Chapter VIII
Japan’s “Soft Aid” Policy in Action: Case Studies of China, Indonesia and Bolivia

Since aid diplomacy has received so much attention in Japan, the political and economic effectiveness of its aid has always been in question. Has Japanese aid been qualitatively different from the aid given by other major donors in DAC? Is there some scope of changing the policy and institutional framework, so that Japanese aid can become more effective? These are some of the important and relevant questions that need to be answered in this context.

Not much in the way of rigorous economic analysis was done to understand the mode of aid allocation and its economic impact until 1990s. Based on some of the major works, this chapter makes an attempt to understand the issues related to the economic effectiveness of Japanese aid in the context of China, Indonesia and Bolivia. Along with it, this chapter also tries to look into the experience of both Japan and the recipient countries; in aid allocation, implementation and the effectiveness of this aid.

If we look into the history of Japan’s ODA policy, we find that Asia has always been given special importance by Japan in its aid policy and therefore, much of its aid has been allocated to this part of the world. As Yanagihara and Emig (1991) have pointed out: This feature reflects not only geographical proximity, but also close historical, cultural and economic relations, as well as Tokyo’s recognition of Asia as its logical sphere of responsibility in global burden-sharing. (Shafiqul Islam, ed. 1991)

One of the aims of this chapter is to examine the question of Japan’s aid effectiveness in a limited geographical context. In order to understand the effectiveness of Japanese aid, one has to consider to what extent Japanese aid has promoted development related expenditures and projects in this part of the world. However, since estimating the effectiveness of aid is a complex econometric exercise when done in a rigorous way, it seems really difficult to analyse it. (Khan, Haider A. 2001).

China’s introduction of a ‘socialist market economy’ since 1979 required a substantial amount of foreign aid especially from Japan. On the other hand, among the ASEAN countries, Indonesia received the largest ODA disbursement from Japan due
to its country size, and partly due to its keen desire to speed up the construction of its social and economic infrastructures. In Latin America, Bolivia received "soft aid" in the field of BHNs, therefore it has been considered for this study. This chapter makes an attempt to examine some important issues related to the ODA disbursement to these countries. These issues include China’s nuclear test and Japan’s reactions, both positive and negative effects of its aid, and the immense debt accumulation due to the drastic appreciation of the yen. There are numerous obstacles laid between Japan and Japan’s ODA recipient countries. These obstacles must be cleared in time in order to create a healthy and mutually beneficial relationship between the donor and the recipient countries.

A) Japan’s ODA to China: Among the DAC countries, Japan was China’s largest ODA donor over the 1991-1995 period. Japan’s ODA to China overwhelmed all DAC countries such as France, Germany, Italy, Spain and Australia. Japan’s ODA disbursement to China increased substantially from US$ 585 million (46.7 % of DAC countries) in 1991 to US$ 1.38 billion (54.5 % of DAC countries) in 1995. Japan’s aid to China even surpassed all international organisations combined over the 1992-1995 period.

Over the 1990-1994 period, both Japan’s grants and loan aid to China increased substantially except in 1991. Its grants to China dropped from US$ 201.3 million in 1990 to US$ 194.1 million in 1991 and the loan aid dropped from US$ 521.7 million to US$ 391.2 million during the same period. The Tiananmen Square incident occurred on 4 June 1989 and the Western countries, led by the US, quickly imposed economic sanctions on China and suspended economic aid as well. Japan tried not to be influenced by the West but its continuous aid disbursement to China was severely criticised, both domestically and internationally. This must have affected Japan’s ODA disbursement to China in 1991.
**Japan's ODA to China: (US$ million)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Grants</th>
<th>Loan Aid</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Grant aid</td>
<td>Technical aid</td>
</tr>
<tr>
<td>1992</td>
<td>72.05</td>
<td>187.48</td>
</tr>
<tr>
<td>1993</td>
<td>54.43</td>
<td>245.06</td>
</tr>
<tr>
<td>1994</td>
<td>99.42</td>
<td>246.91</td>
</tr>
<tr>
<td>1995</td>
<td>83.12</td>
<td>304.75</td>
</tr>
<tr>
<td>1996</td>
<td>24.99</td>
<td>303.73</td>
</tr>
<tr>
<td>Total</td>
<td>334.01</td>
<td>1,287.93</td>
</tr>
</tbody>
</table>

*Source: Ministry of Foreign Affairs, Japan’s ODA Annual Report, Tokyo, Various Issues.*

Over the 1992-1996 period, Japan’s accumulative grants to China amounted to US$ 1.62 billion (grant aid US$ 334.0 million and technical co-operation US$ 1.28 billion) whereas its accumulative net loan aid to China amounted to US$ 4.50 billion. Loan aid was 2.8 times that of grants.

Japan’s ODA disbursement to China also dropped from US$ 1.48 billion in 1994 to US$ 61.7 million in 1996. This was basically due to China’s nuclear test in August 1995 and Japan’s subsequent freezing of its grant aid to China. Thus, we find that since the mid-1990s, Japan imposed a series of economic sanctions on China. Between 1995 and 2000, Japan had suspended its aid in protest against China’s nuclear weapon tests (June 1994, October 1994, May 1995, August 1995, March 1996, December 1996, March 1997, August 2000, October 2000), its large scale war game including the launch of missiles across the Taiwan Strait, and naval activities in the disputed areas in the East China Sea. It clarifies the domestic political and bureaucratic interests that motivated aid sanctions and determined the decision.

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1 Lim Hua Sing (2003), *Japan's Role in Asia, Mutual Development or Ruthless Competition*, 4th ed., Singapore: Eastern University Press, p.216
making process which had led to these sanctions. Many scholars believe that with certain politico-security interests, the Japanese government actively used foreign aid as a strategic tool to counter ‘provocative’ military actions by China in the East Asian region since the mid-1990s. Despite the limited influence that Japanese aid sanctions have actually had on Chinese military behaviour, Japan’s strategic use of foreign aid has arguably created a new dynamism in security relations between these two great powers.

China’s economic performance was outstanding in the 1990s. Its real GDP annual growth rates were 12.6 per cent in 1994, 10.5 per cent in 1995, 9.6 per cent in 1996, and 8.8 per cent in 1997. China’s rapid economic development was centred around special economic zones such as Pudong, Hainan-dao, Xiamen, Zhuhai, Shantou and Shenzhen; and coastal economic free zones such as Changjiang Delta and Zhujiang Delta. Besides, economic and technological development areas, such as Shanghai, Dalian, Tianjin, Quingtao, Guangzhou and Fuzhou, new high-tech areas such as Wuhan, Chongquing, Shenyang and Nanjing have also gained economic development momentum.

China’s rapid economic development, however, has caused some serious problems. The growing income disparity among them and the fast development in the coastal areas at the expense of China’s inland areas are some important issues which require special attention. The Chinese authorities were aware of the seriousness of this situation and had taken measures to cool down the “over-heating” of the economy over the years. At the same time, foreign aid and investments had been lured to develop China’s inland provinces. However, due to the underdevelopment of the social and economic infrastructures in the inland areas, foreign industries were reluctant to penetrate into China’s rural areas.

Even in the coastal areas in China, the development of social and economic infrastructure has always been left behind in the rapid economic development process. Even for overseas Chinese investments in China from Asia, the emphasis has always been put on the development of housing, hotels, department stores, resorts and trade centres. Only in the late 1990s, overseas Chinese ventures from Asia started investing in the social and economic infrastructures in China. Investments from Hong Kong, Malaysia, Singapore, Indonesia and Thailand have always been lured to construct highways, bridges, harbours, railways, telecommunications, power stations and
hospitals in China. However, due to China's large size and its rapid economic development, foreign aid and investments from the West and Japan, together with overseas Chinese investments are obviously much needed to develop social and economic infrastructures in China.

Some serious problems faced by China were interruptions in manufacturing production due to the shortage of power supply; traffic congestion due to poor transport systems; air and sea pollution due to lack of purification systems in factories, and workers' welfare not taken care of due to the shortage of hospitals. Foreign investments and ODA loans (especially from Japan) have therefore had important roles to play to help China overcome these shortcomings.

Some of Japan's ODA loans have been used to overcome the above-mentioned problems faced by China. Some of the assistance includes the following: 1) The comprehensive transportation development programme of Dalian city; and 2) Yen loans to China in FY 1991-1996 to finance the Second Phase of the Subway Construction Project of Beijing which was aimed at diffusing traffic congestion. (The subway systems of Beijing were all built or revamped with funds provided by Japan's ODA.) Over the 1990-1996 periods, numerous projects were financed by Japan's ODA (both loan aid and grant aid). It is evident that Japan has played a crucial role in the development of China's social and economic infrastructure. Japan is expected to play an even more important role as China's 'socialist market economy' gathers momentum since the inception of its economic reform in 1979.

In accordance with Japan's policy of extending cooperation as far as possible to support China's efforts to reform and open up its economy, Japan provided assistance to support the country's own efforts for economic development and improving the living conditions of its citizens, while taking into account the following factors.

1) China has a close geographical proximity to Japan, and the two countries have strong political, historical and cultural ties. 2) Maintaining and advancing stable, amicable relations between Japan and China is conducive to the peace and stability of the Asia-Pacific region, and concomitantly, to the entire world.
3) Economic relations between China and Japan are becoming broader and deeper, including government-to-government economic and technical cooperation, as well as, private sector investment and trade, and assistance in the development of resources.

4) China has placed the highest priority on modernising its economy, and is pursuing a policy of opening up the country and economic reform.

5) China has an enormous land area and a huge population. The country also has a continuing low per capita GNP (only US$ 860 in 1998) and has a substantial need for assistance.

**Priority Areas for Japan's ODA to China in brief:** On the basis of studies and research concerning development conditions and tasks in China and its development plans, as well as, policy dialogues between Japan and China, including the High-Level Mission on Economic and Technical Cooperation sent to China in March 1992 and subsequent policy consultations, Japan has given priority to assistance in the following areas.

1) Priority regions: Japan is providing assistance, primarily through ODA loans, to support improvement of economic infrastructure. In addition, in order to promote balanced development, Japan is devoting greater effort to China's inland regions, which have a relatively large potential for development. Japan is also providing assistance for agriculture and development of rural areas, as well as, assistance to develop China's plentiful natural resources. For grant aid and technical cooperation, Japan is laying stress on China's inland regions, and is extending its cooperation to attend to BHNs, mainly in impoverished regions.

2) Priority sectors: Japan has provided aid to China in the sectors of environment, agriculture, economic infrastructure, health and medical services and human resource development (basic education, building schools, provision of educational materials, the acceptance of trainees and the dispatch of experts etc.).

**Matters for Consideration**

➢ The "Japan-China Comprehensive Forum on Environmental Cooperation" which aims to tackle the already wide ranging cooperation between Japan and China in a comprehensive way through exchanges of views among government officials, private enterprise, local governments, academics...
and experts has been held time to time since 1996. The forum has offered the opportunity for in depth debate on cooperation in the field of the environment.

➢ At the September 1997 Japanese-Chinese summit, an agreement was reached on the concept of "Japan-China Environmental Cooperation toward the 21st Century" built on two pillars of cooperation: the building of a Chinese domestic environmental information network; and a Japanese-Chinese environmental development model city initiative. The latter concept has been applied to three cities, Dalian, Chongqing and Guiyang, as decided at a joint Japanese-Chinese expert committee meeting in April 1999. Proposals for specific points of implementation have been proposed by both sides, and are being duly considered in proceeding toward implementation.

➢ The implementation of co-operation according to the "Joint Announcement on Environmental Cooperation toward the 21st Century," as announced during President Jiang Zemin's visit to Japan in November 1998.

➢ Based on the "Joint Press Announcement on the Strengthening of Cooperation" for the agricultural sector, made during President Jiang Zemin's visit to Japan, the strengthening of co-operation, particularly in the field of sustainable agricultural technology.

➢ As part of President Jiang Zemin's visit, 28 projects worth a total of ¥390 billion were announced for the last two years (1999-2000) of the Fourth Yen Loan Package (1996-2000). Continuation of environmental, agricultural and inland development projects from the first three years (1996-1998) of the package was important. Upon completion of the Fourth Yen Loan Package, ODA loans would have been changed from round-type (multi-year framework) loans to rolling-type long-list (multi-year candidacy) loans.  

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Aid Statistics: ³

(1) Japanese Assistance (Net disbursements, $ million)

<table>
<thead>
<tr>
<th>Calendar Year</th>
<th>ODA loans</th>
<th>Grant aid</th>
<th>Technical co-operation</th>
<th>Total</th>
<th>Rank of total contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>818</td>
<td>38</td>
<td>233</td>
<td>1,090</td>
<td>1st</td>
</tr>
<tr>
<td>Cumulative through 1998</td>
<td>9,900</td>
<td>756</td>
<td>2,528</td>
<td>13,184</td>
<td>2nd</td>
</tr>
</tbody>
</table>

(2) Assistance from DAC countries (Net disbursements 1997, $ million)

<table>
<thead>
<tr>
<th>Total bilateral aid</th>
<th>1st</th>
<th>2nd</th>
<th>3rd</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,229</td>
<td>Japan: 577</td>
<td>Germany: 382</td>
<td>France: 50</td>
</tr>
</tbody>
</table>

(3) ODA from international organisations (Net disbursements 1997, US$ million)

<table>
<thead>
<tr>
<th>Total aid</th>
<th>1st</th>
<th>2nd</th>
<th>3rd</th>
</tr>
</thead>
<tbody>
<tr>
<td>841</td>
<td>*IDA: 687</td>
<td>UNDP: 43</td>
<td>WFP: 38</td>
</tr>
</tbody>
</table>

*CEC: Commission of the European Communities

China was the second largest recipient of Japan’s bilateral aid (based on cumulative net disbursements) up to 1998. By the tax year of 1999, Japan had provided China with loans of 2,453.5 billion Japanese yen (US$ 21.52 billion) and grant aid of 118.5 billion yen (US$1.04 billion), together with technical co-operation of 116.3 billion yen (US$ 1.02 billion). Japan’s ODA to China as a whole, mainly through yen loans, contributed to the alleviation of an infrastructure bottleneck in China’s coastal regions and a stabilisation of China’s micro economy. ⁴ As the Japanese economy showed slow growth rate and a prolonged recession over a decade starting from the collapse of the bubble economy in 1990, the amount of Japanese yen loans started to decline sharply owing to the immense domestic constraints after reaching its peak in fiscal 2000-2001. ⁵

Japan’s ODA to China mainly includes three parts: Japanese Yen loan, grant aid and technical assistance. Japanese Yen loan is the main part. China calls it the

³ Ibid.
“Capital and Fund Co-operation” between China-Japan governments, whereas Japan names it “Japan's Economic Assistance to China”. Japanese Yen Loan belongs to repayment loan aid. It supports the large-scale financial projects during the course of China’s economic development and social development. It involves the provision of loans under relaxed conditions (low interest, long repayment period) to China. (These are in principle untied loans). For example, Yen loans in 2001, annual interest rate was 0.75 percent ~ 2.2 percent, but the repayment period is 30 ~ 40 years long, including a 10 year valid period. From 1980 to 2000, Japan’s ODA provided Yen loans to China four times. This kind of loan is suitable for building large-scale infrastructural projects with a long working period. Japanese grant aid refers to a kind of aid fund which the Japanese government provides to the Chinese government for some specific project and this fund doesn’t need to be repaid. The purpose of grant aid is to support cultural development and the higher education promotion, and simultaneously promote Japan-China’s cultural exchange as well as mutual understanding. The contents of grant aid include: provision of equipment, facilities; and supplementary related software. The object of the aid is higher education, culture, sports, preservation of cultural relics, including university, research institutes, libraries, sports facilities, ruins, museums etc. In the 1980s, the grant part of Japan’s ODA to China only accounted for 20 percent (the lowest aid accounts for 10%). From 1980, grant aid to China started to carry out BHNs, such as in medical healthcare, environmental protection, personnel training and education. In the 1990s, the grant part increased to 30 percent. After 2001, the grant has been increased steadily to 40 percent. Technical aid involves the despatch of the personnel by the Chinese government, to go to Japan to do research work and all the concerned expenses are paid by Japanese government. Alternatively, an expert is sent by the Japanese government to go to China to lecture, teach related technology or provide equipment. The aim of technical aid is to help China foster the talent which will enable them to grasp the technical know-how that will support China’s development and construction. The Chinese Affair Agency of JICA is in charge of the technical aid and grant aid that is given to China. Both grant aid and technical aid do not need the Chinese government to pay expenses. Expenses are paid by the category which gives the aid.

6 Ibid, pp 6-13
Illustration 1: Japan is the largest donor country (bilateral)

Illustration of development assistance achievements given by the governments of various countries to China (member countries of DAC of OECD) (Net payment amount, unit: million USD, in 2000) total amount: US$ 1,257.5 million out of which Japan accounts for 61.2 percent.

Note 1: Japan (日本) 769.2, Germany (德国) 212.8, England (英国) 83.4, France (法国) 46.0, Spain (西班牙) 32.0, other countries (其他国家) 114.1.

Chart 1: Economic achievements of ODA given by various governments to China
DAC statistics, Net payment amount, unit: million US$

<table>
<thead>
<tr>
<th>Year</th>
<th>First position</th>
<th>Second position</th>
<th>Third position</th>
<th>Fourth position</th>
<th>Fifth position</th>
<th>Japan</th>
<th>Total Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>Japan 769.2</td>
<td>Germany 212.8</td>
<td>England 83.4</td>
<td>France 46.0</td>
<td>Spain 32.0</td>
<td>769.2</td>
<td>1,257.5</td>
</tr>
<tr>
<td>2001</td>
<td>Japan 686.1</td>
<td>Germany 163.8</td>
<td>England 50.7</td>
<td>France 42.8</td>
<td>Australia 27.9</td>
<td>686.1</td>
<td>1,079.8</td>
</tr>
</tbody>
</table>

Source: OECD/DAC

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan amount</td>
<td>1705.11</td>
<td>2029.06</td>
<td>2065.83</td>
<td>1926.37</td>
<td>2143.99*</td>
<td>1613.44</td>
<td></td>
</tr>
<tr>
<td>Increase or decrease percentage</td>
<td>20.6</td>
<td>19.0</td>
<td>1.8</td>
<td>-6.8</td>
<td>11.3</td>
<td>-24.7</td>
<td></td>
</tr>
</tbody>
</table>

Source:〔Japan〕Foreign Affair Ministry：《2001Japan’s ODA to China》, 2002.3.

Chart-3 Amount of Japan's grant aid and technical aid, unit: hundred million

<table>
<thead>
<tr>
<th>Year</th>
<th>Grant aid</th>
<th>Technical co-operation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992</td>
<td>82.37</td>
<td>75.27</td>
</tr>
<tr>
<td>1993</td>
<td>98.23</td>
<td>76.51</td>
</tr>
<tr>
<td>1994</td>
<td>77.99</td>
<td>79.57</td>
</tr>
<tr>
<td>1995</td>
<td>4.81</td>
<td>73.74</td>
</tr>
<tr>
<td>1996</td>
<td>20.67</td>
<td>98.90</td>
</tr>
<tr>
<td>1997</td>
<td>68.86</td>
<td>103.82</td>
</tr>
<tr>
<td>1998</td>
<td>76.05</td>
<td>98.30</td>
</tr>
<tr>
<td>1999</td>
<td>59.10</td>
<td>73.30</td>
</tr>
<tr>
<td>2000</td>
<td>47.80</td>
<td>81.96</td>
</tr>
<tr>
<td>2001</td>
<td>63.33</td>
<td>77.77</td>
</tr>
</tbody>
</table>

Sources:《2005 Japan’s ODA White Paper》

Note 1: Japan’s fiscal year is from April to March of next year.

Note 2: Amount of grant aid is subject to E/N between two countries. Amount of technical cooperation is subject to JICA’s calculation.
Japan’s ODA and China’s Nuclear Tests (1995-2000), the Taiwan Strait Crisis (1996) and the Naval Activities of the People’s Republic of China (2000): reactions from both sides

In the case of the 1995 nuclear test by China, the MOFA responded to a strong domestic demand from the cabinet and the public. It abandoned its usual reluctance to impose aid sanctions on China and played a leading role in deciding about the suspension of grant aid. On 8 June 1996, China conducted its 44th nuclear test since 1964, at its Lop Nor test site in the Western Xinjiang Uygur Autonomous Region. China had insisted that it was entitled to carry out one more nuclear test in September 1996, and then join a test moratorium observed by the other declared nuclear powers, viz., the US, Britain, France and Russia, while signing the proposed Comprehensive Nuclear Test Ban Treaty (CTBT). The House of Representatives in Japan expressed its ‘regrets’ and unanimously adopted a resolution on 14 June that condemned China’s nuclear tests and demanded that China should immediately cancel any plans for further tests. 7 Soon after, the House of Councillors in Japan also adopted a similar resolution.

Masayoshi Takemura, former leader of the New Party Sakigake, the smallest component of the tripartite ruling alliance in Tokyo, urged Beijing not to conduct any more nuclear tests. 8 He further suggested the suspension of future talks for Japanese official yen loans and cautioned about extending economic aid to China. 9 The Japanese government was quick to express a ‘strong protest’ against China’s nuclear test, to the Chinese envoy in Japan. However, the then Japanese Prime Minister Hashimoto Ryutaro, former President of the Liberal Democratic Party (LDP), the largest party in the tripartite ruling coalition, reiterated that he was only considering freezing the loans, saying that it would ‘leave scars’ in bilateral relations, if he did. 10

Murayama Tomiichi, a former Prime Minister who headed the Social Democratic Party, concurred with Hashimoto, saying that it was ‘taken for granted’ that Tokyo would continue to suspend grant aid to Beijing. However, a freeze on the yen loan aid would negatively influence China’s efforts to push ahead with its policy of an open economy. 11

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8 Japan Times, 22 June 1996.
10 Ibid.
11 Ibid.
Grant-in-aid (with the exception of emergency relief and humanitarian assistance) to China was suspended again by Japan pending the termination of Chinese nuclear testing. This reflected the general sentiment in Japan against China’s nuclear tests. Japan had pledged that it would extend 580 billion yen in “soft” loan assistance (as the fourth package of yen loans) to China for the first three years of the fiscal 1996-2000 aid package. For fiscal 1996, 200 million yen was planned to be disbursed.12

China’s ‘socialist market economy’ required foreign aid especially from Japan. However, China was reluctant to abandon its nuclear test policy to obtain Japanese loan aid. Chinese leader Jiang Zemin became impatient and criticised Japan at the meeting with Takemura Masayoshi saying that “people with full stomachs can never understand the feeling of the people with empty stomachs.”13 China’s People’s Daily accused Japan of having its own ‘nuclear ambitions’ and further questioned whether a country that enjoys US nuclear protection can really be considered a non-nuclear state.14 The Daily commented that “with Japan’s present technology, it can easily produce an intercontinental ballistic missile, while Japanese supercomputer technology can simulate nuclear explosions in three dimensional space, thus eliminating the need for underground nuclear tests.”15 The row over China’s nuclear test had somehow developed from the arguments about the legitimacy of Japan’s ODA disbursement, to the national nuclear stance between China and Japan.

In the case of Taiwan Strait Crisis in 1996, however, there was no obvious discord between the MOFA officials and the LDP parliamentarians over whether to impose a sanction involving yen loans. The reason for this unusual convergence of bureaucratic and political interests within the Japanese government was the shared awareness that Japan was facing a security crisis. Thus there was agreement on the need to apply a strong ODA sanction in order to stop China’s military intimidation of Taiwan.

In the case of the People’s Republic of China’s Naval Activities in 2000, the LDP parliamentarians had been frustrated by the MOFA officials’ insensitivity in proceeding earlier in the same year with the special yen loan disbursement to China.

12 Ibid.
13 Ibid.
14 Nihon Keizai Shimbun, 14 July 1996.
15 Japan Times, 22 June 1996
However, despite that country’s disruptive naval activities, this time, the LDP parliamentarians compelled the MOFA to freeze the disbursement of the special yen loans. The ones who were elected, did so, because they were more sensitive to public opinion than were the MOFA bureaucrats. The LDP was able to prevail over the MOFA because by that time, foreign policymaking power had already shifted to a considerable degree from the MOFA officials to the LDP parliamentarians.

The correlation between the strength of ODA sanctions and the actual effectiveness of those sanctions is found to be weak by many experts. First, in the case of China’s nuclear tests, Japan’s aid sanctions against the PRC were relatively weak. That is, the grant aid frozen at that time constituted only a small portion of Japan’s total ODA to China. Therefore, the sanction had only a minor impact on China’s behaviour particularly its nuclear test programme. On the other side, the Japanese government had employed a very strong sanction during the 1996 Taiwan Strait Crisis by delaying the implementation of the crucial ‘fourth yen loan package’ worth 580 billion yen (about US$ 5.3 billion) which was actually ‘soft loan assistance’ as has been mentioned above. Although the Japanese government had not publicly announced this action as a sanction, it ought to be classed as a sanction because official talks on the implementation of the yen loan projects had not been held.16 Thus, this may be interpreted as an ODA sanction even though it was not articulated as such. In this case, however, the Japanese government gained no concession from the Chinese government despite the suspension of the yen loans, which comprised of a large portion of Japanese ODA to China. In fact, the sanction had no direct impact at all by many scholars. In this case, because of China’s naval activities, the Japanese government had directly suspended disbursement of the special yen loans, which constituted a relatively small amount of money, as compared to the standard yen loans. While this sanction was not as strong as that applied in the case of the Taiwan Strait Crisis, it produced a surprisingly positive outcome for the Japanese government.

Thus, the Japanese government started to use its ODA in the 1990s as a strategic tool to deter China from engaging in aggressive military behaviour as seen from the case of the series of nuclear tests between 1995-2000, 1996 Taiwan Strait

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Crisis and PRC's naval activities in 2000. Changing perceptions of the military modernisation of China among mainstream Japanese policymakers and China experts particularly influenced the Japanese government’s implementation of a series of aid sanctions against China, since the mid-1990s. For these policymakers and specialists, it became increasingly inevitable that China should be prevented from seeking regional hegemony in the future. Although the series of Japan’s aid sanctions have, on the whole, had only a limited influence on China’s military behaviour, Japan’s use of foreign aid as a strategic weapon against China has unquestionably created a new dynamism in the security relations between these two great powers in Asia. Since the mid-1990s, Japan’s strategic approach towards China is increasingly becoming straightforward and assertive. Politico-strategic rivalry between Japan and China is likely to be intensified in future especially for regional dominance.

The suspension of its grant aid to PRC between 1995-97 in protest against China’s repeated nuclear tests, surprised many Japanese aid experts as it upset three conventional assumptions of Japan’s foreign aid and policy behaviour. First, China has been a special country owing to its history and proximity, and the Japanese government tends to be conciliatory when dealing with its powerful and complex neighbour. Second, the Japanese government tends to be reactive to foreign pressures and may act out of character when forced to do so by the international community. Third, Japanese foreign policy and ODA policy especially in Asia is heavily influenced by its economic and commercial interests, and the Japanese government will avoid actions such as suspension of its aid where their business interests are in serious threat.

Thus, the suspension of foreign aid to China illustrates that the Japanese government established the extension and suspension of its aid as a multiple-use foreign policy tool as the country became a top donor in the 1990s. These cases also indicate the importance of Japanese domestic politics and its public opinion in supporting the government’s unilateral foreign policy actions, as foreign aid becomes an important policy tool aiming to enhance its security environment. Such conclusions go beyond the conventional theoretical understanding of Japan’s foreign policy making which has emphasised Japan as a reactive state with single-minded pursuit of its economic interests.
The above examples make it very clear that the Japanese government realised the political importance of its ODA policy along with its traditional economic interests in the 1990s. Tokyo increasingly understood and used its ODA as a foreign policy tool to secure its strategic interests as it became quite evident in cases related to the Tiananmen Square incident in 1989-90, China’s series of nuclear tests in between 1995-97, Taiwan Strait Crisis in 1996 and PRC’s naval activities in 2000. Thus, Japan used its ODA as a multiple foreign policy tool not only to satisfy its business interests but to protect its political and strategic interests as well, in the 1990s. Gaining public support for its decisions related to ODA has been very crucial, keeping in mind the tight budgetary conditions and economic difficulties in this decade. As long as the Japanese government receives sufficiently high level of public support for its aid policy, this relatively low-profile non-military foreign policy tool serves as a convenient alternative or supplement to military and diplomatic means in dealing with neighbouring countries. This policy tool is especially useful in Asia because unlike many military or diplomatic options, it does not evoke wartime memories of Japan’s military aggression in those countries.

Factors Responsible for Japanese Aid Behaviour toward China: Changes in the International and Domestic Political Environment

The end of the Cold War naturally affected Japan’s perception of China in the global context. Just after the Tiananmen Square incident in 1989, Japan’s Foreign Minister Mitsuzuka Hiroshi speaking at the ASEAN Foreign Ministers’ Conference emphasised that “if we isolate China, we will drive it closer to the Soviet Union. It may not be a wise policy.”17 This kind of statement would have been inconceivable in relation to the 1995-1997 aid suspension. The end of the Cold War had indirect implications also, as Japan showed that there was declining pressure from the US in its aid policy. In the 1990s, there was a drastic reduction in US foreign aid and this led to its position falling to number two in the donor list of DAC. With China especially, the US was never able to use its aid as a foreign policy instrument, except indirectly, through its dominance over the International Financial Institutions (IFIs) mainly the World Bank. Japan on the other hand, with its foreign aid accounting for more than 50 percent of China’s aid receipts (Katada 2001:49), gradually realised its potential as a foreign policy tool (Long 1999) despite the fact that it was oriented towards its

\footnote{Asahi Shimbun, 7 July 1989; Kesavan (1990:673)}
business interests. Meanwhile, the power of US to influence Japanese aid behaviour diminished in the 1990s. All these changes in the international structure in the post Cold War era provided enough space for Japan to impose its unilateral decisions in Asia. There was another very important change noticed in the 1990s in China and Japan’s bilateral relationship. The Japanese people and its government had not felt any threat and insecurity from China before 1989-90. However, suddenly a series of Chinese activities, which was seen as a provocative behaviour from the Japanese perspective, exerted immense pressure on Japan. China’s dramatic increase in production capacity on the one hand and military modernisation and massive build-up on the other challenged Japan’s might in this region seriously for the first time. China was emerging as a competitor and many in Japan believed that Japan should follow a policy which could keep China ‘in check.’ China’s series of nuclear tests, military modernisation, the Taiwan issue, supremacy in the East China Sea, territorial disputes over the Senkaku/Diaoyu islands etc., added to the politicisation of Japan’s relationship with China. In addition to that, the generational change in Japanese leadership also affected the bilateral relations between these two countries, along with a disappearance of a ‘sense of guilt toward China’ regarding deeds before and during World War II (Garrett and Glaser 1997: 397-98).

Apart from the factors mentioned above, the Japanese trade balance with China which showed a surplus trend in the late 1980s began deteriorating in the 1990s and countries like Vietnam and Myanmar started drawing Japanese attention for business away from China. In addition to this, the Japanese attitude towards China in terms of aid started changing in 1990s. From the 1970s through 1989, Japanese aid to China was for building roads, dams, ports, railways (i.e., infrastructure-based) that would support Japanese firms while also serve as a sign of friendship and quasi-war reparations. But in the 1990s, other objectives emerged and changes in Japan’s aid policy were visible in the ‘three-year plus two-year’ formula adopted in the ‘fourth yen loan package.’ Apart from building social and physical infrastructure in China that could serve Japanese business interests, a new aim emerged, that of preventing environmental degradation arising from China’s rapid industrialisation. The Japanese government started to see the importance of using any foreign policy instrument available, that might influence Chinese behaviour in the post Cold War world (Katada 2001).
With the introduction of the 1992 ODA Charter and 4 aid principles in it, Japan’s approach to aid changed considerably. There was a gradual shift in the public opinion of Japanese people with a declining trend of its ODA support as was evident in the opinion polls (41.4% and 32.9% supported the increase of ODA in 1991 and 1996 respectively. Those who thought ODA should be reduced increased from 8% in 1991 to 12.9% in 1996) and severe budgetary constraints of the mid 1990s also guided domestic politics of Japan’s ODA.\(^\text{18}\) The decline in public support and budget allocation was an important factor in MOFA’s public announcement that the goals of ODA include its ‘national interest’ and ‘national welfare’, in addition to helping those in need. It also made it important to show the effectiveness of its aid to China in promoting Japan’s national security during the second suspension case of foreign aid.

There was an obvious contrast between the two cases concerning aid suspension and domestic political implications. In the 1989-90, aid suspension was in protest against China’s violation of human rights and democracy in the Tiananmen Square incident. Japan believed that human rights and democracy were China’s internal matter, so it was reluctant to make any ‘black and white judgment’ (Kesavan 1990: 672). Policy makers in Japan seemed to believe that economic development necessarily had to precede political reforms. The Japanese business community therefore criticised the West’s economic sanction against China, warning that any such sanction would slow Chinese economic reforms and development which in turn would ultimately hamper a process of democratisation in China.\(^\text{19}\)

In the other instance, the Japanese people and its government reacted very strongly in protest against China’s repeated nuclear testing in 1995 and termed it as provocative action. Since Japan is the only country that suffered nuclear attacks, its anti-nuclear stance or nuclear allergy is well known and therefore, Japan gets huge public support for nuclear disarmament. In this case also, a large percentage of the Japanese called for total suspension of grant aid to China, based on the 1992 ODA Charter principles.\(^\text{20}\) Diet members were also furious about such tests and bureaucrats were quite apprehensive about the future implications of the Japan-China bilateral relationship.

\(^\text{18}\) On the budgetary and popular support issue, JEI Report, no.5A, 6 February.1998.

\(^\text{19}\) Los Angeles Times, 7 June 1989, see also JEI Report, no.19A, 19 May.1998.

\(^\text{20}\) Asahi Shimbun, 6 September, 1995.
Although the effects of aid sanctions were limited, the Japanese government's decision to suspend foreign aid to China demonstrated an ability to think beyond its narrow economic interests and on occasion, to make unilateral decisions based on strong public support as an effective foreign policy instrument toward the recipient countries. This analysis of Japan's aid relationship with one of its largest aid recipients illustrates the increasing domestic influence on Japan's aid as a foreign policy tool in the post Cold War world.

B) Japan’s ODA to Indonesia:

Among DAC countries, Japan was the largest donor to Indonesia between the years 1991-1994. Its aid to Indonesia overwhelmed the Netherlands, France, Germany and Austria. Compared to China, Indonesia received much lesser ODA disbursement from international agencies. For example, in 1994 China and Indonesia received US$ 818 million and US$ 86 million respectively, i.e., China received 9.5 times more from international organisations than Indonesia. It is obvious that China’s “socialist market economy” attracted much more attention and economic assistance from international organisations.

Japan’s ODA disbursement to Indonesia (1990-1996) (in US$ million):

<table>
<thead>
<tr>
<th>Year</th>
<th>Grants</th>
<th>Loan Aid</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Grant aid</td>
<td>Technical co-operation</td>
</tr>
<tr>
<td>1990</td>
<td>58.38</td>
<td>108.68</td>
</tr>
<tr>
<td>1991</td>
<td>79.73</td>
<td>133.07</td>
</tr>
<tr>
<td>1992</td>
<td>85.73</td>
<td>141.72</td>
</tr>
<tr>
<td>1993</td>
<td>67.61</td>
<td>157.93</td>
</tr>
<tr>
<td>1994</td>
<td>72.28</td>
<td>177.69</td>
</tr>
<tr>
<td>1995</td>
<td>66.46</td>
<td>203.67</td>
</tr>
<tr>
<td>1996</td>
<td>64.41</td>
<td>163.31</td>
</tr>
<tr>
<td>Total (1990-96)</td>
<td>494.60</td>
<td>1,086.07</td>
</tr>
</tbody>
</table>

Source: Ministry of Foreign Affairs, op.cit.

In 1994, Japan’s ODA disbursement to Indonesia was 10.3 times as much as all international organisations combined. Its ODA disbursement to Indonesia was
particularly important to Indonesia’s social and economic development. Japan’s total grant (grant aid and technical co-operation) and loan aid to Indonesia amounted to US$ 7.18 billion over the period 1990-1996. Grants were equal to 22.0 per cent of loan aid as shown in the table above.

According to Japan’s ODA Report (1995), Japan’s yen loans to Indonesia financed the construction of waterworks, electric power, highway systems, railroads and telecommunications. The details are as follows: a) Waterworks - 55 percent (380,000 t/d) of the costs of construction of Jakarta’s water purification facilities were financed by yen loans; b) Electric power - 20 percent (2,064 MW) of the costs of construction of Indonesia’s power generation capacity were financed by yen loans; c) Highway systems - 15 percent (56 km) of the costs of construction of Indonesia’s toll road systems were financed by yen loans; d) Railroads - 12 percent (779 km) of the costs of construction of Indonesia’s railroad systems were financed by yen loans. e) Telecommunications - 50 percent (2,500 km) of the costs of construction of Indonesia’s microwave cables across the country were financed by yen loans, and 60 percent of the costs of laying transmission cables (connecting telephone offices in Jakarta) were financed by yen loans. It is obvious, that at least during this period, Japan’s role, as compared to that of the Western countries, has been particularly significant in Indonesia’s social and economic infrastructure development.

Japan’s role in financing irrigation projects is also worth noticing in the agricultural sector. It is clear that without Japan’s ODA loans, the development of Indonesia’s social and economic infrastructure would be delayed and it would be unable to sustain rapid economic growth. During this period, Indonesia, together with China and Thailand, has been among the top three recipients of Japan’s bilateral ODA.

Indonesia’s economic development had been promising before Suharto resigned in May 1998. In the years 1995 and 1996, Indonesia’s real annual growth rates were 8.2 percent and 8.0 percent respectively. As a big country with 13,500 islands and more than 192 million population, Indonesia’s economic success has naturally attracted much attention. Big ports and cities, such as Jakarta, Bandung, Medan, Semarang and Bogor are well developed. In addition to this, the resort Mecca Bali has become a symbol of Indonesia’s development. These places have received substantial amounts of Japan’s ODA disbursement for social and economic infrastructure development. The rapid development of Riau islands (especially Batam
and Bintan) will be contributing even more to the overall economic development in Indonesia and Japanese ODA is definitely playing an important role in this.  

One of the interesting debates that surfaced from the Asian Crisis in 1997 was about the role and nature of foreign capital, either in the form of ODA or in the form of private capital. Did ODA really help the recipient countries? Did ODA really generate the promised growth for the recipient country's economy, or only for the industries of the donor country?

With regard to Japanese aid, critics say that ODA loans are merely an instrument of foreign policy. Loans are also a mechanism for the promotion of exports of Japanese goods and services. Large portions of loans go to Japanese consultants and contractors. Japanese companies dominate in the construction of ports, dams, railroads, power plants, cement plants and other projects, profiting from low interest rates.

Critics have said that despite the claim by Tokyo that its ODA in the 1990s was largely 'untied', Japanese firms won most contracts through informal 'tying' techniques: the exclusive use of Japanese consultants for feasibility studies and providing engineering services, and the 'on-request' basis of aid/loan project identification. Japanese domination of consulting and engineering works creates an incentive to design projects that specify materials and equipment that can be supplied by friendly firms. The 'on-request' procedures enable Japanese firms to propose projects that are beneficial to their business interests.

In the case of Indonesia, the evidence tends to support the claims of the critics. In theory, Japanese bilateral aid was comprised of 'untied' and 'tied' aid. In reality, both of them were tied. The ODA/yen loan was significantly tied to the procurement of Japan goods/services, while the 'untied' aid was conditional upon policy reforms laid out in the International Monetary Fund (IMF) letter of intent.

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Trends in Bilateral Lending to Indonesia

Japan was the largest bilateral donor to Indonesia; around three-quarters of external financing came from Japan. Indonesia was the top priority for Japanese ODA and therefore received more than 50 percent of its assistance from Japan.²³ As of 2001, Indonesia’s bilateral loans (yen loans, technical assistance and grant aid) from Japan stood at US$ 25.8 billion. Outside the ODA/yen loans, the other external financing from Japan was export credit valued at US$ 47.4 million, loans from financial institutions, which amounted to US$ 634 million, and suppliers’ credit, which amounted to US$ 1.2 billion.²⁴

As a bilateral donor, ²⁵ Japan also sits as a key member in the CGI (Consultative Group for Indonesia), a donor/creditor forum led by the World Bank that meets annually and pledges new or extended loan commitments.²⁶ On an average, the CGI annual pledge/loan commitments were around US$ 4 - 5 billion. On an average, Indonesia approved about US$ 36 billion worth of Japanese non-oil investment between 1967 and 2000 (ICG 2001).

The ODA loans were composed of several types: Project loans, Engineering Services, Financial Intermediary Loans, Structural Adjustment Loans, Commodity Loans, and Sector Programme Loans. In general, there are three types of Japanese ODA to Indonesia: yen loans (by OECF/JBIC), technical assistance (by JICA), and grant aid (JICA).

From 1992-1997, more than 75 percent of Japan’s ODA to Indonesia was in the form of yen loan/ODA Loan (project loans, commodity loans, etc.), instead of grant aid and technical assistance. This implied that, most of the proceeds went to finance the provision/procurement of capital-intensive equipment, industrial and agricultural machinery, raw material, fertilizer and pesticides, civil works, consulting services and other project needs.

In dealing with the Asian crisis, Japan took several policy measures for Indonesia: (i) support for the facilitation of trade finance (a two-step loan by the

EXIM Bank, Japan, utilisation of trade credit insurance, restructuring support loans); (ii) support for private debt resolutions; (iii) support for Indonesia’s structural reform efforts.

In January 1998, OECF committed to 19 new projects valued at 195,248 million yen. The largest projects were power plants, road improvements, transmission lines (electricity), flood control, rural areas development and irrigation projects. Of the 19 projects, the JICA handled the master plans and feasibility studies of 11 projects.

In cumulative terms, in the 32 years from 1967 to 1999, Indonesia received 18.6 percent of total Japanese ODA loans, or 3,432 billion yen (around US$ 34 billion). In FY 1998, Indonesia received 19.7 percent of the total ODA loans, compared to 18.6 percent in 1997, 14.9 percent in 1996, and 18.8 percent in 1995.

As of December 1998, the total ODA loan from Japan to Indonesia was 587 commitments, valued at 3,265 billion yen. This was part of the loan extended in accordance with the Japanese government policy for ‘Support Measures for Asia’, announced in April 1998. In 1999, under the NMI (New Miyazawa Initiative), Japan committed to channel funds amounting to yen 2.4 billion, composed of the following:

I. Power Sector Restructuring Programme (yen 400 million, managed by JEXIM);

II. Extended Fund facility (complement to IMF loans, valued at yen 1 billion, managed by JEXIM);

III. Policy Reforms Support (valued at yen 100 million, managed by JEXIM);

IV. Health and Nutrition loans (yen 300 million, managed by OECF);

V. Social Safety Net Loan (yen 300 million, managed by OECF);

VI. Social Safety Net Programme (yen 300 million, by OECF)

The entire bilateral loan under NMI was aimed to ‘support the government of Indonesia in its reform efforts’. Specifically, the Policy Reform Support Loan II Statement (January 2000), described that the loan was designed to promote macroeconomic stabilisation, financial and corporate sector reforms, and other economic structural adjustment efforts, ‘all of which are significantly needed to overcome the country’s economic hardship’.
Terms, Conditions and Tying Aid to Company Interests:

ODA loans vary in their grant element, i.e., the degree of concessionality related to interest rates, grace periods and repayment periods. Japan was slowly accommodating its critics by increasing the grant element and grant aid components of its ODA. However, its aid remained less concessional than the DAC average. Decision-making regarding Japanese ODA loans resided with different authorities. The volume and country priorities for ODA/yen loans were decided by MOFA (Minister of Foreign affairs), MOF (Minister of Finance) and the ruling politicians. JICA and OECF (JBIC), as implementing agencies, were actively involved in the preparation and decision-making process. At the operational level, MOFA and the Japanese Embassy, as well as JBIC/OECF and the JICA office in recipient countries were active in loan discussions and negotiations (Hanabusa 1991).

In Indonesia, every year, BAPPENAS (the National Development Planning Agency), headed by senior economic/planning ministers and line ministries (public works, communications, home affairs, etc.,) compose a collection of projects called the Blue Book. This book contains dozens to hundreds of development projects across Indonesia. Bappenas claims that this book arises from the proposals and needs of local government and line ministries. It is an official document that provides the reference point for discussion between the Government of Indonesia (GOI) and JBIC/OECF/the Japanese Embassy in Jakarta.

Under Suharto (1967-1998), the second President of Indonesia, he and Bappenas were the sole agencies determining the projects for the final proposal to the OECF/Japanese Government. Once an informal and in-principle agreement was reached between GOI and the Japanese Government, OECF and JICA would start the design and preparation work to produce the final loan proposal, including the terms of conditions and other aspects. The DPR (Detailed Project Report), the Indonesian parliament, would only agree to all the projects, once the Bappenas chairman (a senior ministerial post) had presented the annual government budget, together with the amount of external loan needed (Suharto officially called it ‘development aid’, not ‘loans’).

On the basis of conditions attached to the procurement sources, ODA loans may be grouped into three types: ‘generally untied’, ‘partially untied’ (also called
‘LDC untied’), and ‘tied’. ‘Generally untied’ aid allows bidding by all interested suppliers/contractors; ‘partially tied’ aid allows only for suppliers from Japan/donor country; and ‘tied aid’ requires that both suppliers and bidders were from the donor country (Yanagihara and Emig 1991).

Three related issues are relevant in looking at procurement conditions: ‘tied’ aid, mixed credit and capital projects. Mixed credit is the practice of sweetening export financing with aid grants in order to promote exports or support certain industries. Japan puts more emphasis on capital projects – power, transportation, and telecommunication – than on other instruments.

All DAC members tie a proportion of aid to the procurement of domestic goods and services. Critics opined that during the 1960s and the 1970s, Japanese government tied almost 100 percent of its aid to push exports for MITI. Grant aid through JICA remained strictly tied, while project loans from OECF were ‘generally untied’ or ‘LDC untied’. Through OECF loans, Japanese firms outmaneuvered their competitors from less developed countries but Japan responded to criticism about the level of its aid-tying and untied more than 70 percent of its ODA. In May 1988, OECF lending to Korea and Malaysia became wholly untied; in 1990, OECF lending for engineering consultancies to Thailand, the Philippines, Brazil and Papua New Guinea (PNG) was generally untied (Bloch 1991). However, for Indonesia and China, Japan’s two largest yen loan recipients, Japan excluded the untying process.\(^\text{27}\)

Regarding the nationalities of contractors, on a global basis, procurement from Japanese companies went down to 20.5 percent from 27 percent in 1997. On foreign currency-based procurement, 28.2 percent of procurement was from Japan, down from 40.8 percent in 1997, a drop attributed to the increase in commodity loans (from 5-11 percent to 29 percent in 1998) providing for emergency assistance after the Asian crisis.

Again, the situation in Indonesia was different. The JBIC/OECF report from 1996 to 1999\(^\text{28}\) shows that most of the procurement contracts arising from ODA/yen loan projects in Indonesia continued to go to Japanese companies. Both for consulting


works as well as for the contractors for civil works and equipment, a conservative estimate is that between 60-70 percent of contracts and funds went to Japanese companies.

Japanese consulting companies, including Pacific Consultants International, Nippon Koei, Nikken Consultants, Nippon Telecommunications Consulting and Newjec were the principal consultants from 1996 to 1998, on the largest projects in Indonesia, with values of more than 1-10 billion yen. Meanwhile, Japanese contractors for civil works and equipment, such as Mitsubishi, Mitsui & Co., Sumitomo, were the winners of the major construction contracts in Indonesia. All technical cooperation and grant aid, under JICA and OECF was 'tied' aid.

Japan announced in FY 1998 that it would continue to provide assistance to Indonesia in its efforts to overcome economic difficulties and to provide support measures for the socially disadvantaged and the unemployed. In July 1998, Japan announced a total of ¥ 187 billion in assistance to the Indonesian government (consisting of ¥ 150 billion in yen loans which have been disbursed, and 50,000 tons of rice). Additionally, Japan provided 700,000 tons of rice from government stores under a food aid arrangement. Some US$ 900 million in yen loans for the country's balance of payments and the socially disadvantaged was announced in October 1998 under the October 1998 New Miyazawa Initiative (of which US$ 670 million, or ¥ 80.48 billion, have been disbursed). Loans from JEXIM of approximately US$ 1.5 billion were also announced as public financing in addition to aid. Japan also assisted the general election held in June 1999.

**Priority Areas for Japan's ODA to Indonesia:**

1. Achieving equality: Balanced development in terms of social and regional equality was considered important by focusing on the socially disadvantaged, who had been hardest hit by the effects of the economic crisis of 1997. Emphasis was placed on:
   (a) poverty alleviation through the improvement of living conditions for the poor;
   (b) assistance for BHNs through the improvement of living conditions and health and medical care; (c) population control, family planning and AIDS prevention; and (d) development in eastern Indonesia to rectify regional disparities.

2. Human resources development and education: Improvement of the educational level and the development of human resources across a broad sector to enable
Indonesia to recover from the Asian economic crisis and strengthen its competitive abilities in international markets were also considered for overall development through Japan's aid. Emphasis was placed on: a) improvement of primary and secondary education; b) improvement of the quality of teachers (with a further emphasis on mathematics and science teachers for primary and secondary schools); and c) improved education for technical experts and engineers.

3. Environmental conservation: Japan realised that measures were needed to counteract environmental problems associated with rapid development (depletion of forests and other natural resources, environmental pollution and disasters), and the deterioration in living conditions resulting from over-concentration of population in urban areas. Emphasis was to be placed on: a) conserving and ensuring sustainable use of forests and other natural resources, as well as the natural environment (including preservation of biodiversity); b) cooperation to improve urban living conditions and pollution control; and c) building institutions to handle all environmental issues (including improvement of the capability to implement policies related to the environment).

4. Support for industrial restructuring: Providing assistance for sound macroeconomic management, for the promotion of industry across a broad base and for the promotion of agriculture. Particular emphasis was to be placed on: a) assistance for macroeconomic management; b) promotion of supporting industries; and c) promoting agriculture (diversification of agricultural products and raising agricultural products that offer high added value).

5. Industrial infrastructure (and economic infrastructure): Since Indonesia needed continuous inflows of direct investment in order to achieve sustainable economic development, obtaining this capital required that Indonesia build a favourable environment for investment. Sectors of priority were: a) electric power, b) water resource development, c) transportation, and d) communications.

Although Indonesia emerged successfully from the severe Asian Financial Crisis of 1997, the country’s economy was going through a series of turbulence. Therefore, continuous aid by Japan or other international institutions were considered vital in this direction. Based on the then-Prime Minister Hashimoto's proposal at the December 1997 Japan-ASEAN summit for Japan-ASEAN
Programmes for Comprehensive Human Resource Development, Japan assured Indonesia that it would help develop the human resources needed to achieve sustainable economic development. It provided assistance to Indonesia in the agricultural field under the third-phase “umbrella cooperation,” which was directed at raising living standards for Indonesian farmers. Such cooperation was provided as part of Japan’s efforts to integrate different forms of assistance. As the country registered a negative growth rate of 13.7 percent and an inflation rate of 77.6 percent immediately in 1998, the Indonesian economy was seriously affected by the Asian Financial Crisis of 1997.29

Aid Statistics:30
(1) Japanese assistance (net disbursements, $ million)

<table>
<thead>
<tr>
<th>Calendar year</th>
<th>ODA loans</th>
<th>Grant aid</th>
<th>Technical co-operation</th>
<th>Total</th>
<th>Rank of total contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>590</td>
<td>115</td>
<td>126</td>
<td>830</td>
<td>2nd</td>
</tr>
<tr>
<td>Cumulative through 1998</td>
<td>11,619</td>
<td>1,134</td>
<td>2,036</td>
<td>14,789</td>
<td>1st</td>
</tr>
</tbody>
</table>

(2) Assistance from DAC countries (net disbursements 1997, $ million)

<table>
<thead>
<tr>
<th>Total bilateral aid</th>
<th>1st</th>
<th>2nd</th>
<th>3rd</th>
</tr>
</thead>
<tbody>
<tr>
<td>791</td>
<td>Japan: 497</td>
<td>Germany: 115</td>
<td>Australia: 79</td>
</tr>
</tbody>
</table>

(3) ODA from international organizations (net disbursements 1997, $ million)

<table>
<thead>
<tr>
<th>Total aid</th>
<th>1st</th>
<th>2nd</th>
<th>3rd</th>
</tr>
</thead>
<tbody>
<tr>
<td>52</td>
<td>ADB: 17</td>
<td>*CEC: 15</td>
<td>UNICEF: 15</td>
</tr>
</tbody>
</table>

*CEC: Commission of the European Communities


30 Ibid
As a result of the 1997 crisis and its aftermath, at least 40 million people were living in extreme poverty. Two million Indonesian children were feared to be ‘lost generations’ because of the 40 percent decline in social spending since 1997. Indonesia was the largest recipient of Japan’s ODA loans since 1967. These loans were concentrated on infrastructure and industry, and served foremost as a strategic instrument of Japan’s economic and foreign policy interests. Both before and since the Asian crisis, they had been characterised by high levels of ‘tied’ aid. Moreover, ODA tied to IMF programmes in Indonesia had not positively answered the development need of that country. Massive debt burdens caused by the IMF programme did not help Indonesia’s efforts to recover economically and reduce poverty. A poll by the Indonesia newspaper Media Indonesia of 482 respondents across major cities showed that more than 45 percent believed that the IMF did not help Indonesia, 29 percent said that the IMF did not help Indonesia at all to get out of the crisis, and only 25 percent said that the IMF did help Indonesia.

Indonesia would not benefit from DAC moves to ‘untie’ aid to LDCs because Indonesia did not fall into the category of being an LDC. But as a result of the crisis of 1997, it became a severely indebted and low-income country. If Japan’s cooperation was to make a more positive contribution, its loans needed to address several key issues. These included the quality of aid and conditionality, as well as, ownership. Revising inequitable procurement policies was a priority, to ensure that procurement outcomes produced broad-based growth and benefits, free from collusion, corruption and nepotism. In terms of Japan’s bilateral yen loans, there should have been an independent audit of the procurement results, independent assessment of its impact on the local economy and local industry and independent assessment of the IMF programme in Indonesia.

C) Japan’s ODA to Bolivia:

A study was conducted by MOFA to analyse the effectiveness of Japan’s ODA especially in the field of BHNs in Bolivia between 1996-2000. This study is aimed at understanding the achievements in the field of BHNs in Bolivia and to propose some recommendations for effective implementation of its aid scheme in the

concerned country. This evaluation study has covered all of Japan’s grant aid co-operation and technical co-operation projects addressing BHNs (health, water and sanitation and education) implemented during the target period (fiscal year 1996 - fiscal year 2000). The number of co-operation projects implemented in the three sectors of health, water and sanitation and education during the target period are shown in the table below.

**Projects by basic human needs target sector and co-operation scheme implemented in fiscal 1996 to fiscal 2000:**

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Grant aid (no. of projects)</th>
<th>Grassroots grant aid (no. of projects)</th>
<th>Project-type technical co-operation* (no. of projects)</th>
<th>Development study (no. of projects)</th>
<th>Despatch of individual experts (persons) long term</th>
<th>Despatch of individual experts (persons) short term</th>
<th>Despatch of training participates (persons)</th>
<th>Acceptance of training volunteers (persons)</th>
<th>Japan overseas cooperation volunteer (persons)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health</td>
<td>2</td>
<td>15</td>
<td>2</td>
<td>0</td>
<td>9</td>
<td>80</td>
<td>36</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water and sanitation</td>
<td>2</td>
<td>14</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>5</td>
<td>40</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Education</td>
<td>1</td>
<td>27</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>4</td>
<td>17</td>
<td>16</td>
<td></td>
</tr>
<tr>
<td>Total Basic Human Needs</td>
<td>5</td>
<td>56</td>
<td>2</td>
<td>0</td>
<td>4</td>
<td>18</td>
<td>127</td>
<td>54</td>
<td></td>
</tr>
</tbody>
</table>

*Source: Ministry of Foreign Affairs “Japan’s ODA White Paper”

* This includes despatch of expert teams and research co-operation.

ODA disbursed by Japan in the area of BHNs amounted to ¥17,997 billion and involved 293 people involved in the technical cooperation field such as experts, training participants and Japan Overseas Cooperation Volunteers. The total beneficiaries totalled 23,40,000 people, equivalent to about 28 percent of Bolivia’s population in 2001. As BHNs consisting of health, water and sanitation, education, WID etc. form a very important component of Japan’s new “soft aid” vision, it was realised crucial to focus on these aspects of social infrastructure of a recipient country because economic growth alone can’t eliminate poverty in LDCs without much needed emphasis on building human capital.

Aid to the health and education sectors in Bolivia did not focus on a single issue, but addressed multiple issues. On the other hand, projects in the water and sanitation sector were comparatively clearly focused on the single issue of groundwater development. Although the Bolivian government felt that decentralisation was an important issue, Japan’s cooperation was primarily implemented in La Paz and Santa Cruz, which are areas with large population. Also, while in the health sector the government prioritised the issue of augmenting primary
healthcare, Japan’s aid focused on secondary and tertiary care. There was comparatively low consistency in these two points. It was found that there was a lack of coordination and proper discussion while implementing the projects at grassroots level and the role of NGOs and their co-operation was very limited. The approval process for Japan’s ODA (grant aid, project-type technical cooperation, etc.,) projects took a substantial amount of time, and that the process from the time the request is made, to the time the project is approved, should be simplified.

JICA was in charge of managing operations involving the implementation of Japan’s co-operation projects in Bolivia. The Embassy of Japan in Bolivia managed the grassroots grant aid monitoring during the co-operation implementation process consisted of regular reports made by construction contractors and consultants to the JICA’s Bolivia office and the Embassy of Japan in Bolivia. At that time, projects were rarely formulated based on logical frameworks such as Project Design Matrix and there was almost no monitoring or evaluation; a monitoring and evaluation system that relied solely on reports from the construction contractors and consultants was inadequate. It was also found that due to political instability, policies of the newly elected government changed drastically, therefore a continuous cooperation in proper implementation of projects undertaken and their monitoring was crucial to the success of the grassroots projects. So, it was recommended that the monitoring system be strengthened, in order to improve the projects results and quality. Increasing decentralisation in Bolivia was also found to be responsible for inappropriate management of human resources, funds and organisational capacity by regional governments of prefectures and cities. These issues could not be addressed and resolved easily and smoothly because of inadequate communication and coordination between central and regional governments.

According to local interviews done by MOFA, Japan’s cooperation planning process took considerable time, but the implementation of the projects were relatively quick and they received a positive assessment. In particular, elementary school construction done with grant aid and grassroots grant aid was praised for its high efficiency compared to the Fondo de Inversión Social (FIS/Social Investment Fund), provided by other donors. Further, Japan’s grassroots grant aid takes only three to four months from approval to implementation, and this received strong praise from the organisations that received the donations.
Participants in the interviews gave several examples of the impact resulting from the Japan’s aid for BHNs: 1) some synergistic effects from coordination with donors, 2) the improved status of women, 3) better sanitary conditions due to the groundwater development projects and 4) more active community activities due to the implementation of the elementary school construction project and regional underground water development project. Also, as evidenced by the fact that the Ministry of Health recognized the Japan hospital in Santa Cruz as Bolivia’s best hospital, Japan’s BHN cooperation helped to increase the number of Bolivians with an affinity for Japan. “Soft aid” to Bolivia subsequently enhanced Japan’s political stature in Latin America. Bolivia emerged as a striking example of Japan’s “soft aid” implementation where “soft aid” policy merged with ‘hard aid’ and decentralised grassroots development activities took place with limited success.

It was also found that in Bolivia, NGOs were very effective at the grassroots level in BHNs, and grassroots grant aid should continue to be utilised strategically in this field, as recommended by the experts. Co-ordination with the Embassy of Japan in Bolivia and the JICA Bolivia office was very important in order to deal with the situation of frequently changing governments and increasing decentralisation in Bolivia effectively. The monitoring and evaluation system using a logical framework such as that in the ‘Project Cycle Management Method’ must be strengthened as recommended, and the quality of the project content must be managed during project implementation.32