, Forestry and Fisheries</b>
<b>MITI</b>	<b>Ministry of International Trade and Industry</b>
<b>MOF</b>	<b>Ministry of Finance</b>
<b>MOFA</b>	<b>Ministry of Foreign Affairs</b>
<b>NGO</b>	<b>Non-Governmental Organization</b>
<b>ODA</b>	<b>Official Development Aid</b>
<b>OECD</b>	<b>Organization for Economic Cooperation and Development</b>
<b>OECF</b>	<b>Overseas Economic Cooperation Fund (Japan)</b>
<b>OPEC</b>	<b>Organization of Petroleum Export Countries</b>
<b>WWII</b>	<b>World War II</b>

## Chapter I Introduction

Japan's foreign aid<sup>1</sup> is a central priority for the entire foreign policy of this major economic power. The importance of foreign aid is multifold: As a resource-poor and trade-dependent economy in the volatile international environment, Japan needs aid to encourage exports of heavy plant and equipment to the post-war Asia and secure stable supplies of resources and raw materials. The dramatic ascendance of Japan's national economy after World War II has paralleled the expansion of its aid programs to neighboring developing countries and its emergence as one of the leading donors in the world. Aid is also integral to Japan's available repertoire of diplomatic tools. Since Japan is the only country in the world that is constrained by its constitution from employing military force abroad, Tokyo has had fewer diplomatic weapons at her disposal than other major powers. Since the late 1960s, economic assistance has been more and more frequently called upon by Japanese government to either arrest the deterioration of mutual relations with western allies, or to strengthen its ties and influence in Asia.<sup>2</sup> Since 1991 Japan has continued to be the world's largest bilateral donor, contributing annually more than 20 per cent of the total disbursement by Development Assistance Committee (DAC)

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<sup>1</sup> In this thesis, foreign aid is defined narrowly as government-sponsored flows of resources made available on concessional terms to foreign governments, i.e., Official Development Assistance (ODA). According to Japan's ODA 1997 Annual Report by the Ministry of Foreign Affairs (MOFA), ODA comprises funding flows which meet the following three conditions: (1) Provided by official agencies or by their executive agencies; (2) Administered with promotion of the economic development and welfare of developing countries as its main objectives; (3) Concessional in character to avoid severe burdens on developing countries and conveys a grant element of at least 25 per cent.

<sup>2</sup> Reinhard Drifte, *Japan's Foreign Policy in the 1990s: From Economic Superpower to What Power?* Hampshire: Macmillan, 1996, pp17-21. In this book, the author puts forth a new concept of "soft power" which derives from Japan's economic, financial and technological powers. He evaluates how far Japan has moved toward using this soft power to pursue its national interests.

members<sup>3</sup>. Thus foreign aid constitutes one of Japan's most significant international activities.

The purpose of this thesis is to examine Japan's foreign aid programs at the policy-making level. It is intended to show how Japan's aid programs are shaped by the decisions of the Tokyo-based bureaucracy as the aid policy-making is divided among various government agencies, all with competing interests. While many studies of Japan's foreign aid have maintained that Japan's aid policies are formulated according to its national goals, this thesis suggests that bureaucratic interests are the main determinants in the articulation of Japan's foreign aid policies. Indeed, as this thesis will demonstrate, the fragmented aid administration and coordination difficulties among aid ministries have led to an emphasis on individual aid program and policy-making procedures in Japan. Consequently, in comparison with other major donors, Japan has displayed little innovative and adaptive behavior in delivering foreign aid. Since the political impetus for policy changes is usually provided by the foreign pressure or external forces, Japan has been constantly labeled "a donor of consequence".<sup>4</sup>

### **1.1 Bureaucratic Politics and Japan's Foreign Aid**

In order to explain Japan's aid policies in terms of the interactions between major ministries that play a role in the policy-making process, it is necessary to explain first the conceptual definition of the Bureaucratic Politics Model. The Bureaucratic Politics Model

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<sup>3</sup> Organization for Economic Cooperation and Development (OECD), *Development Cooperation: Efforts and Politics of the Members of the Development Assistance Committee, 1996 Report*, Paris, p78.

<sup>4</sup> Bruce M. Koppel and Robert M. Orr, Jr. eds., *Japan's Foreign Aid: Power and Policy in a New Era*, Oxford: Western View Press, 1993, pp1-15.

is developed initially by Graham Allison<sup>5</sup> to analyze the formation of policy within a large governmental apparatus in which the proliferation of authority prevails. Based on the premise that politics essentially consists of competing organized interests, this model challenged the traditional concept of public policies emanating from a monolithic entity, the government. The government policy is thus understood to be the result of a pulling and hauling process in which diverse governmental actors interact to affect the outcomes.

In contrast with the “Rational Actor Model” which assumes that political leaders always or at least usually make decisions according to a consistently ordered set of strategic objectives, the Bureaucratic Politics Model sees no unitary actor, but many players in the game of politics who act rather according to various conceptions of national, organizational, and personal goals. Since the separate responsibilities assigned to distinct actors during the process of policy-making engender differences in what each sees and judges to be important, the players will only commit to a course of action leading to what they are convinced is supportive of their own interests. As such, the political process becomes competitive rather than consensual, and the result it produces is “a mixture of conflicting preferences and unequal power of various players, distinct from what any person or group intended”.<sup>6</sup>

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<sup>5</sup> Graham Allison is the leading writer on this subject. His exposition of bureaucratic politics approach to foreign policy appears mainly in the following works: “Conceptual Models and Cuban Missile Crisis,” *American Political Science Review*, Vol. LXIII, September 1970; *Essence of Decision: Explaining the Cuban Missile Crisis*, Boston: Little, Brown and Company, 1971; and “Bureaucratic Politics: A Paradigm and Some Policy Implications,” *World Politics*, Vol. 24, spring 1992. Other important writers and works are: Morton H. Halpern, *Bureaucratic Politics and Foreign Policy*, Washington: The Brookings Institutions, 1974.

<sup>6</sup> Graham T. Allison, *Essence of Decision: Explaining the Cuban Missile Crisis*, Boston: Little, Brown and Company, 1971, p145.

In particular, when issues come within the jurisdiction of several government departments and agencies,<sup>7</sup> which share responsibility for policy formulation, these organizations, frequently in disagreement, will compete against each other in attempting to forge governmental policy positions. Each decision-making entity is likely to evaluate any policy proposal, at least in part, to determine whether it will be conducive to the good health of its own organization, i.e., whether a particular policy initiative will help maintain the organizational authority and morale, protect the organization's essence and enhance its influence.<sup>8</sup> In addition, government agents also compete over scarce financial resources as the possession of a larger slice of the budget pie is also a reflection of relative power within the national bureaucratic system. Thus, government policy stems not from a centralized and value-maximizing process, but from a lengthy bargaining process participated in by a conglomerate of powerful organizations with diverse missions, perceptions and priorities.

The Bureaucratic Politics Model takes various acts of the players in the exercise of governmental authority as the basic units of analysis. According to Allison, one needs to answer four interrelated questions in explaining and predicting actions of a government: Who plays? What determines each player's stand? What determines each player's relative influence? And how does the game combine players' stands, influence, and moves to yield governmental decisions and actions?<sup>9</sup> Outlined in these questions are the organizing concepts of this paradigm, which emphasize identifying the relevant actors

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<sup>7</sup> Graham T. Allison, "Bureaucratic Politics: A Paradigm and Some Policy Implications," pp43-79. In this article, he further developed the Bureaucratic Politics Model, recognizing that organizations can be included as actors in the game of bureaucratic politics.

<sup>8</sup> Ibid., p48.

<sup>9</sup> Graham T. Allison, *Essence of Decision*, p164.

and their respective goals or interests, assessing their relative bargaining resources and power, and determining the nature of action channels.<sup>10</sup> Although in the latter development of the Bureaucratic Politics Model, several other elements are added to it,<sup>11</sup> the above-mentioned three, highlighting the distinctive thrust of this style of analysis, have been widely accepted as the most essential.

The Bureaucratic Politics Model may undermine some assumptions of the traditional approach to foreign policy making, but these two approaches are by no means mutually exclusive alternatives.<sup>12</sup> Instead the Bureaucratic Politics Paradigm helps fill the void left by the “Rational Actor Model” in certain policy areas where day-to-day operations of foreign policy involve a number of bureaucratic participants, but no clear jurisdiction is delineated. An example in point is Japan’s foreign aid policy.

Foreign aid is a curious and, in many ways, unique policy area. Unlike national security that has a relatively undifferentiated impact on all segments of society, the merits of foreign aid as a coherent policy for the whole society are often ambiguous and uncertain. For example, large aid flows to less developed countries on non-profitable projects, such as technical personnel training, may promote Japan’s global image, but it places strains on Japan’s General Account Budget as well. Consequently, quite a portion of the Japanese public may be affected negatively as the share for other items in this budget, such as social welfare and education, shrinks. This type of aid is also loathed by

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<sup>10</sup> Ibid., p169. Action channels refer to the regularized sets of procedures for producing particular classes of actions.

<sup>11</sup> For an all-inclusive summary of the elements of the bureaucratic politics paradigm, please refer to David A. Welch, *A Positive Science of Bureaucratic Politics?* A paper presented at the Merston International Studies Review Forum.

<sup>12</sup> The relationship between these two approaches is elaborated by Allison in his *Essence of Decision*.

Japan's private entrepreneurs, who look forward to opening new foreign markets and promoting exports through government investment abroad. Thus a trade-off must be made in the aid policy-making process so as to keep a delicate balance of interests between different social groups.

This is further complicated when the political responsibility for Japan's foreign aid is divided among four major ministries, namely, the Ministry of Foreign Affairs (MOFA), the Ministry of Finance (MOF), the Ministry of International Trade and Industry (MITI) and the Economic Planning Agency (EPA), each with jurisdiction over a part of the aid program. Since there is no ministry that sits above the four on aid policy, nor is there any effective guidance from political entities at higher level, there always exists a great deal of competition between the "big four" for influence over policy-making. Each enters aid consultation with its own parochial bureaucratic perspective and inter-ministerial co-ordination is severely restricted. This competing bureaucratic power structure has confused the purpose of Japanese aid, obstructed effective overall direction in policy planning and, above all, crippled Japan's efforts to "exert world-wide leadership in ODA."<sup>13</sup>

The predominance of bureaucratic politics in formulating foreign aid policy, not necessarily confined to that of Japan, has been noted by several scholars, for questions about how this international economic policy is pushed and pulled by domestic politics are important to most aid donors. John White, in his study of the politics of foreign aid, pointed out that "the making of an aid policy lies in hands of those who actually

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<sup>13</sup> *Social and Economic Plan for Structural Reforms Towards a Vigorous Economy and Secure Life*, Japan's new economic plan formulated by the Economic Planning Agency in December 1995, p1.

administer it".<sup>14</sup> A more straightforward statement of the same idea is made by Nancy Viviani: "for the most part it is the way in which political responsibility for aid is exercised, together with the way bureaucratic control is located, that decisively shapes an aid program".<sup>15</sup> In several ways, this thesis affirms these findings.

## 1.2 Chapter Breakdown

This thesis consists of four additional chapters. According to the analysis of the Bureaucratic Politics Model, these chapters will be arranged as follows:

Chapter Two will probe the domestic political context of Japan's aid administration and examine the bureaucratic power of major ministries in aid policy-making. More specifically, it will demonstrate that the Japanese aid system draws in the most powerful ministries, and centers on a small section of the national bureaucracy. Other major sources of political power, such as the National Diet, the Cabinet and the Prime Minister, have little influence on Japan's aid policy-making. The responsibility of major ministries for aid policy formulation and their relative bargaining resources and power will also be discussed in this chapter.

Chapter Three will examine the evolution of Japan's aid policy from the mid-1950s till the 1990s. It will trace official attitudes to foreign aid so as to reveal the underlying conflicts in bureaucratic interests. Since each ministry is inclined to define aid programs from its own parochial perspective, the goals they aspire to reach are often

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<sup>14</sup> John White, *The Politics of Foreign Aid*, London: The Bodly Head, 1974, p3.

<sup>15</sup> Quoted in Alan Rix, *Japan's Economic Aid: Policy-making and Politics*, London: Croom Helm Ltd., 1980, p15. The original line can be found in Narry Viviani, "Problems of Aid Administration and Policy Formulation Among Western Countries," an unpublished paper, Canberra, Austrian National University, 1977, p12.



incompatible. Official attitudes toward Japan's foreign aid will be analyzed in three major phases: the first one is from the mid-1950s to 1972; the second from 1973 to 1985; and the last one from 1986 till now.

Chapter Four will delineate decision-making procedures for different types of foreign aid, namely: Capital Grants, Technical Cooperation, Yen Loans and Multilateral Aid. It will also describe the interactions among major ministries in these procedures. In so doing, this chapter will show that Japan's aid policy has been the outcome of a bargaining process among the various governmental actors involved in deciding what best serves their bureaucratic interests in both short-term and long-term.

The fifth and concluding chapter will draw together the findings presented in the previous chapters to support the statement made in the first chapter that bureaucratic politics dominates Japan's foreign aid policy-making. A discussion of the impact of bureaucratic dominance on Japan's aid system and policy content will also be included in this chapter. Finally, a number of questions regarding possible changes to Japan's aid policy in the future will be posed.

## Chapter II Bureaucratic Power and the Political Environment of Japan's Aid Administration

Japan's huge aid program, one of its most accessible windows to the world, is the product of day-to-day decisions across the whole of Japanese government. The aid administration, operating within a certain institutional environment, is inevitably affected by Japan's domestic politics. As Alan Rix pointed out, the administrative structures for aid policy-making and implementation are never wholly independent. Their domestic power is set within the constraints determined by other relevant ministries and agencies.<sup>1</sup> Thus, the power of the ministries involved in aid administration derives not only from their responsibility, expertise, and control over resources necessary to carry out action, but from their position in the nation's overall political system as well. The comparison of administrative machinery for aid policy in Britain and Japan helps shed light on this point.

In Britain, aid requests are dealt with by a separate organ, the Overseas Development Ministry (OPM). Despite the concentration in it of economic and technical resources and the energetic idealism of this aid ministry, OPM is regarded by many as merely "an empty gesture". There is no real support within the British government for its policies.<sup>2</sup> On the contrary, policy directives are often forced upon it by Britain's powerful Cabinet and Parliament. The ministry's decision-making capacity is severely impeded,

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<sup>1</sup> Alan Rix, *Japan's Economic Aid: Policy-Making and Politics*, London: Croom Helm Ltd., 1980, p84.

<sup>2</sup> Dudley Seers and Paul Streeten, "Overseas Development Policies," in W. Becherman ed., *The Labor Government's Economic Record*, London: Duchworth, 1972, p152.

and its operational functions in decision process are minimal. In Japan, in contrast to Great Britain, there is no conspicuous aid lobby, no widespread group of aid advocates among the government which would otherwise constrain the bureaucratic power of major ministries in managing aid policy. Although in theory, the executive power of Japanese ODA extends from the Prime Minister to ministries and agencies, in practice, the responsibility falls solely upon the shoulders of four major ministries. Moreover, there exists no basic Diet-enacted law defining guidelines and objectives for aid administration,<sup>3</sup> nor is there any effective high-level coordination from the Japanese government's advisory body on aid. As a result, the ministries come to dominate Japan's foreign aid policy-making and their bureaucratic power is reinforced. The purpose of this chapter is to probe the political context of Japan's aid administration and assess the bureaucratic power of the four major ministries within this context.

## **2.1 Japan's Aid Decision-Making System**

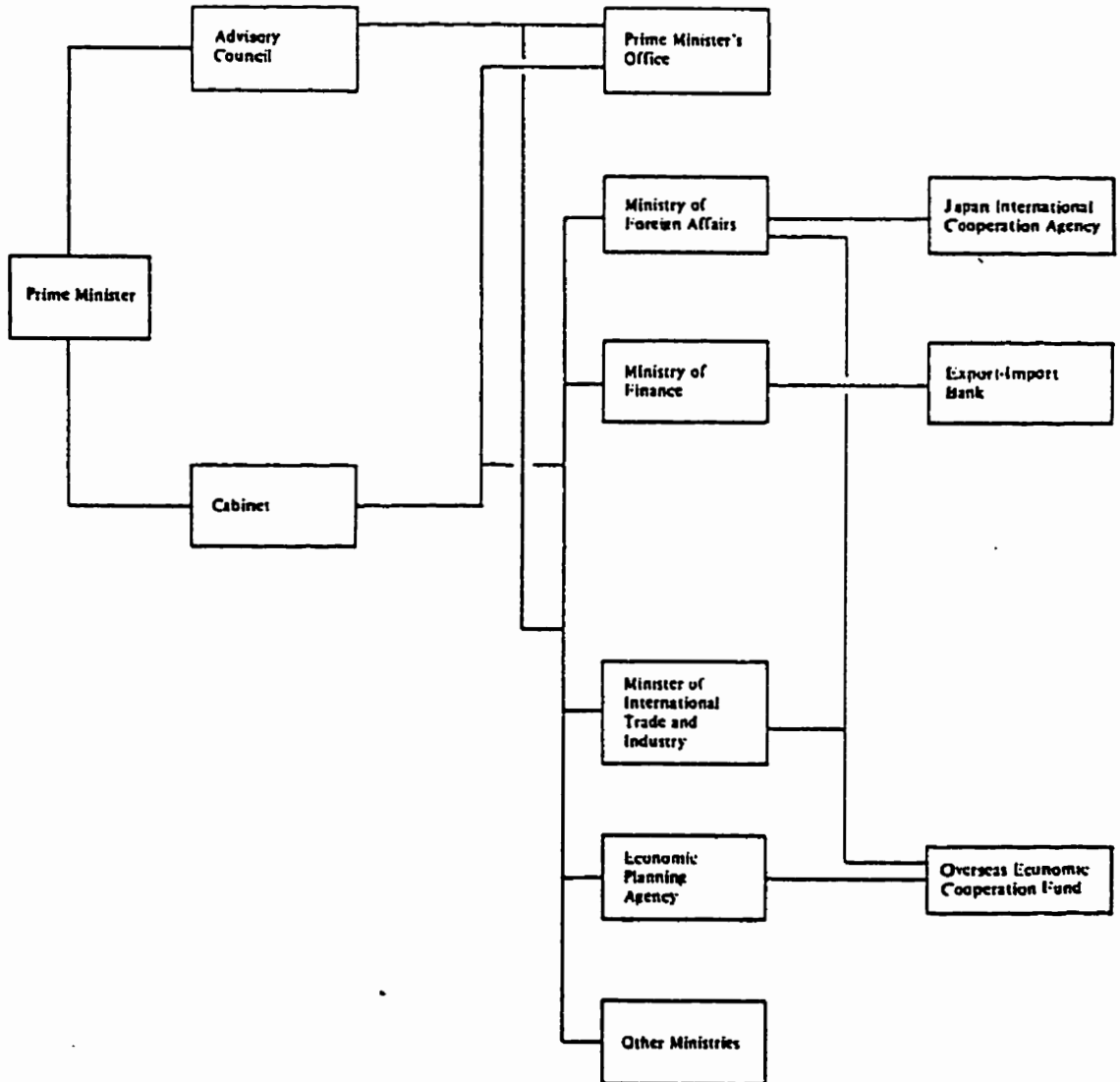
A wide diversification of responsibilities for aspects of aid policy, involving eighteen different ministries and agencies, is the main character of Japan's aid decision-making system. (see figure 2.1) While minor changes and reforms have been introduced in recent years, bureaucratic competition and the influence of complex organizational rivalries have not been diluted.<sup>4</sup>

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<sup>3</sup> Robert M. Orr, Jr., *The Emergence of Japan's Foreign Aid Power*, New York: Columbia University Press, 1990, p21. The Diet refers to Japan's highest and sole legislative body - the National Diet.

<sup>4</sup> For a detailed explanation of reforms that have been made in Japan's aid administration, please see Alan Rix, *Japan's Foreign Aid Challenge: Policy Reform and Aid Leadership*, London: Routledge, 1993, Chapter 3, pp72-101.

**Figure 2.1 Japanese Aid Administration: Formal Outline**



Source: Development Assistance Committee. Aid Review of Japan. April 1993.

In formal terms, the Prime Minister and the Cabinet sit at the apex of this system, but the *de facto* control of policy is exercised by four major ministries. ODA policies concerning grant aid are formulated primarily by the Ministry of Foreign Affairs (MOFA). Policies concerning technical cooperation are formulated by MOFA, in consultation with the Ministry of International Trade and Industry (MITI). Multilateral ODA policy-making is the joint responsibility of the Ministry of Finance (MOF) and MOFA. And the bilateral yen loans fall within the jurisdiction of three ministries and one agency, namely, the MOFA, MOF, MITI and the Economic Planning Agency (EPA).<sup>5</sup> This four-ministry decision-making committee considers, as well as competes for, each and every yen loan extended to developing countries, making Japan's loan policy a most ambiguous and inconsistent one.

With the dramatic expansion of Japan's aid budget, other ministries have shown an increasing interest in ODA. Some of them have established special offices coping with economic assistance, others have tried to participate more actively through transferring their own personnel to the implementing arms of Japan's aid program, such as the Japan International Cooperation Agency (JICA) or Overseas Economic Cooperation Fund (OECF). But these ministries are far from taking the place of the "big four" in aid planning and hence, can be labeled as the junior participants who are almost always informed of basic aid policies rather than seriously consulted. Chapter IV will elaborate on this point in detail.

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<sup>5</sup> OECD, *1994 Report*, Paris, p8.

Each ministry's position on aid questions is mainly related to its perception of the merits of foreign aid. No ministry in Japan has total oversight over the program. The only place where such oversight is possible is in the Budget Bureau of the Finance Ministry.<sup>6</sup> Since this bureau undertakes the overall financial planning for aid, it is more interested in policy coordination at budgetary level rather than in aid policy content. Political coordination may also come from the Prime Minister, the Cabinet, major advisory bodies on Japan's ODA, or even from the Diet, which, if properly conducted, will alleviate greatly the administrative difficulties of the Japanese aid system. Unfortunately, in reality, such coordination seldom occurs.

## **2.2 Advisory Bodies on Japan's Foreign Aid Program**

As a vehicle for outside advice to governments, permanent advisory boards on aid have been established in a number of aid donor countries, such as Austria, Belgium, Denmark, Finland and the Netherlands. Some of these boards include members of the public, while others are composed entirely of people from the government.

Advisory bodies are always characteristic of Japanese government. Foreign aid is one policy area where such committees are used. In 1960, the Japanese government set up the Advisory Council on Overseas Economic Cooperation in the hope of providing policy guidance for inter-ministerial aid activities and addressing the inadequacy of Japan's aid administration. Initially, the council had both governmental and outside membership, but

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<sup>6</sup> Alan Rix, *Japan's Foreign Aid Challenge*, p74.

after its reorganization in 1969, an overwhelmingly higher ratio of non-official membership was achieved.<sup>7</sup>

Despite the council's small size in terms of the number of members, it represents a cross-section of top-ranking businessmen, leading academics and former government bureaucrats. Meetings are held on a monthly basis to discuss issues that are brought up by council members, or by the representatives from various ministries who are invited to attend the meetings. Subcommittees on specific issues are convened if necessary. The council is also responsible for drafting reports after each meeting and presenting it to the Prime Minister.

The council is intended to be a "think tank" for the Prime Minister, advising him on aid policies and related subjects. With a view to ensure that the council maintains a relatively neutral position in the national bureaucracy, the practice of non-official membership is exercised. This strength of the council becomes somehow its weakness.<sup>8</sup> While the council can ward off the danger of being entangled in bureaucratic rivalries when preparing its report, it is also isolated from the direct contact with the aid policy development center in the ministries. Consequently, its reports deal with aid only on a high and abstract plane and can not be counted on to push for the adoption of council-recommended policy initiatives.<sup>9</sup> A look at the council meetings and its reports will illustrate this point.

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<sup>7</sup> Alan Rix, *Japan's Economic Aid*, p102.

<sup>8</sup> Park Yung Ho, "The Government Advisory Commission System in Japan," *Journal of Comparative Administration*, February 1972, Beverly Hills, California: Sage Publications, pp435-67. In this article, the author exhibited the weakness and strength of Japan's advisory bodies. His analysis can be readily applied to ACOEC as well.

<sup>9</sup> Alan Rix, *Japan's Economic Aid*, p103.

The council general meetings are attended by both the councilors and ministry officials. Before they meet, the Economic Cooperation Desk<sup>10</sup> will distribute among them the conference agenda and position papers. These materials are not produced by the council itself, but draw largely on ministry-prepared documents. During the hours of meeting, the councilors have to confine themselves to issues listed on the agenda and rely on circulated papers to direct debate. This is not only because they lack the field experience in managing aid programs when compared with the aid practitioners from ministries and agencies, but also due to the fact that the position papers submitted by ministries are so contradictory that precious meeting time is often wasted in hours of squabbling. Councilors can hardly find the opportunity to raise issues of their own concern, for they have to deal with ministerial representatives who never hesitate to confront them on a wide range of issues about aid policy. As a result, discussion at the meetings is reduced to “a mere dialogue between officials and councilors rather than an independent constructive debate between council members as such”.<sup>11</sup>

A tougher time often comes when the report to the Prime Minister is being drafted by the Economic Cooperation Desk. No councilors have time for this work. No matter how hard the drafting committee tries, it can't help but fall into a dilemma. Since the council is detached from the day-to-day management of aid programs, it is difficult for the councilors to appreciate where aid should stand in national policy priorities. The bulk of the drafting committee's work is therefore to collect and edit the findings from ministries. In reality, these findings are very much statements of ministerial position on

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<sup>10</sup> The desk was established on March 31, 1965. It serves as the council's secretariat. It is located in the Councilors Office of the Prime Minister's Office, and none of its staff are specialists.

<sup>11</sup> Alan Rix, *Japan's Economic Aid*, p104.



aid policy. If the committee chooses to counter the interference of bureaucratic politics stemming from using ministry materials on its draft, it has to restrict its attention to some general or insignificant issues on which the inter-ministerial confrontation is less intense and consensus is easier to reach. If not, the committee will be simply overwhelmed by the immensity of divergence in these materials. In neither case is the final report able to offer any productive recommendations for the reference of the Prime Minister.

Over the past few decades, the implementation of council reports has been reflected mostly in a number of small, isolated programs in respect of medical, agricultural and educational cooperation with developing countries.<sup>12</sup> The most important aid categories, such as yen loans and grant aid, have received little attention in the reports. As a political entity that does not have an independent policy position, the council only performs the function of passing ministries' ideas onto the Prime Minister.

The Ministerial Consultative Committee on Overseas Economic Cooperation is another advisory body designed to supplement the advisory council. Established in December 1988, this committee is committed to achieving greater unity and ministerial-level coordination in aid policy. Although the name of the committee is new, the idea ----- settling policy disputes by ministers and bureaucratic officials themselves ----- can be dated back to the 1970s when an *ad hoc* ministerial committee was invented to solve aid-related problems. In July 1975, this *ad hoc* committee was re-constructed as an official ministerial committee under the pressure from both the Cabinet and the Liberal Democratic Party. But two years later, the committee, together with the idea of inter-ministerial coordination, was abolished as it failed to meet the expectations of its creators.

The current ministerial consultative committee consists of fourteen members chaired by the Chief Cabinet Secretary.<sup>13</sup> After long years of inactivity, the re-birth of the ministerial committee still fails to pull it out of administrative limbo. It remains a debating society with very little policy significance where various ministries can raise issues and express views, but seldom touch on details of policy. There is no agenda laid down prior to committee meetings and ministers can bring up any topic as they wish. The new committee is not responsible to either the Prime Minister or the Cabinet. It is thus not obligated to bring any formal resolutions to issues raised at the meetings.

The council and committee represent the only machinery for policy advice and high-level policy coordination in the Japanese aid system. However, as they sit at the top of a fragmented and diffused administrative structure, their advisory and coordinating capacities are weak and their bureaucratic status is low. It is still the ministries that dictate the whole aid policy-making process. The only time that this system may be circumvented is when aid issues are passed on to the Prime Minister and the Cabinet, as well as to the National Diet. But this does not happen very often in Japan.

### **2.3 The Prime Minister and The Cabinet: Their Roles in Aid Policy Making**

As in a parliamentary democracy, the executive power in Japan is vested in the Cabinet which consists of the Prime Minister, who heads it, and other ministers of state. However, the executive branch in Japan is not as strong as in the United States. The Japanese Prime Minister is often under more constraints and possesses less autonomy

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<sup>12</sup> Councilor's Office, Overseas Economic Cooperation Desk, *Materials on the Implementation Status of the Report of the Advisory Council on Overseas Economic Cooperation*, January 1995.

<sup>13</sup> Alan Rix, *Japan's Foreign Aid Challenge*, p74.

than the President of the States.<sup>14</sup> Of course, the Prime Minister can, if interested, influence the aid policy. Contemporary Japanese diplomatic custom dictates that the Prime Minister's visits to ASEAN countries be accompanied by large aid packages. This policy practice has considerable impact on the distribution of Japanese ODA funds.<sup>15</sup> Nevertheless, as a result of the factional politics within the Cabinet and the limited research capacity of the Prime Minister, the power of the Prime Minister is far from adequate to direct the general trends of aid.

Unlike the American Cabinet that consists of confidants of the president, the Japanese Cabinet is composed of formidable factional leaders or senior members of these factions. Some of them are even the political opponents of the Prime Minister.<sup>16</sup> These Cabinet members also preside over important ministries, such as the Ministry of Finance, the Ministry of Foreign Affairs and the Ministry of Internal Trade and Industry.<sup>17</sup> Heading such a politically fragmented Cabinet, the Prime Minister has to spend a great deal of time on balancing factional interests to preserve the solidarity and harmony of his group. Therefore, few of Japanese Prime Ministers have ever had the time or energy to put forth their own aid ideas.

The Japanese Prime Minister is also short of relevant information that might if available enable him to determine whether and in what form aid policies are to be implemented. The reports submitted by the advisory council confuse more than they

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<sup>14</sup> Kishimoto Koichi, *Politics in Modern Japan: Development and Organization*, Tokyo: Japan Echo Inc., 1988, p75. See also Robert Orr Jr., *The Emergence of Japan's Foreign Aid Power*, p10.

<sup>15</sup> Alan Rix, "Managing Japan's Aid: ASEAN," in Bruce Koppel and Robert Orr, eds., *Japan's Foreign Aid*, pp19-40.

<sup>16</sup> Kishimoto Koichi, *Politics in Modern Japan*, pp75-76.

<sup>17</sup> Robert Orr, *The Emergence of Japan's Foreign Aid Power*, p10.

explain. For this reason, the Prime Minister has to rely on three of four special assistants sent by leading ministries for policy consultation when a specific aid issue arises. But members in this *ad hoc* advisory body prove to be more loyal to their respective ministries than to the Prime Minister. Since they will return to their old posts in the ministries after they are dismissed from the advisory duty,<sup>18</sup> these special assistants are more committed to persuading the Prime Minister of their own ministry's position than to providing objective policy information for his own judgment.

Cabinet politics works also against effective decision-making on aid. Within the Cabinet, a central step in policy-making is the Cabinet meeting at which directives on basic policy concerning the direction of specific administrative branches are issued and, sometimes, disputes concerning ministerial jurisdiction are arbitrated. Aid policy is seldom placed on the meeting agenda. Even if it does appear at the meeting, no clear path of political coordination is available due to the inertia of the Prime Minister. As such, Cabinet resolutions on aid also derive from the Cabinet-level political bargaining among the rival ministers rather than from an unitary decision-making entity.

As Robert Ward has written, although the Cabinet and the Prime Minister constitute the highest administrative body in contemporary Japan, they are subject to constant interactions with and substantial influence from several official groups.<sup>19</sup> This embarrassing situation is inevitable, for in an entrenched bureaucratic system such as that for foreign aid, the Cabinet and the Prime Minister are powerless to coordinate, or to provide new guidelines for policy unless they have a full independent staff. Otherwise,

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<sup>18</sup> *Ibid.*, p11.

<sup>19</sup> Robert E. Ward, *Japan's Political System*, Englewood Cliffs: Prentice-Hall, 1978, p161.

they have neither the manpower, nor the information, nor the skills and expertise essential to the performance of policy-making functions.<sup>20</sup>

#### 2.4 The National Diet

The advisory council and ministerial consultative committee are inadequate as policy coordinators. The Prime Minister and the Cabinet are constrained in directing the general trend in aid policy. The hope for overcoming the bureaucratic logjams is then pinned on the National Diet ----- the sole legislative organ of the Japanese government.

The state's legislature can control foreign aid in three main ways. Most important is the approval of budget proposals regarding both the overall volume of aid flows and the timing of expenditure. Secondly, the legislature scrutinizes the actions of the executive through debates, questions, and committee hearings, etc.. Lastly, the legislature makes guiding legislation for aid programs as a whole.<sup>21</sup> In recent years, the dramatic increase in aid budget has given rise to the posture of the National Diet in foreign aid, but its actual role is still minimal. In Japan, only the first of the three powers just listed is exercised effectively by it.

Since aid comprises less than 1 per cent of the General Account budget<sup>22</sup> and attracts little public attention, it is considered peripheral by Diet members. Only a few of

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<sup>20</sup> Haruhiro Fukui, "Bureaucratic Power in Japan," in Peter Dysdale and Hironobu Kitaoji, eds., *Japan and Australia: Two Societies and Their Interaction*, Canberra: Australia National University Press, 1979, p286.

<sup>21</sup> George Cunningham, *The Management of Aid Agencies*, London: Croom Helm Ltd., 1974, p43. See also Alan Rix, *Japan's Economic Aid*, p108.

<sup>22</sup> The General Account budget is the major budget type in Japan. If one defines budgeting in a broader sense, it also includes Supplementary Budgets, the various Special Accounts and the Fiscal Investment and Loan Program. The total ODA budget is an aggregate of items in these different accounts that are accepted as ODA expenditures under DAC definitions.

them possess professional knowledge of this subject and no separate aid committee has ever been established under the Diet. As a dearth of both interest and knowledge prevails, the Diet watchdog over aid administration is rarely off its leash.

In aid operations the lack of clear objectives is thought to be as dangerous as, if not more so than, the pursuit of improper goals by aid specialists.<sup>23</sup> In Japan, there exists no fundamental Diet-enacted legislation prescribing principles and aims for foreign aid. Even if such law is occasionally proposed, it often meets strong opposition from the bureaucracy, or fails to overcome the divergence within the LDP, the long-term dominant party in the Diet.<sup>24</sup> This difficulty is caused partially by the arrangement that puts aid under the purview of at least nine committees in each house of the Diet. Since these committees tend to approach aid in accordance with the division of committee responsibilities along ministry lines, the primary efforts of their discussion are often devoted to delicate negotiations leading to the consensus necessary for realization of their respective goals. Crucial tasks, such as defining what objectives should be aimed at in delivering aid, are thus left in the hands of aid agencies.

The authorization of the aid budget is perhaps the most effective control the Diet exercises. The Diet not only passes the annual budget allocation for aid, but also authorizes the carry-over of undisbursed funds to be included in the budget.<sup>25</sup> However, when compared with the explicit authorizing power of the United States Congress, the Japanese Diet's role is ill-defined. Firstly, the Diet is partially excluded from the control

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<sup>23</sup> George Cunningham, *The Management of Aid Agencies*, p53.

<sup>24</sup> Yuji Suzuki, "Rethinking Japanese Foreign Aid", *Japan Times*, June 30, 1986, p8.

<sup>25</sup> Robert Orr, *The Emergence of Japan's Foreign Aid Power*, p21.

over loan budgets, a very important category in Japan's aid program. In 1997, yen loans constituted approximately fifty per cent of the ODA budget.<sup>26</sup> Secondly, whereas the American Congress reviews budget requests country by country and can play additional major roles by appropriating aid funds for specific nations and functions, the Japanese Diet only approves the overall aid volume for each fiscal year. The allocation of the approved aid budget on a country-by-country basis is made by ministries and their associated implementing agencies.<sup>27</sup> As such, the influence exercised by the Japanese Diet on aid budget is also limited.

As a matter of fact, the Diet's involvement in aid activities appears to be most stimulated when a scandal, around which media attention and public awareness are extremely intensive, has been exposed. For example, Diet members proposed a government audit of all future overseas contracts using Japanese aid funds soon after the corruption in the Philippines program was brought to light in 1986.<sup>28</sup> Although this suggestion was finally rejected by the Ministry of Foreign Affairs (an example of the bureaucratic power), it might be so far the swiftest reaction ever made by the Diet toward a problem in aid.

In sum, the Diet's interests in aid policy hinge rather on public attention, and its power appears rather weak in the face of bureaucratic logjams. The Prime Minister and the Cabinet are granted the authority to issue policy directives, but their guidance comes often sporadically. The major advisory bodies on Japanese ODA are merely "gesture

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<sup>26</sup> MOFA, *Japan's ODA Annual Report 1997*, Tokyo, p131.

<sup>27</sup> Robert Orr and Bruce Koppel, "A Donor of Consequence," in *Japan's Foreign Aid*, p6.

<sup>28</sup> Robert Orr, *the Emergence of Japan's Foreign Aid Power*, p25.

tokens” as they have to rely on ministerial materials for information. These factors characterize the political environment of Japan’s aid administration, in which decision-making remains largely the preserve of the bureaucracy. Ministries are the *de facto* operators of the Japanese aid system.

## **2.5 Aid and the Ministries**

There are four major ministries engaged in aid policy-making. None of them is able to dictate the whole system, but their power in manipulating the decision-making process differs. This unbalanced power structure within the ministry environment is directly linked to the outcomes of the bargaining process over ODA policy.

### **2.5.1 The Ministry of Finance**

The Finance Ministry and its Budget Bureau are legally responsible to the Cabinet for preparing the annual budget. Less formally, they are responsible to the Nation for preserving Japan’s financial solvency.<sup>29</sup> That means, if government spending has to be restrained, the job must be done by the MOF. Since any increase or decrease in its share of the budget pie is literally associated with the ups and downs of a ministry’s power, its monopolization of the budget distributing role gives the MOF greater power and considerably higher bureaucratic status. Having a career in the MOF is regarded by Japanese civil servants as a pinnacle of achievement, and always attracts the pick of the

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<sup>29</sup> John Creighton Campbell, *Contemporary Japanese Budget Politics*, California: University of California Press, 1977, p43.



yearly crop of university graduates. Indeed, the image of the MOF in the popular mind is often equated with supremacy in policy-making.<sup>30</sup>

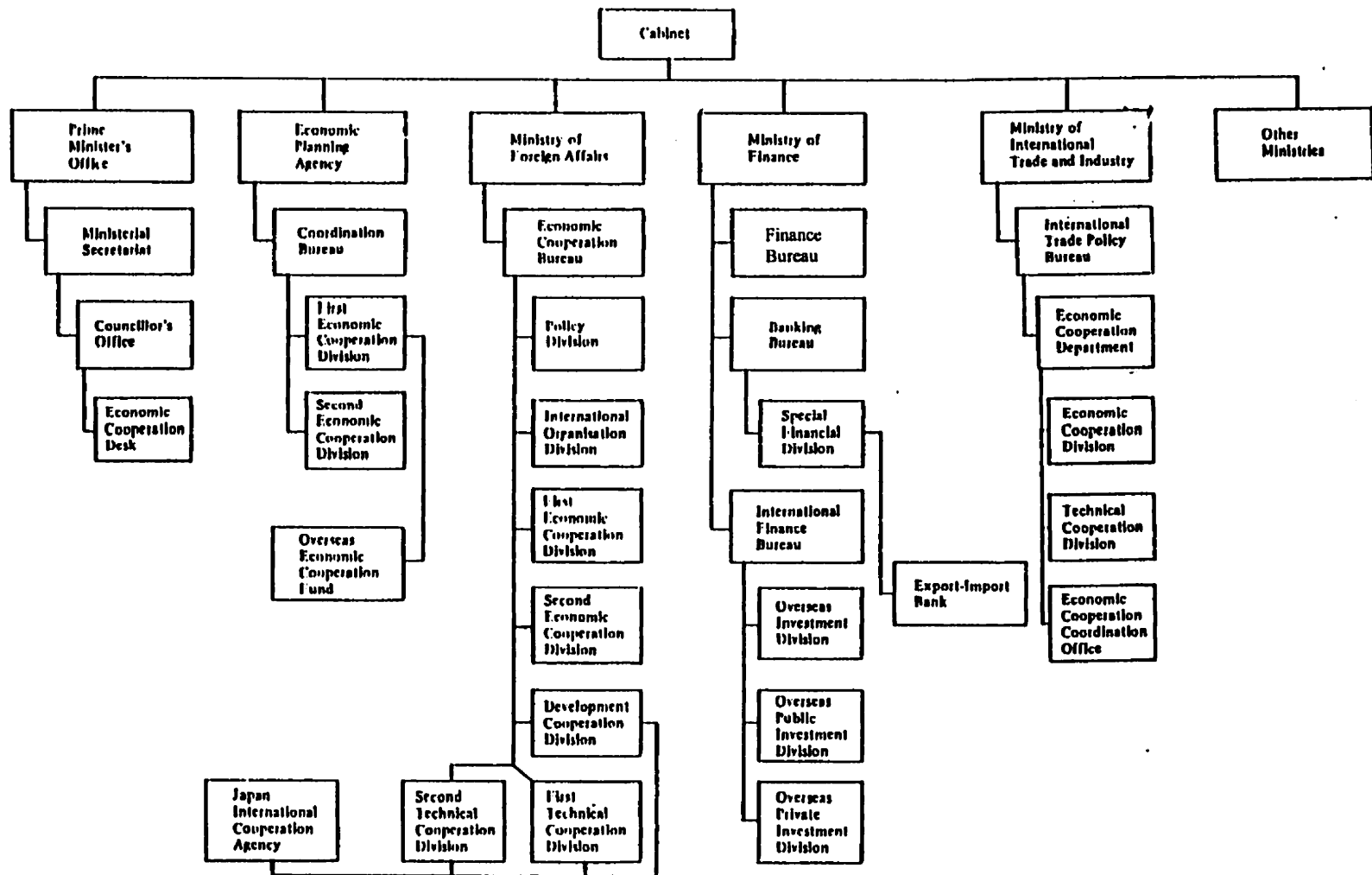
The leading position of the MOF in aid administration is attributed primarily to the function it performs, but its wide network of contacts among politicians in the Diet also helps. Every year more of the MOF officials retire to become elected to the Diet. Through connections with these former bureaucrats, the Finance Ministry can press for the adoption of a policy position by which it stands. Although these lobbying efforts may not always bring about what the ministry desires, they at least ensure that the voice of the MOF can be heard and its opinions expressed in the legislature.

The strength of the MOF is also reflected in its staff and structure (see figure 2.2). Its officials are the “elite of the elite”, well-known not only for their specialized knowledge of policy matters, but also for the maturity with which they handle their business.<sup>31</sup> They are highly respected throughout Japanese government and enjoy privileges in government housing and career advancement. Within the MOF, seven main bureaus act upon an enormous range of issues, and some of them have more functions than their names imply. Staffed with “official elite”, these bureaus exercise controls over some of the most important aspects of Japan’s domestic politics, as well as its international economic policy. Foreign aid is one of them. The three bureaus most directly involved with aid programs are Budget, International Finance and Finance.

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<sup>30</sup> Discussions of the personality and prestige of the MOF can be found in Bureaucratic Organization Study Group, *Horror Stories of the Finance Ministry*, Tokyo: Yell Books, 1976. See also Alan Rix, *Japan’s Economic Aid*, p87 and John Campbell, *Contemporary Japanese Budget Politics*, pp43-44.

<sup>31</sup> John Campbell, *Contemporary Japanese Budget Politics*, pp43-44, 70.



**Figure 2.2 The Structure of Japan's Aid Administration: The Main Ministries**

Source: Government of Japan, Administrative Management Agency. *Organization of the Government of Japan*. Tokyo, January 1996.

The Budget Bureau is in complete control of budget appropriations. Its examiner has final say on the fate of budget requests submitted by the MOFA, MITI and EPA and, hence, can significantly change the direction of an aid program with his veto power. The Financial Bureau also enjoys powerful authority over aid, which derives from its responsibility for compiling the Fiscal Investment and Loan Program (FILP). The FILP funds come from governmental pensions, the postal savings, bond issues and other borrowing, as well as a tiny portion of the General Account. As a supplement to the national budget, the FILP is often used as another means for satisfying ministry or party demands without depleting the General Account.<sup>32</sup> In 1997, it is about half as large as the General Account component of the ODA operations Budget, contributing almost 30 per cent to the total sum. More importantly, the FILP provides a significant portion of Japanese yen loans to developing countries.<sup>33</sup> Therefore, ministries that wish to have a share in this major type of aid programs, such as the MOFA or MITI, must have their requests evaluated and adjusted by the Financial Bureau before they go to the Budget Bureau for the final decision. The International Finance Bureau is another powerful operator of aid program in the MOF. Since the bureau is in charge of international monetary matters, it is more concerned with Japan's foreign economic relations than budget allocation. Within this bureau, the Overseas Investment Division is responsible for multilateral aid business, while the Overseas Public Investment Division is responsible for bilateral assistance programs.<sup>34</sup> These two divisions are important in the aid system

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<sup>32</sup> John Campbell, *Contemporary Japanese Budget Politics*, p210.

<sup>33</sup> MOFA, *Japan's ODA 1997 Annual Report*, Tokyo, p132.

<sup>34</sup> For an explanation of the content of Grant aid, Yen Loans, Technical Cooperation and Multilateral Aid, please read the Chapter Four.

because they also coordinate the interactions between the Budget Bureau and other ministries. These three bureaus represent the MOF in formulating aid policy. How they decide to pull the purse strings has an important bearing on both the decision process and the decisions themselves.

### 2.5.2 The Ministry of Foreign Affairs

The power of the Foreign Affairs Ministry has been on the rise since the early 1970s when broader foreign policy objectives were incorporated into the deliberations on aid programs.<sup>35</sup> Often referred to as the international faction within the Japanese government, the MOFA lacks the domestic power base which most other ministries have in pushing their interests.<sup>36</sup> However, this ineffectiveness in domestic political battles is not matched by the realities in the foreign aid area where the MOFA often leads. With its specialized knowledge about other countries and its expertise in managing national diplomacy, the MOFA is able to gain an overview of aid policy as a vital component of Japan's foreign relations with developing countries. As the use of foreign aid as a diplomatic tool increases, so does the ministry's influence on the decision process.

International pressure is another important source where the Foreign Ministry's power springs. It is not unusual for MOFA officials to "use the United States generally as

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<sup>35</sup> William R. Nester, *Japan's Growing Predominance Over East Asia and the World Economy*, New York: St. Martin's Press, 1990, pp60-62.

<sup>36</sup> Reinhard Drife, *Japan's Foreign Policy*, Routledge: The Royal Institute of International Affairs, 1990, p22.

an ally in advancing its interests against those of other agencies.”<sup>37</sup> Citing pressures from the United States and then coordinating MOFA’s efforts with these pushes and pressure have placed the Foreign Ministry in an unique and strong position vis-à-vis other ministries on many bilateral issues. In an interview with the Budget Examiner, when he was asked how often the MOFA used foreign pressure as a weapon in aid budget negotiations with the MOF, the response was “almost every time”.<sup>38</sup> Given the subordinate role that Japan has played in relation to the United States in international politics, pressure from the United States helps to enhance the bargaining position of the MOFA in policy competition.

In comparative terms, the Foreign Ministry’s budget and personnel strength rank low, but it concentrates quite a portion of its limited money and staff on the Economic Corporation Bureau, making this bureau the largest aid section in any of the ministries (see also figure 2.2). Almost all aspects of aid policy, loans, grants, technical cooperation and multilateral aid, are dealt with by seven divisions in this bureau. The concentration of aid resources and responsibilities within one bureau enables the Foreign Ministry to organize its aid activities under a general policy plan and, hence, avoid the waste and inefficiency that may be caused by inter-bureau miscommunications. The MOFA is also the only ministry that has an overseas research base. Its embassies, consulates or

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<sup>37</sup> T.J. Pempel, “Unbundling Japan Inc.: The Changing Dynamics of Japanese Policy Formation,” *Journal of Japanese Studies*, Vol. 13, no. 1, Summer 1987, p303. For a case study of American influence on Japanese aid policy, see Robert Orr, “The Aid factor in U.S. - Japan Relations,” *Asian Survey*, July 1998, pp744-755; see also Kent E. Calder, “Japanese Foreign Economic Policy Formation: Explaining the Reactive State,” *World Politics*, Vol. XL, no.4, July 1988, pp517-541. For a study of the correlation between changes in Japan’s foreign aid policy and foreign pressure, see Robert C. Angel, “Explaining Policy Failure: Japan and the International Economy, 1969-1971,” *Journal of Public Policy*, Vol.8, no.2, 1988.

<sup>38</sup> Robert Orr, *The Emergence of Japan’s Foreign Aid Power*, p13.

permanent missions are dispersed world-wide for collecting information from recipient countries. The possession of a large volume of data and statistics has increased the flexibility with which the Foreign Ministry handles aid requests. Therefore, in the four-ministry games, the MOFA is always an active and influential player.

### 2.5.3 The Ministry of International Trade and Industry

The Ministry of International Trade and Industry is the greatest traditional rival of the Foreign Ministry in aid policy. It became involved after the inception of Japan's aid program in the middle of the 1950s. Because the diplomatic consideration of aid is now gaining weight, the predominant position the MITI used to have in policy making has been undermined. Nevertheless, so long as aid and the commercial interests of Japanese private enterprises are intertwined, the MITI will remain influential. Indeed, the MITI has remained one of the most powerful domestic ministries in the post-war years. Administering two pillar sections of Japan's national economy ----- trade and industry --- - the ministry has developed an immense size and diverse functions.<sup>39</sup> This strength spills over into the aid area, in particular the loan programs which are most closely related to Japan's overseas market and domestic industry. Within the MITI, only the Economic Cooperation Department in the International Trade Policy Bureau is directly in charge of aid policy formulation, but its administrative capacity is strong. Like the MOF, this department is also filled with outstanding intellects and administrators. Its director is

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<sup>39</sup> Yoshihisa Ojimi, "A Government Ministry: The Case of the Ministry of International Trade and Industry," in Ezra Vogel ed., *Modern Japanese Organization and Decision-making*, Los Angeles: University of California Press, 1975, p101. Ojimi is a former administrative vice-minister of the MITI. His article provides an in-depth look at the general mood, basic approach and common pattern of decision-making in the MITI.

viewed as a most capable man with bright career prospects.<sup>40</sup> Some of the department directors later move up to top positions in various agencies or bureaus, some even become vice-minister of the MITI.

The MITI also takes advantage of foreign pressures in the inter-ministerial bargaining, but not as frequently as the MOFA. It is more inclined to apply the lobbying efforts of private sector to bolster its policy position, for no other ministries in Japan have such extensive and well-established connections with the business circle. The MITI has a long tradition of coordinating with Japanese entrepreneurs in mutually-beneficial moves. Officials from the Economic Cooperation Department often act as representatives of the ministry to receive aid requests from Japan's major trading companies before the Foreign Ministry fills in to collect them. If a major Japanese industry or trading company shows interests in a certain large-scale aid project, the MITI often speaks as an ardent advocate for that commercial enterprise in the decision process. In so doing, the MITI is able to take initiatives in policy planning and sometimes even dominate it.

#### 2.5.4 The Economic Planning Agency

The power of the MOF derives from its exclusive control over aid budgets, the MOFA relies on its experience in international affairs to offset the weakness in its domestic power base, and the MITI's position in the aid system is secured as aid is inextricably tied to Japan's trade and industry. In comparison with these three ministries, the EPA's power over aid policy is relatively insignificant. Although the general designer of the blue print of Japan's economic development since the late 1950s, the EPA is only

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<sup>40</sup> Alan Rix, *Japan's Economic Aid*, p91.

strategically placed to influence aid policy. Its power comes mainly from its responsibility for the Overseas Economic Cooperation Fund,<sup>41</sup> but even in that capacity, the EPA is limited because OECF operations also come under close scrutiny from the Finance Ministry. The EPA's decision-making capacity is further impeded by the long-standing practice of transferring MITI and MOF officers to key positions in it.<sup>42</sup> Without an independent, and more importantly loyal staff, the EPA is constrained in consolidating its own aid philosophy in practice.<sup>43</sup>

The EPA's Coordination Bureau is assigned with the job of aid policy planning. Its main task, as stated on paper, is to "delineate the basic directions of Japan's ODA in its economic plans and work for intra-governmental agreement (on these directions)".<sup>44</sup> However, because of the bureaucratic ineptness and the ambiguity in relationship between foreign aid and national priorities, the Coordination Bureau has neither the guidance nor personnel resources to play such a coordinating role. Nonetheless, the EPA does have the

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<sup>41</sup> The Overseas Economic Cooperation Fund is one of the two implementing agencies of Japan's aid program. Funded in March, 1961, it is primarily responsible for implementing Japan's concessional yen loan programs for the development and stabilization of the economies of the developing countries, and thus promoting Japan's economic cooperation. The activities of the Fund can be divided into two categories: (1) Loans to foreign governments (including government-related agencies and local governments), and (2) loans to and equity investments in development projects in developing countries carried out by private companies. Nearly all of the Fund's activities come under ODA, and account for approximately 35% of Japan's ODA in 1994. The Fund is thus the principal agency in Japan's ODA program. The sources of the Fund's investment and loan capital are appropriations from the General Account Budget and borrowings from the FILP. The OECF has eight departments, one office, one research institute and seventeen overseas representatives, all under the supervision of the EPA. At the end of 1994 fiscal year, it had a staff of 327 persons. (All the information comes from the EPA 1996 ODA Report.)

<sup>42</sup> See Robert Orr's interview with an EPA official in April 25, 1984, in the *Emergence of Japan's Foreign Aid Power*, p45.

<sup>43</sup> For an examination of the rivalry between MIFI and EPA caused by personal transfers, please see Chalmers Johnson "MITI and Japanese International Economic Policy" in Robert A. Scalapino ed., *The Foreign Policy of Modern Japan*, Berkeley: University of California Press, 1977, pp237-244.

<sup>44</sup> EPA, *Japan's ODA and Economic Planning Agency*, Tokyo, 1996, p1.



ability to block an initiative in the four-ministry system if it chooses to because, after all, it has planned, drafted and is carrying out basic policies and programs related to economic cooperation.<sup>45</sup> Its views are on occasion taken into consideration by other ministries. Therefore, it is a least important but indispensable actor in Japan's aid politics.

## **2.6 The Perpetuation of the Diffused Aid System**

Japan's aid system has been established for almost four decades. It emerged with the inception of reparation programs in the mid-1950s, and has been strengthened along with the expansion of aid volumes over the years. The operation of this system has altered little since the early 1960s. Although its inefficiencies have been more and more widely acknowledged, the diffused aid structure has remained. This phenomenon can be explained from several angles.

Firstly, confusion about the purpose of aid contributes to the structural divergence: disputes over how foreign aid can best serve Japan's national interests lead to the rapid creation of competing administrations, and help to preserve and reinforce ministerial ideologies. This confusion can not be easily got rid of because it is deeply rooted in Japan's historical perplexity over the role it should take in the international society. Having attained a position of economic superpower in world affairs since 1945, the Japanese political establishment is now preoccupied by the question of how to translate this power into political advantage in terms of national interests. So long as the Japanese government and public divide on this issue, there won't be any clear definition of aid's purpose. As a result, competing ministerial interests become preeminent.

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<sup>45</sup> Ibid.

Secondly, Japan's domestic political environment is also conducive to the bureaucratic dominance. As analyzed in this chapter, aid issues are rarely taken into serious consideration by the head of Japan's political authority for various reasons. No consistent efforts, thus, have ever been made to correct the problems in the aid system.

Finally, there are practical difficulties in reforming the current diffused administrative structure. Since Japan's ODA policy is multidimensional, relating to a number of social, political and economic issues, its formulation requires a considerable amount of expertise and knowledge in various areas. No ministry in Japan is able to provide such service alone. Staffing shortage is another obstacle. In spite of Tokyo's dramatic increases in aid volumes, its aid personnel level has not witnessed noticeable changes. For example: between 1977 and 1987, Japan's ODA increased by 5.2 times, while the aid disbursement handled by per administrative staff expanded over 350 per cent because there was no matching increase in the personnel to handle this volume of ODA.<sup>46</sup> Under such a circumstance, it is almost impossible to create an independent central agency that will undertake the over-all policy-making responsibility in Japan. As Japan's aid apparatus lacks the internal unity and solidarity that would be necessary for one ministry to completely dominate the decision process, competition is inevitable.

Each policy category has its own decision-making structure and characteristics. In Japan's foreign aid program, ministries and bureaucrats take the leading role. Their expertise, control over information and financial resources, as well as the possibility for

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<sup>46</sup> Robert Orr, *The Emergence of Japan's Foreign Aid Power*, p50.

them to participate full-time in the game, work undoubtedly for the centrality of the bureaucratic role in the policy-making situations. This important bureaucratic position is further strengthened by the relative impotence of the National Diet and the advisory bodies, as well as the Cabinet and the Prime Minister in guiding or coordinating the Japanese aid system. Therefore, bureaucratic politics becomes the major game played in the decision process. Since the ministries make aid policies, their interests in making these policies are important. The next chapter will explore this issue in detail.

## Chapter III Why Give Aid?

### ----- Aid Ideas and Ministries

Japan's reputation as the world largest donor has never been free of criticism from both recipient countries and other DAC member states. Despite its ambitious aid programs and generous aid offers, Japan is thought to be "unsure of what precisely to do with its money".<sup>1</sup> This unsureness is a result of Japan's failing to articulate explicitly its motives and objectives in giving aid. Every year, four "ODA White Papers", rather than one, are released by each of the four major ministries, explaining to the public the philosophy and achievement of Japan's foreign aid. In their arguments about policy, such ideas as "interdependent relations with international society", "the duty and responsibility to provide aid" often come forth. For example, the EPA in its 1996 ODA report stated that "..... wealthy nations must extend a helping hand to those less-off, even as those nations seek a better future under the principle of self-reliance. Japan, as one of greatest economic powers and proponents of peace, and as a country dependent on the good will and well-being of its fellow citizens of the global community for its own prosperity, must play a leading role.....".<sup>2</sup> The same idea was also expressed by the MOFA. In its 1997 ODA report, it pointed out that ".....resource-poor Japan can not survive today unless the world is stable and prosperous. Now, out of gratitude for the aid Japan received in the past, it is Japan's important duty to allocate a part of its national wherewithal to fostering

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<sup>1</sup> Jeff Sallot, "Canada's Experience, Japan's Cash," *London Free Press*, 1997.

<sup>2</sup> EPA, *Japan's ODA and the Economic Planning Agency*, Tokyo, 1996, p1.

the international community's development efforts".<sup>3</sup> These expressions, as statements of aid purpose, are inadequate. They tell us that Japan's aid program *has* a developmental purpose as it aims at contributing to the stability and prosperity of the world community, but they do not tell us what it is. Since "a developmental purpose is presumed to be inherent in any aid program even if it does have other purposes as well", these statements tell us little about the fundamental objectives of Japanese government in giving aid.<sup>4</sup>

As a matter of fact, ministries and agencies involved in aid policy-making appear to converge on these vaguely-stated purposes. They are willing to use these appealing words in their ODA reports to ward off as much criticism from the public or abroad as possible. But this does not mean that the administrative control of aid in Japan is founded on lasting agreement about what foreign aid could in practice achieve. On the contrary, the ambiguity these official reports share in defining aid's purpose reflects to a large extent the lack of consensus on policy objectives among ministries. Therefore, divergence arises when it comes to many fundamentals of aid policy. The ministries and agencies often find themselves in conflict about not only the best form of aid, the distribution, size and terms of aid flows, but more importantly, the position of foreign aid in the national priorities. Each ministry persists in its own opinion on why give aid and how it should be given, and it is between these ministries that compromises and conflicts carry the most weight in the creation and management of ODA policy today.

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<sup>3</sup> MOFA, "Why is ODA necessary?", in *Japan's ODA Annual Report, 1997*, Tokyo.

<sup>4</sup> John White, in his *The Politics of Foreign Aid*, compared the clarity of donors' objectives as stated in the official policy papers. His analysis helps throw light on studying Japan's aid purpose. For more details, please see Chapter II: The Aid Donor, pp34-50.

Generally speaking, the Ministry of Finance (MOF) views aid mainly as a budget issue. It pays closest attention to the balance of payments and to the financial burdens imposed on the national budget by foreign aid. Since the MOF emphasizes aid's effectiveness relative to its cost, it is most concerned with the fiscal capacity of potential recipients to repay the aid funds extended to them. The Ministry of Foreign Affairs (MOFA) is regarded as the most liberal and amenable among the big four toward aid requests. It is also the most eager one to enhance Japan's national status through foreign aid. This ministry sees aid policy primarily in the context of Japan's overall foreign policy interests, using it as a diplomatic weapon, as often with developed as with developing countries. Strategic and security implications occupy an important position in the MOFA's thinking on aid policy. The Ministry of International Trade and Industry (MITI) tends to place top priority on Japanese commercial and long-term industrial interests. It has been highly skeptical of the humanitarian approach to aid, preferring large-scale capital projects which can help promote Japanese trade rather than aid as a means of assisting the economic growth of less developed countries (LDCs). The Economic Planning Agency (EPA) is the weakest among the "big four" in terms of administrative strength, and so is its interest in influencing aid policy. Often allied with the MOF on many issues, the EPA focuses on maintaining the financial balance of Japan's foreign aid and coordinating aid policy with its domestic economic strategies. Although each ministry's attitude toward aid has undergone some changes over the years, the fundamental differences still remain because implied in these differences are contradictory bureaucratic interests that can hardly be united. The purpose of this chapter is to trace different official attitudes and compare their competing interests over three

distinct periods in the evolutionary process of Japan's aid policy, beginning with the years of war reparations until the implementation of the Fifth Medium-Term Target in the middle of 1990s.

### **3.1 War Reparation and An Expanding Japanese Role in ODA (From Late 1950s To 1972)**

Japanese aid policy began as reparation arrangements with Asian countries Japan had invaded in World War II. These programs were initiated to restore the severely-damaged economic infrastructure in these countries. In the last five years of the 1950s, Japan signed reparation agreements with several Southeast Asian countries, such as Indonesia, Philippines, Burma and Thailand.<sup>5</sup> Although the sum of reparations expenditures was relatively small, about \$1 billion, the benefit for Japan was significant.<sup>6</sup> Since reparation aid was usually tied to procurement of Japanese products, it in effect created a market for Japanese goods and financial services in these countries.

At that time, reparation programs, among other Japanese activities to extend economic connections with developing nations, were loosely referred to by government officials as "economic cooperation". No distinction was made between it and "foreign aid". The MITI, MOFA and EPA each drew up its own set of priorities to delineate the scope of economic cooperation and diverged about *how* important it was to Japan.

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<sup>5</sup> Alexander Caldwell, "The Evolution of Japanese Economic Cooperation: 1950-1970," in Harold B. Malmgren ed., *Pacific Basin Development: The American Interests*, Lexington, Mass: Lexington Books, 1972, p34.

<sup>6</sup> William Brooks and Robert Orr, Jr., "Japan's Foreign Economic Assistance," *Asian Survey*, Vol. 25, no. 3, March 1985, p324.

In 1958 the MITI issued its first policy guidelines, “Economic Cooperation: Present Situation and Problems”. It was also the only comprehensive annual report on Tokyo’s aid policies until 1978.<sup>7</sup> In this report, the MITI asserted that economic cooperation was the new axis of Japan’s post-war trade policy, and its main task was to promote Japanese exports and secure foreign sources of raw materials and energy.<sup>8</sup> This cooperation could be either bilateral or multilateral, in the form of either capital transfers, technical assistance or trade flows. Actually, any activities or programs participated in by either the government or the private sector to develop the “underdeveloped countries” were regarded by the MITI as economic cooperation.

The MOFA was the first to attempt to incorporate economic cooperation into Japan’s neo-mercantilist policies.<sup>9</sup> According to its report, Japan’s “economic miracle” could not be realized without the stability and prosperity of its most important economic partners in Asia. The Foreign Affairs Ministry acknowledged the importance of economic cooperation in developing Japanese trade as well, but it was more inclined to plant this cooperation firmly within the broader context of Japan’s national policies and international interests.<sup>10</sup> It believed that, in order to sustain Japan’s own domestic prosperity and social welfare, its foreign aid must be geared toward establishing a central role in Asian economic development.<sup>11</sup> The MOFA also made several attempts to define economic cooperation, among which the common elements were the technical

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<sup>7</sup> William Nester, *Japan and the Third World: Patterns, Power, Prospect*, New York: St. Martin’s Press, 1992, p86.

<sup>8</sup> *Ibid.*, p86.

<sup>9</sup> MOFA, “Review of Foreign Relations,” in *Diplomatic Blue Book*, Tokyo, September 1957.

<sup>10</sup> Sukehiro Hasegawa, *Japanese Foreign Aid: Policy and Practice*, New York: Praeger Publishers, 1975, p60.

<sup>11</sup> Alan Rix, *Japan’s Economic Aid*, p24.



cooperation, private and public capital flows, all designed to enhance Japan's economic penetration of the recipient countries.

The EPA in these early days often included economic cooperation in its post-war overall economic plans. In its second plan of 1957, the EPA considered economic cooperation to be one of the most important measures in re-orientating Japan's industrial structure from light industry to heavy and chemical industries. To this end, economic cooperation should be targeted on countries where raw materials for heavy-industry construction were ample and potential markets for heavy-industry products were huge. In comparison with the other two ministries, the EPA's definition of economic cooperation was much broader and vaguer. Activities such as overseas investments, procurement of resources and long-term import policies for food were all included in its definition.

Despite these differences in approach, out of a shared awareness of the externally oriented future of the Japanese economy, four ministries agreed that economic cooperation should become an integral part of Japan's long-term policies. An important step toward consolidating this understanding was to join the Development Assistance Group (DAG) of the Organization of Economic Cooperation and Development (OECD) in 1961.<sup>12</sup> Membership in DAC led Japan into the "rich countries club", ensuring that it would not be isolated from the group of the most powerful states in the world,<sup>13</sup> but the

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<sup>12</sup> The DAC is based in Paris and is an organ of the OECD. It was established in 1960 and originally named the Development Assistance Group. In 1961, it was reconstructed as the Development Assistance Committee. Nine founder members of the OECD (Belgium, Canada, France, West Germany, Italy, Netherlands, Portugal, UK and USA) joined it. Japan also entered the DAC in 1961, but its membership of the DAC was regarded as a historical anomaly because it was the only country that joined the DAC as a founder member before it became a member of the OECD in 1964. The primary function of the DAC is to mediate negotiations among aid donors on quantitative increases or quantitative enhancements in aid. Now the DAC seats members from 21 industrial democracies, including Japan and the European Union.

<sup>13</sup> F.C. Langdon, *Japan's Foreign Policy*, Vancouver: University of British Columbia Press, 1973, p87.

“membership fee” was high. Tokyo had to commit itself to extending generous foreign aid that equaled 1 per cent of its annual GNP, and at the same time, subject its aid programs to greater scrutiny from other member states of the DAC. It was at the constant urging of the DAC that the term “aid”, though not necessarily in the contemporary sense, began to appear in Japanese government papers. Entry into the DAC certainly benefited Japan in several ways. A MITI report candidly admitted that Japan joined mainly to gain access to the markets of other industrialized nations, and to promote Japanese trade and investment objectives in the developing world.<sup>14</sup> The Director of the MOFA’s Economic Cooperation Division, Sawaki Masao, made it even clearer that Japan joined the DAC out of a desire to avoid long-term disadvantage caused by isolation from other advanced nations.<sup>15</sup> Although the statements made by these ministries indicated that none of them had fully realized the long-term significance of the DAC membership for Japan, the fact is that thereafter the growth of Japan’s foreign aid further accelerated and other types of aid rather than reparation arrangements came to the fore.

Just as the turn of the decade witnessed notable development in Japan’s aid and more straight-forward expressions of aid thinking by the government ministries, so the aid administration expanded and consolidated. Four ministries had placed themselves squarely in key areas of aid administration, and by 1963, the lines delineating the overall pattern of decision-making that has operated till now were drawn.<sup>16</sup> With the set-up of separate aid bureaus in each ministry, the responsibility for foreign aid was also

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<sup>14</sup> MITI, Economic Cooperation Policy Research Committee, *DAC and the Problem of Aid to Underdeveloped Countries*, Tokyo: Asia Economic Research Institute, 1966, pp1-6.

<sup>15</sup> Alan Rix, *Japan’s Economic Aid*, p29.

<sup>16</sup> *Ibid.*, pp35-36.

institutionalized around the same period. These efforts to strengthen aid bureaucracy were made to cope with the new trends in foreign aid at the turn of the decade. They were also derived from the competition among four ministries over aid policy management. The contention around the control of the Overseas Economic Cooperation Fund (OECF), a newly established government soft-loan agency, was an example in point. Originally, the OECF was placed under the supervision of the MOFA, but the other two bureaucracies, the MOF and MITI, also desired to take the lead role in the OECF so as to gain more leverage in the policy-making process. After difficult negotiations, the three agreed to fold the OECF under the weakest and the least threatening EPA, whereas their officials would be allowed to enter the OECF in strategic policy positions. Thus, the operation of the OECF was, from the very start, subordinate to bureaucratic contention rather than to the rules espoused by itself.

Japan's quick entry into the DAC and the consolidation of its aid management apparatus ushered in a period in which Japan's total aid flow rose steadily. Between 1960 and 1970, the total net flow of official and private resources from Japan to less developed countries increased from \$246 million to \$1.8 billion, and as short as two years later, it reached \$5.8 billion.<sup>17</sup> ODA disbursements as a percentage of GNP almost doubled during the same period. In 1968, Japan became the fourth largest donor in the DAC. However, the general thrust of aid thinking in the 1960s remained locked onto Japan's own economic growth. The MOFA, though convinced of the importance of foreign aid for Japan's bilateral relations with the developing countries, was rather weak in domestic

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<sup>17</sup> David M. Potter, *Japan's Foreign Aid to Thailand and the Philippines*, New York: St. Martin's Press, 1996, p3.

bureaucratic strength at that time, and unable to sway the dominant trend of aid policy. Therefore, the ODA was relatively ignored as a component of overall foreign policy in the 1960s, and its main objective was economic. For example, the majority of aid programs in this period were private investments and yen loans from the Export-Import Bank of Japan based on interests rate that would not qualify them as ODA with the present definition.<sup>18</sup> By the end of the 1960s, Asia, in particular the Southeast Asia, received more than 80 per cent of Japanese aid because of its strategic position in Japan's economic development. This distribution pattern culminated in 1970 when as much as 98.2 per cent of aid flowed to Asia. However, the "economic miracle" phase in which aid was exclusively reserved for basic economic development purpose came to a stop in the early 1970s.

### **3.2 A Turning Point and the Emergence of ODA as a Pillar of Japan's Foreign Policy (From 1973 To 1985)**

During the second phase of aid policy's evolution between 1973 and 1985, aid reached a new height in terms of its visibility and utility. Already indispensable to Japan's domestic economic policy, foreign aid now emerged as a multi-dimensional, multi-purpose diplomatic instrument. This important take-off was triggered, to a certain extent, by two events: the OPEC oil shock in the winter of 1973-1974, and Prime Minister Tanaka's ASEAN trip in January 1974.<sup>19</sup>

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<sup>18</sup> Ibid., p4.

<sup>19</sup> Dennis Yasutomo, "Why Aid? Japan as an Aid Great Power," *Pacific Affairs*, Vol. 62, no. 4, 1992, p492.

The OPEC oil shock took place as the Arabian oil producers imposed an oil embargo on the United States and its allies, including Japan, who were thought to be sympathetic to Israel. To placate the OPEC nations, Japan offered a huge aid package to them, and after that, oil flowed once again to Japan. The oil crisis taught the Japanese an important lesson that aid could be the central piece of “ resource diplomacy” beyond Asia.

Tanaka’s trip to the ASEAN was intended to further Japan’s relationship with those countries once invaded by Japan in World War II. Disappointingly, what he faced in Bangkok and Jakarta were riots rather than cheers, shocking Tokyo after a decade of activities designed to win favor among these neighboring nations. Tanaka’s visit made Japan come to see that in order to gain due respect from its recipient countries, Japan had to broaden its perspective on foreign aid. As soon as Tanaka got back, he embarked on a process, which his successors followed, of increasing aid to Asia with improved terms and conditions, endeavoring to cultivate a peace-loving, pro-development and non-ideological leadership role in this region. Thus, if the oil shock triggered a globalization of political and diplomatic uses of aid, the Tanaka trip triggered a strengthening of such uses in Asia.

In the face of these “international shocks”, the MOFA made great efforts to accommodate them. An internal document around that time argued that Tokyo should give aid to assist foreign development, not simply to reinforce Japan’s two-digit growth rate.<sup>20</sup> As the open channel of communication between the developing countries,

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<sup>20</sup> MOFA, Economic Cooperation Bureau, *Several Proposals for Future Countries*, 20 July, 1972.

international aid organizations and the Japanese government, the MOFA recognized the collective influence of the Third World in the United Nations, and called for more respect for these developing countries from the Japanese government. In its view, giving aid was part of Japan's responsibility as an advanced industrial nation and a senior member of the DAC, for it would narrow the development gap between the North and the South. As such, the ministry opposed linking annual aid volume with foreign exchange reserves. In particular, it stood against the MOF who insisted that aid should only be increased when foreign exchange was in surplus.

The MOFA even criticized other ministries openly for their parochial views of foreign aid in its public pronouncements or official documents. Most of its criticism was directed at these ministries' intention to subject aid solely to Japan's commercial interests and ignore the needs of less developed countries. Councilor Kikuchi of the Economic Cooperation Bureau advocated in his speech that foreign aid should be renamed as "development assistance" because only this name could restore the true meaning to it.<sup>21</sup>

But this new concept of development assistance did not hold any appeal to the MITI, which continued to tie aid narrowly to the needs of Japan's economy. In November 1974, the MITI published its first "long-term" economic plan for Japan, analyzing the challenges of a changing world economy and possible development options in such a world.<sup>22</sup> The MITI proposed that Japan should shift the basis of its economy from heavy resource-hungry industries like steel, shipbuilding and automobile into light, knowledge-

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<sup>21</sup> Kikuchi Kiyosuke, *Trends in Economic Cooperation*, Speech to Japan's Overseas Telecommunications Cooperation Association, 17 May, 1973.

<sup>22</sup> William, *Japan's Growing Predominance Over East Asia and the World Economy*, p71. This report was revised by the MITI latter and published for public discussion.

intensive industries like computers, microelectronics, new materials and services.<sup>23</sup> Aid programs, along with Direct Foreign Investment (DFI) and government subsidy, were tools to facilitate this vital shift from an industrial to a post-industrial economy. Through directing aid flows to well-selected countries and areas, Japan could move the labor-intensive production and process to low wage nations and minimize the effects of yen appreciation by using cheap foreign labors. Aid could also help Japan diversify its foreign markets and develop cheap and reliable sources of natural resources. Therefore, the MITI's aid philosophy prescribes that aid was not simply an international responsibility, but an unavoidable requirement for the smooth management of Japan's own economy.

When Japan joined the DAC in the early 1960s, it committed itself to disbursing as much aid as 1 per cent of its annual GNP. Thereafter, Tokyo came under increasing foreign pressure to fulfill this commitment. The MOFA and MITI also endorsed this quantitative enhancement though from different perspectives. However, their requests met strong resistance from the MOF, the most conservative ministry on aid questions. Therefore, till 1997 Japan's ODA/GNP ratio was still as low as 0.23.<sup>24</sup>

The involvement of the MOF in aid administration was less noticeable in the first half of the 1960s when aid only took up a very tiny portion of the General Account budgets. But as the pressure for increasing aid disbursement mounted, the importance of the MOF began to show. The Finance Ministry was often reluctant to sanction growth in aid budget that the MOFA and MITI argued the new activities required. If it did not agree to raise the funding ceiling, there were few resources other ministries could resort to other

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<sup>23</sup> Chalmer Johnson, *MITI and Japanese Miracle: The Growth of Industrial Policy, 1925-1975*, Stanford: Stanford University Press, 1982, p291.

<sup>24</sup> MOFA, *Japan's ODA Annual Report*, 1997. Chart 75: Trends of Japan's ODA/GNP Ratio.

than inviting political intervention from either the Prime Minister or foreign governments to check the power of the MOF.

In the 1960s the MOF appeared extremely cautious about every new commitment. It once asserted at a committee meeting that while it recognized the demand for economic cooperation, Japan could not increase the amounts given, for it would require constant efforts to merely maintain the present ratio of aid to national income.<sup>25</sup> After the turn of the decade, the MOF's rigid attitude toward aid budgets loosened up a bit. It stopped insisting on maintaining aid flows at present level, but placed more emphasis on effectiveness in giving aid. The MOF stressed that any improvement in aid volumes or terms should be implemented after properly assessing the conditions and needs of the prospective recipients. Requests arising out of efforts to promote self-help should be given precedence. The ministry used to counter the 1 per cent ODA/GNP ratio by claiming that Japan's per capita income was lower than that of Europe. In the 1970s when Japan's economy began taking the lead among the developed countries, this excuse became obviously less plausible. Thus, the MOF turned to guard its rigid position in the budgeting process by declaring that there must be a "national consensus" on the need for increasing aid budgets. Otherwise, changes to Japan's aid disbursement would not be legitimized. Since the inherent conflicts in bureaucratic interests made it almost impossible to reach such a "national consensus", the MOF was actually taking an exceedingly negative approach to the whole aid issue.

During this period, the DAC continued to press Japan to stop using aid as an export promotion device, while Washington began requesting that Japan share the

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<sup>25</sup> Alan Rix, *Japan's Economic Aid*, p37.



responsibility, as well as the cost, of its own national defense. A barrage of international changes in the late 1970s, such as the fall of South Vietnam (1975), the Vietnamese invasion of Cambodia (1978), the Iranian revolution and hostage crisis (1979) and the Yen's appreciation, also provided imperative reasons for Japan to re-think its aid philosophy.<sup>26</sup> In response to these new geopolitical and geoeconomic realities, Japan's total aid volume tripled between 1973 and 1979, while its geographical distribution widened considerably. Increasing amounts of aid flowed to countries of strategic importance that did not necessarily have large markets or abundant resources, such as South Vietnam.<sup>27</sup> In January 1980, Prime Minister Ohira announced increased aid to Pakistan, Turkey, Thailand and Egypt, for they were "areas of strategic importance for maintaining international peace and stability."<sup>28</sup> Meanwhile, aid to Asia dropped from more than 90 per cent of total aid in the late 1960s to only 60 per cent by the end of the 1970s, whereas African aid rocketed up to a remarkable 17.1 per cent and Middle East aid to 12.4 per cent.<sup>29</sup> These changes to the regional distribution of aid went far beyond being a response to foreign pressure, nor were they merely positive gestures made to mitigate economic friction with Japan's trade partners. Having learned lessons from the first (1973) and second (1979) oil shocks, the Japanese government reached a consensus that

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<sup>26</sup> William, *Japan and the Third World*, p93.

<sup>27</sup> *Ibid.*, p94.

<sup>28</sup> Robert Orr, "The Aid Factor in US - Japan Relations," *Asian Survey*, Vol. 18, no. 7, July 1988, p747.

<sup>29</sup> MOFA, *Japan's ODA Annual Report*, 1997, p135, Chart 38: Trend in Japan's Bilateral ODA. On post-oil-shock Japanese involvement in the Middle East, please read Michael Yoshitsu, *Caught in the Middle East: Japan's Diplomacy in Transition*, Lexington: Lexington Books, 1984; Seichi Kimura, "Japan's Middle East Policy: Impact of the Oil Crisis," *Kobe University Law Review*, Vol. XIX, 1985; and Terutomo Ozawa, "Japan's New Resource Diplomacy: Government-based Group Investment," *Journal of World Trade Law*, January-February 1980. On Japanese aid policy toward Africa, please see Martin Roth, "Japan and Africa," *Africa Economic Digest*, Vol. 3, no. 49, December 1982; Joanna Moss and John Ravenhill, *Emerging Japanese Economic Influence in Africa*, Berkeley: University of California Press, 1985.

“the cut-off of oil and food stuffs and the protectionist closure of overseas markets posed a greater threat to Japan than an unlikely military invasion”.<sup>30</sup> Economic aid, as a nonmilitary countermeasure that appeared to have the greatest potential for preventing and managing such threats, should thus receive priority consideration among policy-makers. These assumptions served as the foundation of the concept of “Comprehensive Security” that had emerged in the late 1970s and was formally endorsed by Prime Minister Suzuki as the basis of Japan’s foreign policy in 1980. Comprehensive security views diplomatic, economic and cultural initiatives to be as important as military means in guaranteeing Japan’s security. As such, aid emerged as a central pillar of Japanese foreign policy in the early 1980s.

The accentuation of the political-diplomatic function of foreign aid, however, didn’t eclipse its economic-commercial dimension, for “national security” itself was multi-faceted. While the MOFA strove hard to devise an aid philosophy that highlighted two principle rationales for aid: humanitarianism and interdependence,<sup>31</sup> the MITI continued to emphasize aid as one of its many tools for enhancing exports capturing markets and natural resources.<sup>32</sup> The MOF and EPA remained essentially conservative on aid budget. Officials from the MOF argued that Japan’s fiscal situation was still severe and it was necessary to calculate the future fiscal burden of foreign aid already disbursed before new commitments were made.

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<sup>30</sup> Dennis Yasutomo, *Why Aid?*, p494.

<sup>31</sup> MOFA, Economic Cooperation Bureau, *Economic Cooperation: Present Situation and Prospects ----- The North-South Problem and Development Assistance*, Tokyo, 1978, pp355-360.

<sup>32</sup> William, *Japan and The Third World*, p94.

The unyielding stance each ministry took often set off tough policy battles between them. For example, when Prime Minister Fukuda promised to double ODA within three years in 1977, the four bureaucracies diverged seriously over whether the aid increase should be valued in dollar or yen and which year should be considered the base year for increase. The MOFA and MITI preferred a yen-denominated ODA increase based on calendar 1977 which would provide huge export and investment subsidies to Japanese corporations. But the MOF and EPA wanted a dollar valued increase starting from 1976, arguing that to “double the yen value of Japan’s ODA in three years would be fiscally impossible”.<sup>33</sup> They compromised and the final deal was for denomination to be in dollars on a 1977 base.

Indeed, with the acceptance of aid as a multi-dimensional, multi-purpose instrument for safeguarding Japan’s comprehensive security in the early 1980s, the ministerial disputes over aid questions became even more intense rather than muted. The general consensus in the 1960s on the importance of aid in economic growth was diluted as aid began bringing political benefits to Japan. The MOFA was more empowered than anytime before to insist on its own aid philosophy. As a result, many concrete aid issues could only be solved through bureaucratic bargaining.

### **3.3 Striving for Leadership in Aid Quantity or in Aid Quality? (From 1985 To 1997)**

The year 1985 is another turning point for Japanese aid policy insofar as during this year a couple of developments enhanced aid policy’s status. Firstly, Japan rose to the

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<sup>33</sup> Alan Rix, *Japan’s Economic Aid*, p43.

world's largest creditor nation in 1985, whereas the United States became the world's largest debtor nation. The reversed ranking of Japan and the United States on the world's financial list seemed to symbolize and echo the popular belief in the decline of American power and the emergence of Japan's new economic and financial hegemony. In the same year, Japan also became the second largest donor, thanks in part to the appreciation of the yen. These achievements not only spawned confidence in the hearts of Japanese people and government officials, but also spurred amongst the Japanese public demands for aid "leadership". In 1989 the net disbursement of Japanese ODA reached nearly \$9 billion, while that of the United States was less than \$8 billion. For the first time in history, Japan surpassed the United States and became the No. 1 aid-giving nation in the world.<sup>34</sup>

However, Japan is clearly a leader in aid quantity not in aid quality. Aid's effectiveness and relevance are measured by more than just the amount of aid spent, and Japan's standing as a donor is also measured by criteria other than just aid volume. Over the past years, the quality of Japanese aid has remained dismally poor despite a number of dramatic quantitative increases. The Japanese government has been under crossfire from both donors and recipients for masking its neo-mercantilist policies with glorious aid rhetoric. The DAC Aid Review of Japan in April 1993 pointed out specifically that, in view of Japan's established leadership in aid volume, Japan's new objective should be achieving commensurate leadership in aid quality.<sup>35</sup> But till now Japan's aid quality still remains low in several respects.

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<sup>34</sup> Marie Soderberg, "*Japanese ODA – What type, for whom and why?*," in Marie Soderberg ed., *The Business of Japanese Foreign Aid*, London: Routledge, 1996, pp36-37.

<sup>35</sup> DAC, *Aid Review of Japan*, April 1993, p8.

For example, its ODA/GNP ratio has stood near the bottom of the DAC's list, varying from a low of 0.20 per cent to a high of 0.34 per cent. In 1996, DAC placed Japan in 19<sup>th</sup> place among 21 countries in terms of ODA/GNP ratio.<sup>36</sup> In comparison, some North European countries contribute much larger share of their GNP to foreign aid, although they give less than Japan in terms of absolute aid volumes. For example, the ODA/GNP ratio of Denmark in 1996 was 1.04 and that of Norway was 0.85, both higher than that of Japan.<sup>37</sup> More recently, Japan has indicated at the United Nations its intention to raise its ODA contribution to 0.7 per cent of GNP, but progress toward this target remains slow. The low quality of Japan's aid spending is also reflected in the grant share and grant element in the total aid package.<sup>38</sup> With a grant share of around 43.8 per cent, contrasted to the average of 77.1 per cent among DAC member states, Japan falls behind most of other donor countries in this category. Its grant element, calculated on the basis of a two-year average (from 1994 to 1995), ranked last among 21 DAC countries.<sup>39</sup> The percentage of untied aid (i.e., aid that is provided without any "strings" requiring the recipient to use the aid to buy Japanese products or services.) is another important indicator of aid quality. Under grant assistance, Japan's aid is almost fully tied. On the other hand, the category of yen loans, almost 80 per cent of Japanese loan commitments are untied since 1988 at the exchange of notes stage.<sup>40</sup> This figure seems to contradict the

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<sup>36</sup> MOFA, *Japan's ODA Annual Report*, 1997, p168.

<sup>37</sup> *Ibid.*, p170.

<sup>38</sup> According to the MOFA 1997 Annual Report, the grant share refers to the amount of grant aid compared with loan aid. The grant element comprises grant aid plus part of loan that is considered to be a grant. Usually, the grant element of a loan on a commercial basis ( 10 per cent interest rate) is 0 per cent, and as the terms (interest rate, grace period, maturity) are more alleviated, the figure of grant element is higher, reaching 100 per cent in the case of a grant.

<sup>39</sup> MOFA, *Japan's Annual ODA Report*, pp170-171.

<sup>40</sup> Exchange of Notes: official documents stipulating the content and conditions of the cooperation between the Japanese government and the recipient governments.

general impression of the low quality of Japanese aid. However, further studies reveal that since the actual process of procurement has not been opened to non-Japanese firms, the Japanese yen loans are *de facto* tied at the level of procurement.<sup>41</sup> The poor quality of Japanese aid program can also be seen from the humanitarian perspective. Of the 21 DAC member states Japan gives less than 19 other countries to the least among less-developed countries that are most in need of aid money.<sup>42</sup> Heavy priority is placed by Japan on some countries in Asia that have already experienced enormous economic growth.

To improve Japan's aid quality, the focus of debate should really be on how Japan moves on disbursing more concessional aid that consists of grant aid and untied yen loans, as well as how aid funds can be best fitted with the basic humanitarian needs that are said to guide Japan's aid-giving.<sup>43</sup> It is in this area that the four-ministry decision-making system imposes the most severe constraints on policy. Each ministry persists in its independent view of aid philosophy, unwilling to move to formulate a basic government stand on policy-making. Aid quantity thus continues to increase faster than aid quality as the latter requires a much clearer and more comprehensive explanation for its enhancement.

Different ministries hold distinct attitudes toward improving Japan's aid quality. On extending highly concessional aid, the MOF appears most cautious over softening the

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<sup>41</sup> Margee Erisign, *Doing Good or Doing Well?* New York: Columbia University Press, 1992, p21. In this book, Margee conducted a quantitative survey of Japan's loan aid, which suggests that there is little correspondence between the official statistics on untying and the data regarding the procurement provided by qualitative analysis. She then further pointed out that this incongruence is caused by the disjunction between policy-making and implementation, particularly for concessional loans, in Japan.

<sup>42</sup> Marie Soderberg, "Japanese ODA - What type for Whom and Why," p42.

<sup>43</sup> Alan Rix, "Japan's Foreign Aid Policy: A Capacity For Leadership?" *Pacific Affairs*, Vol. 62, no. 4, 1990, p465.

concessionality of aid terms or extending the repayment period on loans. It insists that highly favorable terms in aid programs should only be granted to countries that actively seek to improve their own conditions. The MITI continues to be very reluctant to extend highly concessional aid and untie aid programs lest it diminish Japanese trading opportunities. In order to lessen the mounting resultant international discontent, it proposed a "LDC untied" aid policy in the mid-1980s, which restricted tenders in bidding only to Japanese or LDC applicants.<sup>44</sup> This seemingly favorable policy to the developing countries turns out against them in reality. Since the LDC companies are generally less competitive than Japanese ones, this practice results in over two-third of all procurements ending up in Japanese hands.<sup>45</sup> During this period, the MITI launched several aid schemes aimed exclusively at promoting Japanese commercial interests as it had before. One of them that needs to be mentioned here is called the New Asian Industries Development Plan.<sup>46</sup> From start to end, there was no perceivable involvement of the MOFA in the policy-planning, nor did the MOFA express any support for this plan. This was rather a bizarre phenomenon considering that in Japan the Foreign Affairs Ministry is usually responsible for making aid-related announcements.<sup>47</sup> The conspicuous absence of the MOFA in such a grand scheme initiated by the MITI is in fact another indication of the bureaucratic incompatibility over aid policy. The Foreign Affairs Ministry is the strongest supporter of extending more concessional aid among the big four. Most sensitive to foreign criticism, the MOFA aspires to "occupy an honored place in the international

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<sup>44</sup> Rober Orr, *The Emergence of Japan's Foreign Aid Power*, p36.

<sup>45</sup> See also Margee Ensign, *Doing Good or Doing Well?*

<sup>46</sup> MITI, *1986 ODA White Paper*, Tokyo, see p146 for a discussion of this plan.

<sup>47</sup> Robert Orr, *The Emergence of Japan's Foreign Aid Power*, p38.

society” by means of loosening up policy conditionalities on aid.<sup>48</sup> In order to strengthen its stand on this issue, the MOFA published a report in 1985 to address the problems in Japan’s aid system. In this report, the Foreign Affairs Ministry advocated that the use of NGOs be expanded in the administrative process. Since Japan’s NGOs are mostly non-commercial organizations that stand firmly for protection of human rights or the global environment, their participation will surely reinforce the MOFA’s campaign for softening the concessionality of Japan’s aid terms.

Regarding the humanitarian needs of the developing countries, the divergence between various ministries is even wider. Both the MOFA and MOF oppose aid for countries that already enjoy rather high economic growth rates, as well as GNP per capita, but two it oppose for different reasons. The MOFA is thought to be the only ministry in support of extending “real aid” in Japan. Its preference for diversifying Japan’s aid away from Asia has contributed to important changes to aid’s distribution pattern. In 1996, Africa became the second largest recipient of Japan’s bilateral ODA, Latin America the third.<sup>49</sup> Unlike the aid flowing to Asia, the aid to these two areas is generally unrelated to Japan’s commercial interests. Funded exclusively by the Economic Cooperation Bureau of the MOFA, these aid programs, in the form of either capital grants or low-interest loans, are intended to finance measures against pollution and environmental deterioration, as well as to improve the living conditions in these regions.<sup>50</sup> Therefore, the MOFA gives out the majority of Japan’s humanitarian aid. The Finance Ministry also consistently opposes aid for newly industrialized economies, but it does not like the way the MOFA

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<sup>48</sup> MOFA, *Japan’s ODA Annual Report*, 1997, p1.

<sup>49</sup> *Ibid.*, p135, Chart 38: Trends in Japan’s Bilateral ODA (by region).

<sup>50</sup> Margee Ensign, *Doing Good or Doing Well*, pp64-67.



handles aid policy either. It often criticizes the Foreign Affairs Ministry for not being stringent enough with recipients and simply accepting inflated aid requests.<sup>51</sup> As a matter of fact, the MOF's call for screening potential applicants for aid arises primarily out of financial reasons rather than humanitarian considerations. It stands against any aid programs deemed unnecessary by itself, no matter whether it is directed at countries with high economic growth rate or those with lower rate.

The MITI may be the most insensitive to the needs of the developing countries among the four. It has opposed assistance to labor-intensive industries in these countries for fear it would hurt Japan's own struggling industry. It has also opposed increasing aid to Africa since much of that assistance is designated for disaster relief or emergency food aid that can not bring about any pay-off to Japan's foreign trade. In contrast, the MITI has always been an eager supporter of aid to the Middle East, and even to communist China, long before the MOFA, because these countries have an abundance of natural resources or a market of unpredictable potential. According to the MITI's philosophy, the priority of foreign aid is on promoting Japanese commerce rather than assisting the development of the LDCs at the cost of Japan's own economy.

The conflicts between the MOFA and MITI are unavoidable, but a community of interests between two also exists. For example, both ministries agree to raise the ODA's funding ceiling and have frequently allied with each other to press this position with the MOF.<sup>52</sup> The EPA, though it appears ambiguous on major issues in aid policy, tends to stand by the side of the MOF when such policy battles are fought.

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<sup>51</sup> Robert Orr, *The Emergence of Japan's Foreign Aid Power*, p32.

<sup>52</sup> *Ibid.*, p39.

As a result of constant bureaucratic confrontations, Japan's five aid-doubling plans are all quantity-based. The Fifth Medium-Term Aid target for 1993-1997 is now set at US \$75 billion. However, targets for quality enhancement during the same period in the specific policy areas are absent.<sup>53</sup> There are talks of "expanding" grant aid, technical cooperation, multilateral aid, and the percentage of untied loans, but without being too specific. Therefore, the question of what kind of leadership to strive for in foreign aid will probably continue to obsess Japanese government for years.

The distillation of official attitudes toward aid policy over three distinct periods demonstrates clearly the administrative logjams that often arise where policy responsibility is diffuse and political will inconsistent. The outputs of policy-making, however, are related not only to aid ideas and attitudes, but also to the structure and process of decision-making. Influential bureaucratic actors with competing interests interact through different action channels, making the outcomes of aid policy even more complicated. The following Chapter will deal with this subject in detail.

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<sup>53</sup> EPA, *Japan's ODA 1996*, p26.

## **Chapter IV Policy Process and Ministries**

Compared with the shifting trends in aid terms, volumes, distributions and composition, the structure of aid system and its decision-making process are far more permanent features of foreign aid, which have impact on both the shape and content of aid policy. In Japan, the “big four”, the MOF, MOFA, MITI and EPA, control the decision mechanism, and their interplay is channeled through a policy process governing four major categories of foreign aid, namely capital grants, technical cooperation, yen loans and multilateral aid. Among the four ministries, the administrative responsibility is clearly divided according to the principle of “equal partnership”. Each ministry has jurisdiction over a part of Japan’s aid program, but none of them is able to dominate it as a whole. This competitive, vertical structure of aid administration allows only a limited sense of horizontal communication among the scattered parts of the system. The rivalries between ministries thus become a primary motive force in the development of aid policy.

This problem is built into Japan’s aid system through a policy-making process, including the budget allocation, which draws in all the four competing ministries struggling for compromises and consensus. Since each type of aid involves different ministries, its policy process differs more or less from that of the others. This chapter will delineate the decision process for each of them in order to reveal how ministries and agencies interact to affect the outputs of Japan’s aid policy.

#### 4.1 Bilateral Capital Grants

Grant aid is the provision of funds without obliging the recipients to repay them. It is principally extended to countries with relatively low per capita incomes.<sup>1</sup> Surveys will be conducted on a recipient's social and economic development situation, its development objectives and its bilateral relationship with the Japanese government before the decision for grant assistance is made. Capital grants are generally used for areas of low profitability, such as medical and health care, housing, water supply, education, environmental protection, as well as agriculture and human resource development. Since the late 1970s, they have also been extended for debt relief and structural adjustment support in Third World Countries. As such, they are often eagerly sought by recipient governments and competition among them is intense.

Capital grants were first made by Japan in 1969 to finance industrial infrastructure projects in Southeast Asia. Later their focus was shifted to social infrastructure building only. Over the past 30 years, the weight of grant assistance in Japan's ODA budget has been on the rise. In 1997 nearly 15 per cent of the ODA budget was allocated to capital grants in contrast to 6.2 per cent in 1977.<sup>2</sup>

Grant assistance has been handled jointly by the MOFA and MOF since its inception. Although the MOFA is given greater say on formulating grant policy, the MOF always provides an important check on the MOFA through assessing requests it submits for grant funds.<sup>3</sup> Like the other three categories of ODA, grant assistance is initiated by a

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<sup>1</sup> In fiscal year 1997, countries whose per capita GNP in 1995 was \$1,465 or less are considered eligible for grant aids. The cut-off point for eligibility for grant aids for cultural activities, however, is a per capita GNP of \$5,295 according to World Bank statistics.

<sup>2</sup> MOFA, *Japan's ODA Annual Report, 1997*, p131, Chart 33: ODA Operating Budget.

<sup>3</sup> David M. Potter, *Japan's Foreign Aid to Thailand and the Philippines*, p11.

request from the recipient countries.<sup>4</sup> After the study on the content of the request is completed, the request together with the study report are forwarded to the Foreign Affairs Ministry for appraisal. The MOFA usually reviews a request in the light of the rationales underlying its grant aid policy. It must make sure that the aid is extended to the poorest countries for social development projects and that it also fits with the interests of the Japanese government. Since there is no multi-ministry system controlling the policy-making on grant aids as there is on loans or technical cooperation, the decision on whether the request should be acceded to or not is fairly easy to make within the MOFA, in particular by the Second Economic Cooperation Division of the Economic Cooperation Bureau.

Once the decision about the feasibility of a grant request is made by the MOFA, the request will be passed along to the MOF Budget Bureau for an allocation in the following year's grant budget. Since the number of grants made each year is relatively small, the Budget Bureau has ample opportunity to scrutinize each of them and determine the need for disbursement.<sup>5</sup> This works rather to the disadvantage of the MOFA as the criteria employed by the Foreign Affairs Ministry in judging the appropriateness of grant requests may not necessarily conform to those of the Finance Ministry, nor are they sufficiently precise to prevent the MOF from questioning the ambiguity or inconsistency

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<sup>4</sup> Japan is the only country offering aid on a request-only basis. The request stage includes eight steps: step one: project identification; step two: request; step three: decision on study implementation; step four: implementation of preliminary study; step five: selection of consultant; step six: implementation of field study; step seven: analysis and study in Japan; and the last step: presentation of final request. This process is often accomplished with assistance from the MOFA's foreign embassies, regional bureaus, and the Japanese International Cooperation Agency. For details about each step involved, please see Margee, *Doing Good or Doing Well?*, pp37-42.

<sup>5</sup> According to the MOFA's ODA Annual Report in 1991, Japan financed only 92 projects under the scheme of grant assistance in 1991. Please see page 70 for more.

in the MOFA's judgment. As a result, in actual practice, a request accepted by the MOFA may end up being squelched by the MOF in the budgeting process .

Since the commitment of grant assistance depends on the budget appropriation, the MOFA is fully aware of the importance of having understandings with the MOF at an early stage, best before an official budget application is made. Considering the skeptical attitude of the MOF toward extending such "economically unsound" aid as capital grants, the MOFA has to be extremely cautious not to overestimate its ability to spend the grant budget in any one year. This concern is caused by the fact that grant funds are not usually spent in the same fiscal year in which they are allocated as most grant projects are slow-paced, and take more than one year to complete.<sup>6</sup> Although the undisbursed funds can be carried over to next year's grant budget, they are still regarded by the MOF as a waste, for these funds could otherwise have been allocated by the Finance Ministry for more financially rewarding items in the current year's budget. Moreover, the provisions for the carry-over of grant funds may also affect the budgeting in the next year because the MOF usually releases the Draft Budget compiling allocations for each ministry about mid-December, while the total sum of carry-over can only be calculated early in the following year.<sup>7</sup> In this case, the MOF will have to take on additional adjusting work, which it does not like very much. Therefore, the MOF is in principle opposed to any large increase in capital grants from the budget. The stringent attitude of the MOF has imposed constraints on the MOFA. When making the appraisal of a request, the MOFA has to consider very

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<sup>6</sup> Alan Rix, *Japan's Economic Aid*, p125.

<sup>7</sup> John Creighton Campbell, "Japanese Budget Baransu," in Ezra F. Vogel ed., *Modern Japanese Organization and Decision-making*, Los Angeles: University of California Press, 1975, pp74-75. "Baransu" is a Japanese translation of the English word "Balance".

carefully the “maturity” of the projects requested by the developing countries. The projects that are unlikely to be completed within one year are often turned down by the Foreign Affairs Ministry even if they are directed to social infrastructure development in the low-per-capita-income countries. The result of this compromise between the MOF and MOFA is that, contrary to the DAC principles, Japan’s grant assistance is also given to middle-income countries, such as South Korea and Singapore, on the basis of demonstrated needs, the duration of the project, and friendly relations with Japan.<sup>8</sup>

After the budget for grant requests is approved by the Finance Ministry, the talks with recipient governments on the content and conditions of cooperation must be conducted strictly within this budget framework. Any alteration to the budget for individual projects is forbidden unless approved by the MOF again. The requirement to be tied by a rigidly-set budget limit removes all flexibility that the MOFA may enjoy in negotiating and making commitments with representatives from the recipient countries. As a result, the final stage in the policy-making process for a capital grant is usually the most time-consuming one and proceeds rather slowly.

The percentage of grant assistance is considered to be the most convincing evidence of a donor’s aid quality. The disagreement between the MOFA and MOF, however, has pinned Japan’s grant budget down at a very low level. The small budget in turn leads to the invisibility of grant aid as a subject of debate at higher policy level in the Ministerial Committee or the Cabinet Special Committee. The Advisory Council did

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<sup>8</sup> David Potter, *Japan's Foreign Aid to Thailand and the Philippines*, p5. An example in contrast can be found in Margee Ensign, *Doing Good or Doing Well*, pp64-66. It is reported that MOFA officials once refuted a request from a small African country for supporting a project of electron microscope because this project takes too long to complete.

recommend the expansion of grants, but could not enforce its proposal. Therefore, even in the realm of capital grants in which the MOFA seemingly has policy preeminence, bureaucratic politics is still present.<sup>9</sup>

#### 4.2 Technical Cooperation

Technical Cooperation is aid whose aim is to develop the human resources that lay the foundation of national construction. It is designed by the Japanese government to widely spread the advanced technology and knowledge of Japan to people who are expected to play a leading role in their respective fields in the recipient countries. Countries ineligible for either grant aids or yen loans may be considered for this type of assistance.<sup>10</sup> Technical cooperation extends over the widest range of fields in Japan, from dispatch of Japanese advisers and specialists, intake of developing country trainees, high-level cooperation in transferring computer technology to the movement of equipment and the provision of health care.

For many years the DAC criticized Japan for its lagging performance in technical cooperation, but the situation certainly has changed since the early 1980s. Japan now gives more technical assistance in dollar terms than almost all the other DAC donors. In 1997, technical cooperation constituted about 17 per cent of Japan's ODA disbursement.<sup>11</sup> Despite the fact that the Japanese aid bureaucracy regards technical cooperation as an asset, several factors have hampered efforts to implement it more

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<sup>9</sup> Robert Orr, *The Emergence of Japan's Foreign Aid Power*, p30.

<sup>10</sup> Countries having relatively high income levels are not be considered for grant assistance, while countries heavily indebted are not eligible for yen loans.

<sup>11</sup> MOFA, *Japan's ODA Annual Report, 1997*, p157.



efficiently. Language, the inflated cost of experts and the short-term nature of technical aid projects are certainly barriers, but the intractable problems in policy-making pose more a serious hindrance to improving the quality of technical cooperation.

The administrative arrangements for the development of technical aid policy are extremely complex, involving a dozen ministries and agencies. Among them, the MOF, MOFA and MITI, with the assistance of their specialized technical aid bureaus or divisions, constitute the core of decision-making. Other bureaucracies, though they have a certain amount of input into the system, play in general a subordinate role as they are denied access to the technical aid budget. In addition to this complex decision structure, the request and approval procedures for technical cooperation are also diverse. Each of the eight categories in technical aid follows its own set of rules, and no permanent grouping of ministries is available to overview all of them.<sup>12</sup> As such, the smooth running of the whole decision-making system depends on effective coordination among the various sections of the technical aid administration. However, it is in this area that the current policy structure appears most inadequate.

The technical assistance process (for all types) supposedly begins with a request from the prospective recipient government to the MOFA through the local Japanese diplomatic mission. After the request reaches the MOFA, relevant ministries or agencies will be convened to make a decision on whether to go ahead with the request. It is at this

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<sup>12</sup> According to the MOFA's ODA report, the eight types of technical cooperation are: (1) programs for accepting trainees; (2) Youth Invitation Programs (Friendship program for the 21<sup>st</sup> century); (3) expert dispatch program; (4) independent equipment supply project; (5) Japan Overseas Cooperation Volunteers (JOCV); (6) project-type technical cooperation; (7) development studies; (8) development cooperation projects. Because each type of technical aid involves different groupings of ministries, the policy-making process for each of them is thus different. For a more detailed introduction to the content of each category in the technical aid, please see the *ODA Annual Report, 1997*, pp177-179.

point that the bureaucratic contention starts. Usually, the MOFA is the first to review the aid request and then, in accordance with the content of the request, determines which ministries will be consulted during the decision process. Meanwhile, it is also responsible for collecting request-related materials through its connections with those developing-country governments. Its control over information works, in theory, to the advantage of the MOFA in that it gives the Foreign Affairs Ministry a chance to scan all the documents on a request before deciding what information will be passed on to the other ministries. The information that might induce unnecessary interference, especially from the MITI, will be simply reserved to the MOFA itself. However, in reality, such a monopoly of information by the MOFA is often circumvented by the effective flow of information outside the MOFA's official channels. The informal communication networks operating through ministry representatives in overseas embassies are also capable of providing information that other aid bureaucracies need. Just as one MITI official once put it, "we would find out in any case, so there is no point in the MOFA refusing a request without checking with us."<sup>13</sup>

After ministries and agencies to be consulted are convened, policy discussion among them will begin. During this process, the influence of the MOFA is confined to broad policy and political issues, for it lacks both the specialist manpower and the technological expertise necessary for scrutinizing projects in the field of technical aid. Mining, energy and industry projects fall under the MITI jurisdiction, whereas agriculture, forestry and fishery projects have to count on the Ministry of Agriculture, Forestry and Fisheries (MFAA) for advice. Other technically-oriented ministries, such as

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<sup>13</sup> Alan Rix, *Japan's Economic Aid*, p136.

the Ministry of Construction, Transportation, Health, Post and Telecommunication, also share the responsibility for specialized tasks with the MOFA, providing much of the expertise and facilities for making and implementing technical cooperation policy. As such, the inter-ministerial consultation regarding the “feasibility” and “appropriateness” of aid projects constitutes the bulk of policy development in the technical assistance area. Since participating bureaucracies tend to employ different measures in evaluation, there is an active balancing of interests between them. But this “check and balance” process does not accord equal amount of power to each and every one of them. The MOFA and MITI stand aloof among all the ministries, exercising formal influence on technical aid policy, while the others only have, if any, informal influence. This difference in bureaucratic standing can be accounted for by several factors.

Both the MOFA and MITI are strong in decision-making capacity as they possess separate divisions specializing in technical cooperation. The Economic Cooperation Bureau of the MOFA boasts three technical aid divisions which handle the MOFA’s dominant role in this area. The MITI Technical Cooperation Division deals with both the personal and project aspects of technical aid. In contrast, other ministries only have specialized desks and are relatively short in aid staff.

Budget allocation is another crucial source of power for the MOFA and MITI because only these two ministries are allowed to submit budget requests for technical cooperation. In formal terms, Japan’s technical aid budgets are designed mainly to meet the needs of the Japan International Cooperation Agency (JICA), the sole executor of

government-based technical aid to the developing countries.<sup>14</sup> Although article 42 of the JICA law stipulates that the MOFA, MITI and MAFF hold meetings between them to consult on the agency's annual budget, in practice, the responsibility is solely distributed between the MOFA and MITI. They operate independently in preparing their own part of the JICA budget request, neither being able to force the other one to support a proposal it deems impracticable or undesirable. The MITI has ultimate power over requesting the mining, energy and industry portion of the JICA budget. It also makes its own set of policies for this part of technical aid. There are talks between the MITI and the other two ministries on the level of aid requests, but they rarely involve the exchange of details because the MITI officials believe that they possess the necessary expertise and knowledge to handle the business alone. Similarly, the MOFA enjoys the final say on requesting the rest of the JICA budget, which covers such special tasks as agricultural cooperation. Unlike the MITI, however, the MOFA has to rely on specialists' opinions provided by the MAFF when drafting its own budget request. The MAFF can thus assert some influence over policy development, but its influence is far from forcing adjustments on the MOFA as it is the Foreign Affairs Ministry that makes the final decision on the

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<sup>14</sup> William Brooks and Robert Orr, "Japan's Foreign Economic Assistance", p338. The Japan International Cooperation Agency (JICA) was created in 1974. Like OECF, it is an implementing agency born out of a considerable political and bureaucratic competition. In the early 1970s, several ministries, including the MAFF and MITI, expressed the need to create a new aid agency so as to cope with Japan's expanding aid programs. The EPA, however, opposed this proposal for fear that the new agency would compete with the OECF. After serious discussion, the JICA was agreed upon as a compromise measure. The JICA is technically a non-governmental entity, but it is under the direct supervision of the Foreign Affairs Ministry. It functions as the dispatcher and administrator for the Japanese peace corps and the recruiter and trainer of technical experts. One of the most serious problems facing the JICA now is the composition of its staff. Of the eighteen departments in the agency, JICA career staff controls only seven of them. Six other ministries retain control of the other eleven. As such, much of the JICA's organization appears to be controlled by outsiders. The internal competition among the department heads has heated up in almost direct proportion to the increase in aid funds. Thus, the JICA's daily operation echoes the problem in the entire decision-making system for Japan's foreign aid.

amount requested. More importantly, once the JICA budget request is ready, it will be divided and incorporated as part of the MITI and MOFA's own budget applications for technical cooperation. Therefore, among all the participating bureaucracies, the MOFA and MITI play a central role in making the decision on the acceptability of a request.

Once inter-ministerial differences are solved and the request is approved, the next step is budgeting. In contrast to the capital grants budget, the technical aid budget is appraised by the MOF once in a fiscal year rather than decided for each project individually, but in either case, the Finance Ministry maintains the ultimate budgetary authority. If the MOF cuts down on the JICA funds, the MOFA, MITI and other relevant ministries will have to re-examine each request and single out the most appropriate projects for implementation. Nevertheless, appraisal of the yearly budget by the MOF gives more freedom to the MOFA and MITI. It leaves considerable flexibility with them in making the regional and sectoral distribution of Japanese technical assistance, though such flexibility hinges a great deal on the MOF's approval of the JICA budget.

In the decision process for technical cooperation, the annual budget allocation is surely a strong constraint, just as it is on the capital grants. However, weak coordination, especially between the MOFA and MITI, prolongs the bureaucratic struggle, reducing the efficacy of cooperation projects. No forward planning is thus evident, or possible, in Japan's technical aid policy-making.

### **4.3 Bilateral Yen Loans**

Yen loans are the core of Japan's foreign aid programs, and have dominated the official thinking about aid since the first time Japan became a donor. Yen loans lend

funds for development at lower-than-commercial rates for long periods. The recipient countries for this type of assistance vary in their development levels, ranging from the Least among Less Developed Countries (LLDCs) to Upper-middle Income Countries. The interest rates and terms of loans are decided by a country's economic conditions and credit worthiness, as well as its ability to repay the funds. Japan's yen loans are almost exclusively dedicated to economic infrastructure projects. Sectors like energy, transportation, and public utilities are usually the focus of such assistance.<sup>15</sup>

Yen loans have been long favored by both the Japanese government and business circles. Projects financed by loans are very much lucrative business ventures for the companies involved, and often sought actively by Japanese private enterprises. For the Japanese government loan aid is even more essential. It is a link in the broad reach of Japan's foreign and economic relations with the developing countries. Yen loans are also regarded by many government officials and observers as the most economically sound aid because they "encourage more fiscal discipline on the part of the recipients".<sup>16</sup> Although such a claim is empirically difficult to prove, the fact is yen loans have always taken up the largest share in Japan's ODA budget since 1950s. In fiscal year 1996, the total commitment of yen loans almost equaled the total sum of the other three kinds of ODA, recording a remarkable 17 per cent increase over the previous year.<sup>17</sup>

As the more prevalent form of Japanese ODA, all yen loans are decided by a four-ministry committee composed of the MOF, MOFA, MITI and EPA. While the EPA

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<sup>15</sup> MOFA, *Japan's ODA Annual Report*, 1997, p161.

<sup>16</sup> Robert Orr, *The Emergence of Japan's Foreign Aid Power*, p30.

<sup>17</sup> MOFA, *Japan's ODA Annual Report*, 1997, p161.

exercises no visible influence on ODA policy under the other categories, loan aid remains the last area in which the EPA can wield some clout. Representing the interests of the Japanese private sector, the MITI is also striving to expand its sphere of influence in yen loans where the profits it seeks are enormous. Other ministries are needed occasionally for their specialized knowledge in the development of loan policy, but they are usually placed on the project assessment team, conducting informal lobbying of sympathetic committee officials. The access they have to decision-making is thus more restricted in loan aid than in the field of technical cooperation. The exclusiveness of this four-ministry committee on loan policy is meant to make inter-ministerial debates more manageable and less drawn out, for the problems at stake are more far-reaching and the sums disbursed are much larger. However, without an effective coordinating mechanism and specific guidelines, the four ministry system can be nothing but another central battlefield where each bureaucracy has its own interests to guard and objectives to pursue.

Like grant assistance and technical cooperation, yen loans also follow the standard pattern of policy-making. Government-to-government requests for aid are the first stage of the bureaucratic round. Requests are then forwarded to the MOFA in Tokyo through Japanese missions in the potential recipient countries. The MOFA gives initial thought to the request, and has the authority to decide whether to accept, but refusals are based on clear-cut conditions relating to the general acceptability of loan projects. The other three ministries seldom feel it necessary to interfere with these decisions. For example, the MOFA decides that proposals involving military activities are generally unacceptable. Since these are fundamental criteria in judging the acceptability of a loan request, and they have been carved in stone for decades, no aid bureaucracy would attempt to

challenge them in the face of the MOFA. At this stage, informal contacts between four ministries are initiated. They are not intended to seek common ground, but to notify the MOFA of other ministries' positions and concerns on the proposal in question so that the Foreign Affairs Ministry will not make rash decisions on the general "acceptability" of loan requests.

Once a request passes the examination of the MOFA, it will proceed to the formal interministry committee meetings at which details of the loan projects selected from the backlog of aid requests will be debated. These meetings can be held at several different political levels depending on the content of the request and the practical necessity. But no matter what level a meeting is at, it must be convened and chaired by the MOFA's Economic Cooperation Bureau. The four-ministry conference is held initially at the deputy division director level, and if necessary, at division director level. Most loan requests can be decided after meetings at these two levels are held. Only in a few cases meetings at the bureau director level are demanded.<sup>18</sup> After the meeting begins, the MOFA representatives are required to present their position paper on the proposal first, which outlines the project details, including the background of the request, the suggested amount, terms, and conditions of the loans, as well as the MOFA's policy on this proposal. Since this paper has already been circulated among the other three ministries before hand, each of the three has ample time to prepare their own case and put forth their particular view point at the meeting. All bureaucracies are tilted to weight the

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<sup>18</sup> For example, projects that require a large amount of funds or would make outstanding contributions to a nation's social or economic development. Projects that are carried out to help countries with which Japan has a special or sensitive relationship will also be forwarded to the meetings at bureau direction level. Such countries include: Indonesia, South Korea and some Middle East nations.



request in tune with their own priorities, and their bargaining efforts usually center on the following three aspects: the suitability of the requesting country as a recipient; appropriateness of the particular project; and the project details. Because the EPA and MOF are involved in the preparation of loan budgets, they tend to study more carefully the financial conditions of the projects, such as quantity, terms, and repayment period. They are also extremely sensitive to inflated requests as it has been recorded that Japan's yen loan commitments are generally much larger than the sum actually disbursed.<sup>19</sup> That means quite a large portion of Japanese loans is held up in projects that, in fact, can not absorb the funds allocated to them. As a result, the expected repayment has to be cut down or delayed. The EPA also shows great concern about the prospects for the project's being properly completed because the Overseas Economic Cooperation Fund (OECF), the implementing agency of Japan's loan programs, operates under its supervision.

The contention between the MOFA and MITI usually evolves around the selection of proper recipients. The MOFA places more emphasis on a country's regional influence and the extent of its diplomatic and emigration ties with the Japanese government, whereas the MITI looks more at the recipient's present trade relations with Japan and its importance as a source of raw materials and as a market. The divergence between them in measuring the qualification of loan recipients is even more salient when the projects under consideration are related to social infrastructure development, or involve countries whose political relations with Japan are delicate. For example, after the Tiananmen incident in 1989, Japan froze its aid, including new loans, to the Chinese government as a response to the Western allies' call for economic sanctions. This action was surely

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<sup>19</sup> Marie Soderberg, "Japanese ODA - What type, for whom and why?", p44.

supported by the MOFA who believed that the Japanese government should make a clear gesture demonstrating its pro-democracy stance in the eyes of the international community. In contrast, under the mounting pressure from the business circle for resuming Japan's lending to China, the MITI officials insisted at the four-ministry conference that "to isolate China will not be good for Japan, as well as for the world peace and stability."<sup>20</sup> This dispute proved to be a hard one and neither side was willing to compromise. The turning point finally came in July 1989 at the Pan's Summit of seven major western industrialized countries. Japan's Prime Minister Toshiki Kaifu openly reminded its western partners that it was not in their interest to impose continuing heavy sanctions on China.<sup>21</sup> Following the lead of the Japanese Prime Minister, the MITI representatives once again proposed to lift the freeze on ongoing loans to China at the inter-ministerial meeting. The MOFA conceded this time, and in December 1989 a new loan aid of \$35 million for improving facilities at a Beijing television broadcasting station and a Shanghai hospital was released.<sup>22</sup> Similar disputes may also occur between the MOF and MOFA, or between the MOF and MITI so long as no one policy position can predominate among the "big four". If the interministerial disputes can not be solved at lower levels, they will be simply "kicked upstairs" until the Prime Minister is involved. Therefore, Japan's loan policy is very much the sum of project-to-project decisions rather than being derived from a rational decision-making entity.

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<sup>20</sup> Zhao Quansheng, "Japan's Aid Diplomacy with China", in Bruce M. Koppel and Robert M. Orr, Jr., eds., *Japan's Foreign Aid: Power and Policy in a New Era*, Boulder: Westview Press, 1993, p173.

<sup>21</sup> Ibid.

<sup>22</sup> Ibid.

In yen loans, as in capital grants, the MOF controls the ultimate power of the purse. However, the biggest difference between loan aid and technical cooperation is that the MOFA and MITI are excluded from the budgetary allocation although they are the key members of the four-ministry committee. The funds for loan projects are placed under the MOF aid budget and can only be withdrawn by the OECF through the EPA. This simplified budgeting process is another way designed to alleviate bureaucratic contentions, but as long as the decision-making responsibility rests with a factious committee, the entire policy process is bound to be swayed by competing interests.

#### **4.4 Multilateral Aid**

Since the early 1960s, Japan has gradually expanded its aid to multilateral institutions. It has been a quite loyal supporter of multilateral aid and maintained a record of contribution to various international or regional organizations somewhat better than the DAC average. In 1997 this category of aid constituted almost 17 per cent of total ODA budget. With its impressive contribution, Japan has become the principal shareholder with corresponding voting rights in several international financial institutions, such as the World Bank, the Asian Development Bank, and the International Development Association.<sup>23</sup>

In terms of aid methods, multilateral assistance can be extended through sending experts to international organizations, paying a share of costs, making contributions or making investments. It can also be divided into two main flows of funds in accordance with the type of recipients. One is the grants from the MOFA (and from other ministries

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<sup>23</sup> David Potter, *Japan's Foreign Aid to Thailand and Philippines*, p6.

as well) to the United Nations and its related specialized organizations; and the other is loans or grants from the MOF to international financial institutions. These two distinct aid flows are managed separately by the MOFA and MOF, between whom no sustained interchange of information or project details is observed.

Compared with the other three types of aid, multilateral assistance is valued by officials from different ministries, and bureaucratic attitudes toward its positive role are less divergent. On one hand, it can “buy” for Japan a position in the UN-based international political system and the GATT-based international economic system; on the other, it enjoys the advantage of political neutrality and efficient use by aid specialists. As the MOFA stated in its annual report, “aid channeled via international organizations is implemented through the global networks of the organizations and thus takes advantage of the expertise and experience of different contributors and enables aid coordination’s spanning multiple countries and regions; thus multilateral aid has certain advantages with respect to bilateral aid”.<sup>24</sup> The shared understanding between the MOF and MOFA certainly reduces the chance of friction in the decision process, whereas the international agreements that make extending multilateral assistance an obligation on the Japanese government further consolidate this understanding. Thus, the guidelines for multilateral aid policy are set by the broad compass of Japan’s role in international institutions rather than by its domestic political economy. However, translating these guidelines into concrete aid policies still involves a number of competing ministries. The MOFA and MOF do have different opinions about certain aspects of Japan’s multilateral aid, and

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<sup>24</sup> MOFA, *Japan’s ODA Annual Report*, 1997, p163.

these differences may stir up inter-ministerial fights when the annual budget for multilateral aid is negotiated between these two bureaucracies.

Since how large the funding for aid disbursement is directly affects the terms and size of multilateral assistance, the budgeting process is in fact an extension of the bureaucratic competition in policy-making. As stated before, the MOF and MOFA are responsible for two separate flows. The MOFA draws up its own budget request for multilateral aid directed toward the United Nations, and then submits it for the MOF's approval. The MOF's request is usually incorporated into the ministry's total annual budget. Due to the defensive, domestic orientation of the Finance Ministry, it is less inclined to speak highly about financing such international organizations as the United Nations, or DAC, because they are rather too "political" for the MOF. Aids to these institutions are thought to be slow in bringing about the expected results for Japan. For instance, despite considerable contributions to the UN and DAC, Japan's influence within the two organizations has remained marginal over the years. Its identity as a major donor is lost. However, in the MOF's thinking, such problems are less likely to occur to the multilateral aid flowing to international financial institutions, such as the World Bank, or Asian Development Bank. These specialist lending agencies can maximize the efficiency in allocating Japanese aid, and the desired effects are also more visible. As a matter of fact, the MOF has developed a very close liaison with the ADB, and the ADB is always the most favored recipient of MOF's aid. For the MOF officials, the leadership role in the ADB means not only the economic rewards, but also the attainment of international

prestige. The benefits are direct and far-reaching.<sup>25</sup> These financial institutions are thus regarded by the MOF as the strongest and most appropriate channels for Japan's multilateral aid.

The parochial view of the Finance Ministry does have direct policy impact on aid to the United Nations and its related political organizations. One result is that the MOFA's multilateral grants are often based on one-year disbursement, whereas grants to the international financial institutions are always on multi-year basis. Although the MOFA does not see eye-to-eye with the MOF, it is rather weak in challenging the budgetary authority of the Finance Ministry.

Aid policy-making is, as described above, complicated. Each procedure draws in different groupings of ministries or agencies, and has its own schedule and momentum, which, consequently, leads the grants, loans, technical cooperation and multilateral assistance to rather different directions. There are broad policy guidelines in each category of aids, but there is no central agency that would ensure the proper implementation of such guidelines in day-to-day aid administration. Thus, Japan's aid policy process works, in reality, against the development of consistent and mutually reinforcing policy.

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<sup>25</sup> William Nester, *Japan's Growing Predominance Over East Asia and the World Economy*, p63. Please see also Dennis T. Yasutomo, "Japan and the Asian Development Bank: Multilateral Aid Policy in Transition", in Bruce Koppel and Robert Orr eds., *Japan's Foreign Aid*, pp276-289.

## Chapter V Conclusion

The principle message of this thesis is that bureaucratic politics dominates Japan's foreign aid policy-making. The Japanese government does not act as a monolithic entity, pondering aid policy in accordance with an ordered set of national priorities. Instead diverse bureaucracies, each with their own specific interests to defend and own goals to accomplish, compete to affect policy outputs. The perceptions held by these actors, as well as the positions taken by them accordingly, derive largely from their ministerial constituencies. Therefore, it is not surprising that bureaucratic dominance and inter-ministerial cleavage become two major aspects of the Japanese aid policy-making.

The difficulty in mobilizing coordination at various political levels, as exposed in this thesis, has further aggravated the bureaucratic impact on Japan's aid policy. Bureaucratic priorities are placed above coordination when four ministries compete, compromise and concede to produce Japan's aid policies. At the national level, coordination requires some compromise between the MOFA, MOF, MITI, and EPA, but such compromise can not come easily, nor quickly, for there is a prior need for a detailed government statement on aid objectives and principles to underpin ministry programs. In Japan, the inefficiency of the Prime Minister and the negligence of the National Diet make the formulation of such a statement almost impossible. Lower down at the bureaucratic level, coordination hardly takes place either. The decision procedures for all types of foreign aid do not allow much space for constructive or sufficient exchange of information between aid officials about each other's ideas and tasks. Each ministry works in isolation along an already defined path toward preparing its own position on aid

requests. Feasibility studies are often duplicated, and decisions about requests are delayed.

### **5.1 The Meaning of the Process**

The dominance of bureaucratic interests in the aid policy-making process has imposed serious strains on Japan's aid system, as well as its aid policies. Since inter-ministerial cleavage can hardly be bridged, the entrenched bureaucratic tradition comes to rigidify patterns of decision and stifle administrative reforms. The initiative to amend basic inefficiencies in policy mechanism is lacking among the major aid ministries as they are more concerned with maximizing their own gains through separate stages of the decision process. No ministry is willing, or able, to challenge the existing administrative system so long as delicate balance of bureaucratic interests can be maintained by that system. Concentration is thus focused on fixed procedures rather than aid as a national policy as a whole. This explains why Japan's fragmented aid structure has remained intact over the years despite the ever expanding aid volumes Japan has committed to.

Bureaucratic dominance also means less adaptive in meeting the demands from less developed countries for real aid. As explained in Chapter II, four major ministries diverge seriously about where should be the rightful "home" for Japanese ODA. Yet they do share some basic attitudes that characterize the way in which Japan has approached its aid policy. As a resource-poor and trade-dependent economy, Japan has long been obsessed by a deep anxiety over being isolated internationally; while as a defeated nation in the World War II, Japan has also demonstrated an intense concern with improving its



international status.<sup>1</sup> These rationales, coupled with constant urges from Japan's Western allies for an active involvement in world affairs, have motivated Japan to become a leading member of the DAC following W.W.II. However, this leadership role is limited to absolute volumes, and can not bring to Japan the international prestige commensurate with its huge ODA disbursement. Japanese foreign aid is considered, by and large, to exhibit a narrow, mercantilist model. This qualitative problem can be traced back to the bureaucratic tradition in Japan's aid policy-making, which confines aid management to restricted patterns of inter-ministerial trade-off. Policy initiatives are tied into procedural routines, and the short-term perspective viewing aid as primarily a quantitative issue prevails. Therefore, bureaucratic dominance has not only perpetuated the diffuse administrative structure in aid policy-making, but also undermined Japan's ODA performance.

## 5.2 Policy Changes and the Future

Innovation in reforming or developing new policies has never been the feature of Japan's aid system. Over the past decades, dramatic shifts in aid policy or long-term aid perspectives are associated more often with consistent foreign pressures or other critical external influences, not with efforts made by Japan's own aid bureaucracies. An example in point is the first and second oil shock in the 1970s, which prompted Japan to extend and reinforce its ODA diplomacy with countries of strategic importance in areas other than Asia. In 1997 an external shock of similar nature seemed to have taken place when

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<sup>1</sup> Seizabura Sato. "The Foundation of Modern Japanese Foreign Policy," in Robert A. Scalapino ed., *The Foreign Policy of Modern Japan*, p375.

an economic crisis of unprecedented dimensions engulfed most of the prosperous economies in South-East Asia. As the biggest investor in this region, Japan has plenty of reasons to come to the rescue, but this time, aid simply did not come easily. In the past, Japanese investment in Asia, including various foreign aid programs, has been driven mainly by the level of the yen against the American dollar. Since many Asian countries more or less pegged their currencies to the dollar, Japanese companies could use them as a "cheap proxy" for an American manufacturing base.<sup>2</sup> However, the yen's devaluation against the dollar since April 1995 has diminished the incentive for Japan to use South-East Asia as an export base. To make the situation even worse, Japan itself is suffering from a series of symptoms resulted from a severe economic recession that started in 1997. In the face of both foreign and domestic crisis, Japan has begun feeling the strains imposed by assuming the leadership role in aid. As a matter of fact, its ODA in 1996 registered a setback of 24.6% in yen terms, falling for the first time since 1990 below \$10 billion.<sup>3</sup> Cutting back on aid disbursement may just be the first step Japan has taken to cope with its financial difficulty. More importantly, Japan has come to another critical point to re-think its ODA policy as a whole. Will Japan maintain its current level of investment world-wide and continue to pursue the leading role in ODA? Will the Asian financial storm lead to the geographic re-distribution of Japanese aid? How can Japan manage to meet the expanding demands for its ODA from South-East Asia at a time when its own money market is stringent? And above all, what policy guidelines for

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<sup>2</sup> Tokyo, "Japan to the Rescue," *The Economist*, October 1997, pp89-90.

<sup>3</sup> MOFA, *Japan's ODA Annual Report*, 1997, p9. The net disbursement of Japan's ODA in 1996 was \$9,439, while that of the USA was 9,058. The gap between these top two donors has never been so close since 1990.

foreign aid should the Japanese government adopt in the coming millennium in order to build up the true leadership among aid donors? These important questions are regrettably left out by this thesis, but they will surely attract a great deal of scholarly attention.

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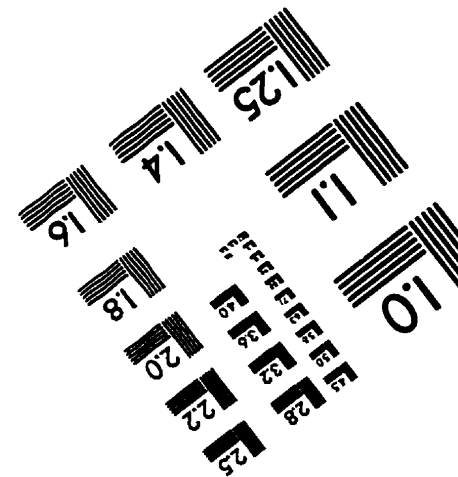
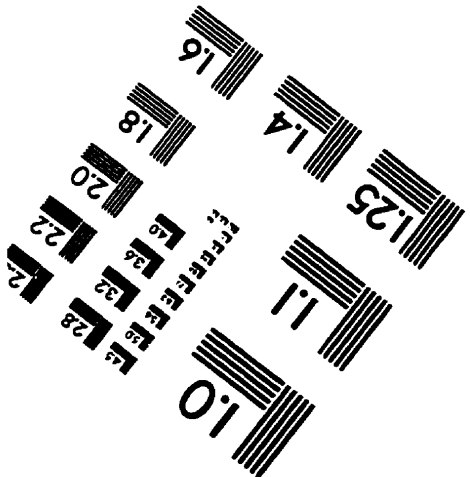
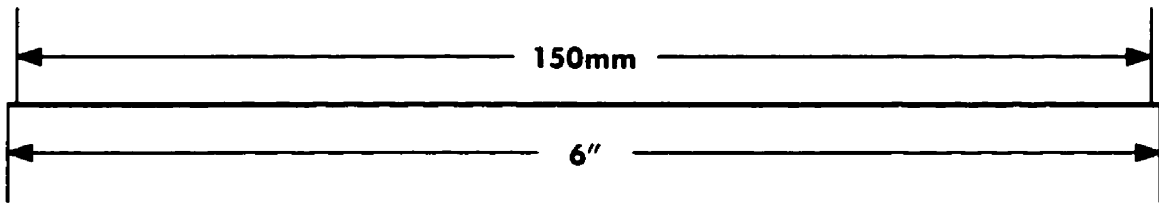
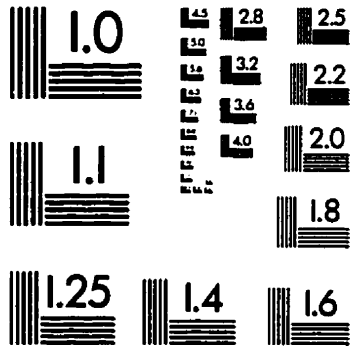
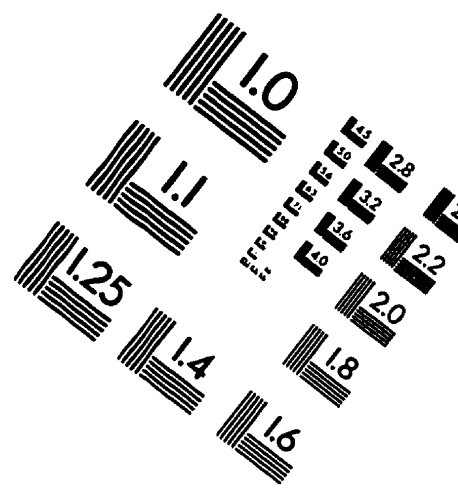
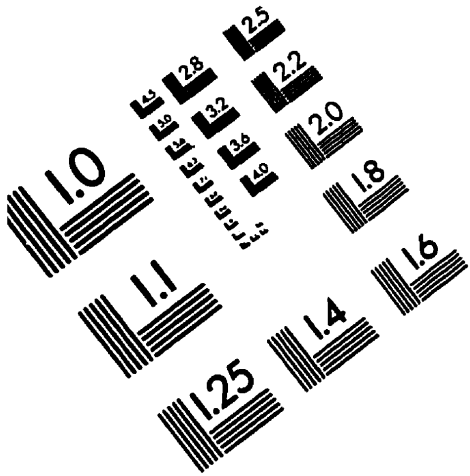
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