Chapter IV
Japan’s Development Aid: 1992-2001

Ever since Japan’s arrival as a major donor of foreign aid, the motivations underlying the Japanese aid programme have been a subject of debate among policy makers and aid scholars. This debate has been particularly contentious since 1989, the year Japan achieved the status as the world's leading donor of ODA. The Japanese government subsequently pledged to become better “aid citizens” by supporting not only economic development but also social and political reforms in developing countries. In June 1992, the Japanese government adopted its first formal policy on development aid, the ODA Charter, which identified such factors as democratisation, human rights, and restraint in military spending as preconditions for developing countries to receive Japanese aid (Hook and Zhang 1998: 1051).

Factors Responsible for Change in Japan’s Aid Policy: Aid Criticism

Aid criticism was definitely one of the important factors which pushed Japan forward to change the decades old ODA policy in the 1990s. During this period, Japan faced worldwide criticism for promoting its business interest in developing countries, with a “tied aid” policy. Recipient countries complained that the policy of granting aid on a request basis only, allowed Japanese business firms to lobby governments for project requests which only they could fulfill. The large share of the yen loan in the aid package, relatively high interest rates and complicated repayment schedules were subject to strong criticism as well. Later, it transformed and developed into a bitter complaint by ASEAN (Association for South East Asian Nations) countries especially after the yen appreciated in 1985-86; causing it to dramatically increase the repayment burden. As Japan’s current account and global trade surpluses reached new heights during this time, criticism became more severe, not only in the developing countries but in the industrialised world too. Japan was expected to be more generous and flexible in its aid programmes. At the same time, there was growing criticism of its aid policy, inside Japan also. Domestic critics of ODA complained about the misuse of funds, the inefficient and improper co-ordination of grants, loans and technical assistance among the Overseas Economic Co-operation Fund (OECF), Japan International Cooperation Agency (JICA), and the Export-Import Bank of Japan.
In response to the mounting criticism, an ‘Advisory Committee on the Effective Implementation of ODA’ was established by the then Minister of Foreign Affairs, Shintaro Abe in April 1985. In December, some specific recommendations, along with enlisted measures were submitted in this regard.¹

The aid debate centred on aid rationales, conditions, politicisation, effectiveness, impact on recipient governments and people, and the policy making process. There are two schools of thought regarding this. The first school is of the view that Japan’s ODA has been a negative force that serves only the donor’s interest, harms the recipient and corrupts both the donor and the recipients. This school of thought is better known as the evil school and it has prevailed in Japan since the 1950s. The followers of this school are mainly centred in academia and mass media. The Japanese ODA-as-evil school is mainly criticised for the following reasons:

a) **Mercantilism**: The ultimate objective of Japanese ODA is self-centred economic gain. The main objective is not to assist the developing countries but to enrich Japanese industries by using ODA as a ‘tool’ to open overseas markets for Japanese manufactured goods, technology and services or to secure and maintain sources of raw materials and energy resources.

b) **Corruption**: Aid critics argue that due to rampant corruption in most of the recipient countries, the benefit has not reached the masses. Corrupt political, bureaucratic and business elites have been the major obstacles to a fair and equal development.

c) **Negative Impact**: Environmentalists argue that Japanese ODA has a huge negative impact in recipient countries. Many Japanese projects have badly destroyed the natural environment through environmentally unsound dams, bridges and other infrastructural projects. The destruction of South America’s rain forests and East Asia’s particularly Malaysia’s and Indonesia’s tropical forests, flora and fauna in an Indian river are some examples. Displacement of local people and migration are other negative aspects.

d) **Wastage of Taxpayer’s Money**: Other points of contention are wastage of Japanese taxpayer’s money due to lack of proper implementation of Japanese aid.

e) Concentration on Infrastructure Projects: Critics argue that the main focus has been given to infrastructure building, as it is more profitable. Health, education, environment and other BHNs have been marginalised in aid policy.

f) Double Standards: While extending ODA, Japan ignored atrocious human rights records in some countries like China and Myanmar. Its aid policy is widely believed to be subservient to American influence and therefore there is some doubt over the independence of Japan's aid policy. In addition to this, aid is critical for ASEAN countries to keep the Malacca, Lombok and Sunda straits open to Japanese ships.²

Such criticism had also been expressed in the past, about Japan's aid policy and its directions from various quarters, in some other major publications and national and international media. Japanese taxpayers were also worried about the misuse of aid in countries like Philippines under Ferdinand Marcos, where corruption was rampant. Moreover, because of large infrastructural projects, the main beneficiaries were big Japanese firms, rather than the masses of the LDCs. Critics again lamented over the lack of any specific Japanese aid philosophy.³ It was believed that the infrastructural projects such as transport and communication, industry, mining etc., would develop the LDCs because infrastructure was badly lacking in such countries. However, it benefitted only the donor firms and affected business interests adversely.⁴ These projects were not only commercially self-centred but they were responsible for a huge ecological damage to the local environment, flora and fauna and displaced of a large number of inhabitants from the project site. Consequently, the latter had to lose their livelihood and become unemployed. The sad displacement of local people from the Kato Panjang Dam site in Indonesia, which resulted in their migration to barren land, is a noteworthy example. Earlier, before the commencement of the dam project, they could at least fulfill their basic daily needs from their fertile land which produced rubber, coconut, coffee and other agricultural products. But now, after getting displaced, many people had to start working as manual workers. Women were forced

to leave their children unattended and unschooled as they went to other villages to toil in the rubber plantations. Some of them even turned to prostitution.  

Sharing the same opinion, Sumi Kazuo, a Japanese scholar is of the view that Japanese aid has sometimes resulted in the damage of the environment of the recipient countries, as a result, of which many people have lost their land, livelihood and roots. Misuse of aid money by the corrupt elite has been a cause of grave concern. Sumi Kazuo cites an example of the Narmada Dam Project in India where more than one million people have suffered. Japanese aid provided to Malaysia to develop prawn aquaculture resulted in the cutting-down of vast tracts of tropical forests and the destruction of coastal mangrove forests for the construction of roads and a production research centre. There is hardly any doubt that the recipient countries benefit from aid and their incomes increase, but they also suffer when the project has a negative ecological impact. Whether Japanese ODA has been truly useful in alleviating poverty in LDCs and helping them to develop is a question mark. Japan provided aid to Myanmar (earlier called Burma) since 1955, initially in the form of reparations and subsequently as aid, but according to the UN, Myanmar still remains an LDC and is notorious for its suppression of human rights. Thus, critics put a question mark on the relevance of Japan’s ODA.

On the other hand, Kusano Atsushi, Professor of International Relations, Faculty of Policy Management, Graduate School of Media and Governance at Keio University, Tokyo and Watanabe Toshio argue that Japanese ODA has promoted investment by private businesses and contributed in the overall development of the recipient countries. Watanabe Toshio even supports linking ODA to commercial and export promotion.

The ‘quality’ of aid given by Japan, as compared to the aid given by other OECD members has also been a soft target of criticism. Japanese ODA has had a higher percentage of aid loans and a lower percentage of grants. “Tied aid” was another factor of criticism. The principle of economic cooperation as export

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6 Kusano Atsushi and Watanabe Toshio (1997). Nihon no Enjo o Dosuruka (What Do We Do With Japan’s Foreign Aid?). Tokyo: Nihon Hoso Kyokai.
promotion has also been stated by Katsuhiko Mori, a well known writer on Japan’s ODA. Japan normally provided grants to the LDCs and changed the mix more toward the yen loan with middle income countries. However, newly industrialised countries usually received aid from the private sector or the Export-Import Bank of Japan at commercial rates. The term Keizai Kyoryoku (economic cooperation) was employed to describe Japan’s economic relations with other Asian countries. What was remarkable was that the term ‘aid’ was never employed and due to this, a great deal of confusion developed in the western world over what constituted development assistance and what was designed to promote Japan’s commercial interests? It was found that as Japan moved away from reparations, all types of aid was becoming an explicit tool to promote its exports. Some scholars strongly criticised Japan’s funding to large scale economic infrastructure projects which had only profitied the elite of the LDCs, as well as, Japanese companies themselves and resulted in destroying the local environment to a great extent and subsequently caused displacement and misery of the masses. Defending the Japanese way of providing aid, supporters argue that the high percentage of loans reflect the Japanese philosophy of giving ‘help to self help’ which is based on Japan’s own experience. But critics say that aid has been used as a ‘strategic tool’ to secure natural resources to protect Japan’s own security. The supporters of Japan’s aid provides an ideological argument that it is better to give loans than grants because it will make the recipients more careful with the money as they know that they eventually will have to pay it back to the donor.

Summing up, ODA critics have argued that Japan’s ODA had been self-centred, exploitative, wasteful and destructive and therefore required considerable reforms through rethinking aid rationales, change in Diet’s view, consideration of the recipient country’s interests and greater transparency in the formulation of the aid policy. They strongly opined that Japanese ODA was basically incapable of doing good and therefore required to be eliminated entirely. By the early 1990s, many scholars began to challenge the orthodox view of Japan’s ODA policy.

12 Ibid, p.43.
The second school is known as the Pro-Japanese ODA School. The points they put forward in response to the evil school can be summarised as below:

a) There is nothing wrong in promoting ‘mercantilism’, as all donors pursue their own economic interests. Germany, France, the US are such examples.

b) Of all the donor countries, Japan’s aid is the most liberalised, due to the untiring process.

c) ODA should not be considered in isolation, separate and distinct from a nation’s trade and investment strategies. ODA can contribute significantly to the socio-economic development of LDCs but it is not enough.

d) Japan’s ODA is no longer one-dimensional. Economic motives had a major role initially but by the 1990s, Japan became successful in incorporating and diversifying other equally important components like strategic, diplomatic, political and philosophy into its aid policy. By adopting the ODA Charter in 1992, Japan tried to diversify its aid policy.

e) In response to the charge of inefficiency largely due to corruption, supporters of this school say that it was not the fault of Japanese ODA. In fact, many recipient countries are under the rule of the corrupt and oppressive elite. Due to the international principle of non-interference in the internal affairs of sovereign nations, Japan could hardly do anything in this matter. However, in spite of such circumstances, Japan must attempt to improve the conditions in the LDCs.

f) Japan has also understood the important link between development and environmental destruction. This school believes that ODA would be a major tool of environmental preservation.

g) This school believes that ODA has been effective and not a waste of the taxpayer’s money, as alleged by the evil school. The government is also emphasising on closer monitoring and regular evaluations of various projects undertaken in recipient countries. The supporters think that Japanese ODA projects have been relatively successful.

h) Some of the recipient countries of Japan’s aid are now gradually becoming donors and this shows the benefits and success of its aid.

i) Responding to the severe criticism of over-emphasising infrastructural aid to the LDCs, this school says that Japan has also paid attention to social
infrastructure like health, education, environment, community development and agriculture. Sub-Saharan Africa has been a major recipient of such aid.

j) In response to the charge of politicisation, this school opines that its aid has been non-political in nature.

k) This school also believes that Japanese aid is not the handmaiden of American policy.

This pro-ODA school looks at aid as an important tool to secure and define Japan’s role and national interest in the rapidly changing global order. They consider it as an important and integral tool to secure emerging Japanese aspirations for an international role that combines globalisation and politicisation, but through non-military means. For them, aid criticism is biased, ill-informed and out of date. They look at it as an important ‘tool’ to protect Japan’s national interest, finance, technology, knowledge, human resources, national security, prosperity and a position of dominance and respectability in the world community. This school strongly believes that ODA is a main pillar of Japan’s vision and future role to secure national security and prosperity.13

The political strategic dimension of Japan’s ODA policy became stronger after 1989. Three specific events took place which triggered the new openness:

1. **The collapse of East Europe in 1989 and the Soviet Union in 1991** focused attention on the importance of the transformation of the political and economic systems of these nations. In the 1990s, Japan’s ODA especially to East and Central Europe contained requirements for a commitment to democratisation, a multiparty political system, the rule of law, human and civil rights and a transition to free enterprise systems on the part of aid recipients.

2. A second development in the ODA policy involves a change in the nature of Japan’s aid to Asia in the 1990s. Japan maintained its focus on the region, arguing that it was still home to the largest number of the world’s poorest people.

3. The third development is related to aid philosophy. With the rapid expansion of the ODA policy, the Japanese government found itself hard-pressed to provide a coherent explanation that kept up with the transformation of ODA

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objectives, character and status. Policy makers in Tokyo came to feel the necessity of some kind of philosophy to satisfy the domestic aid critics who were demanding official guidelines and statements. The lack of an official “philosophy” and vague principles set forth by the Foreign Ministry officials in the 1980s, left the ODA vulnerable to the charge that economic objectives was the sole reason for Japan giving aid. Therefore, in the 1990s, Japan structured its first official ODA philosophy. The 1990s aid policy rationales showed some continuity and change. Political strategic uses became explicit as the national policy and the targets and the actual content of the aid changed. These objectives, which were previously little acknowledged, were transformed from the periphery to the explicit core of ODA policy in the 1990s. Rationales were now moulded to the new political imperatives of the post-Cold-War era.14

Post Cold War Rationale:

After the end of the Cold War in the 1990s, the industrialised countries of the west lost their common rationale for development assistance, that is, to halt the expansion of communism by providing aid to the Third World. During the Cold War, the developed countries had provided aid to developing countries which were in need, regardless of the degree of democratic governance or military behaviour on the part of the recipients. Japan did not place much emphasis on strategic aid during this period, although it did occasionally provide ODA to some countries like Egypt, Turkey, Pakistan, Morocco and Bolivia acting upon a strong request made by the US, after the 1970s. The end of the Cold War removed the ideological divide between the East and the West. Industrialised countries used the promotion of democracy and market economies as their common rationale for offering development assistance.

After the Gulf War of 1990-91, Japan, being an industrialised country and economic super power, faced huge criticism for not doing enough. Instead of deploying Self-Defence Forces to the Gulf in light of the constraints of Article 9 of its constitution, and although Japan provided US$ 13 billion of financial aid, it was criticised as being “too little, too late.” One of the criticisms of its policy in the Gulf crisis was Japan’s unwillingness to provide jinteki koken (human contribution). The

government simply paid large cheques to the forces involved and the adjoining countries (e.g., Egypt, Jordan, Syria), but failed to send its Self Defence Forces and rescue teams to the Gulf area. This incident led to intense debate inside Japan on how it should make *kokusai koken* (international contributions) without merely depending on “chequebook diplomacy.” The government and the people realised that in future foreign policies, human involvement would be necessary. Some felt this need strongly in the realm of military cooperation, but others felt it in terms of humanitarian aid and development efforts, instead of military cooperation.

Japan’s critics were in fact expecting something more, and such criticisms prompted the then Prime Minister *Kaifu Toshiki* to make pronouncements on Japanese foreign aid in April 1991. *Kaifu* clarified that Japan would consider the recipient country’s trends in arms spending, in the development and manufacturing of weapons of mass destruction, arms exports, promotion of democratisation, movement toward a market oriented economy, the protection of freedom and basic human rights, in the process of allocating ODA. These principles were further developed and adopted by the Cabinet on June 2, 1992 as Japan’s Official Development Assistance Charter (*ODA Taiko*), which is as follows:

1. Environmental conservation and development should be pursued in tandem.
2. Any use of ODA for military purposes or for aggravation of international conflicts should be avoided.
3. Full attention should be paid to trends in the military expenditure of recipient countries, their development and production of missiles and weapons of mass destruction, their export and import of arms, etc., so as to maintain and strengthen international peace and stability, from the viewpoint that developing countries should place appropriate priorities on the allocation of their resources for their own economic and social development.
4. Full attention should be paid to efforts for the promotion of democratisation and introduction of a market oriented economy, in addition to the securing of basic human rights and freedom in recipient countries. The ODA Charter of 1992 also emphasised good governance and self-help efforts of recipient...
countries. Self-help is the element Japan has upheld as the backbone of its ODA to recipients.\textsuperscript{15}

In May 1996, the OECD/ DAC adopted the report ‘Shaping the Twenty-first Century: the Contribution of Development Cooperation’, which sets forth strategic orientations for development cooperation into the twenty-first century. The report underlined the importance of poverty alleviation as the target of development assistance. It also argued that “in the year 2000, four-fifths of the people of the world will be living in developing countries, most with improving conditions. But the number in absolute poverty and despair will still be growing. Those of us in the industrialized countries have a strong moral imperative to respond to the extreme poverty and human suffering that still afflict more than one billion people. We also have a strong self-interest in fostering increased prosperity in the developing countries...All people are made less secure by the poverty and misery that exist in the world. Development matters.” Looking back at the history of the last 50 years since its beginning with the Marshall Plan, the report argues that aid works. The DAC report also says that in the 21\textsuperscript{st} Century, the international community needs to continue ODA in order to benefit the poor and marginalised people and achieve human development. The DAC, which was mindful of ODA fatigue among donor countries, now recommended “global development partnership.”

Towards More Diversification of Japanese Aid Policy:

Since the end of the Cold War, Japan has identified ODA as a means of conflict prevention and peace building. This shift has also been clearly manifested in projects supported by Japan's ODA from infrastructure building to education, health and medical services.\textsuperscript{16}

The development and transmission of energy continued to be a major sector in Japan’s aid policy. However, the components of BHNs grew steadily since the oil crisis, which in turn, had serious repercussions on non-oil-producing countries. The concept of BHNs became the central idea for the international development strategy for the Third UN Development Decade in the 1980s. Parallel to this, the grant share


\textsuperscript{16} Ibid, p.172.
for BHNs also increased at the same time. Even in ODA loans, the share of social infrastructure tended to increase since 1978.  

‘Grants versus Loans’ are another issue from which changing patterns in aid philosophy can be understood. It is widely believed that grants should be provided to improve BHNs in the heavily indebted countries. From this point of view, Japan’s ODA perspective diversified across time and space. Loan-centralism remained high in Asia throughout the post-war period, loans and grants were almost balanced in the Middle-East in the early years and it quickly emerged and remained after the oil-crisis. Among other factors, Japan’s business interests and bureaucratic infighting were one of the dynamic factors that pushed Japan to diversify its ODA programme. There are both international and domestic factors which are responsible for Japan’s preference of yen loans over grants. On the international level, yen loans appear to respond to the needs of middle income countries, rather than to those of lower income countries. The expansion of yen loans was also expected to help balance Japan’s own trade deficit or surplus. This expansion was not always supported by the public at home, but was strongly favoured by Japanese trading companies, construction industries and leading consulting firms. After the oil-crisis in the 1990s, to protect and secure its own national interest, Japan diversified its aid-allocation to the countries of the Middle-East which were rich in oil-resources. Its next allocation of aid was accompanied by further geographic diversification to Latin America where some oil-exporting countries existed. Once the Japanese economy recovered from the oil-crisis, the relative importance of these regions was not always intensified and Japan re-focused on the Asian region as the most important target and expanded the disbursement to a lesser extent to Africa. In this whole process, the role of tied loans was replaced with ODA grants and untied loans.

While the Japanese government enjoyed its decade-long status as the largest donor, the domestic environment for foreign aid deteriorated. After Japan’s economic bubble burst in the early 1990s and the domestic financial crisis set in, the government used fiscal policy and public expenditure projects to boost the country’s economy but in spite of that, Japan’s massive fiscal deficit grew. Meanwhile, the rapidly aging population put tremendous pressure on the health system and social

18 Ibid, pp. 201-207.
security. The same public, which had approved of the ODA as a means of contributing to the international community, began to criticise it as wasteful and ineffective.

Aid-implementing ministries were increasingly under pressure to be more transparent and more effective. MOFA, the main foreign-aid ministry, was exposed to a series of discrediting scandals in the late 1990s, leading to outcries from politicians and the public to enhance accountability. Furthermore, pressure mounted to improve the Fiscal Investment and Loan Programme (FILP), mainly in the context of reforming the postal savings system which was the source for about 60 percent of Japan’s ODA funds. If the postal savings system was fully privatised, the Japan Bank for International Cooperation (JBIC) would have to find alternatives to FILP funding.

There is another component of Japan’s ODA policy transformation. The Asian economies, enjoyed relative success during the 1980s and 1990s, while other middle-income countries, particularly Latin America, suffered huge economic losses from the 1980s debt-crisis. The ‘East-Asian miracle’ gave Japanese businesses and policy-makers pride in Japan’s own economic development experiences, as well as assurance that its model could be applied successfully in Asia through ODA and FDI (Foreign Direct Investment).

Katada (2005) is of the view that the Japanese government has matured in several ways over the years: 1. Japan has gained a higher level of policy autonomy, especially from the US, in addition to general confidence. 2. The critical domestic environment in the 1990s, due to the collapse of the bubble economy, its economic stagnation, budgetary crisis, aid related scandals and public scrutiny have increasingly pressurised the Japanese government to implement foreign aid more effectively. 3. The Japanese aid policy makers learned that extending money without ideas will have limited impact.

Japan’s foreign aid policy reached a turning point in the 1990s in the face of domestic and international challenges. The political and economic situations affecting Japan's ODA policy have been changing from time to time, forcing Japanese decision makers to re-examine their existing aid programmes. Meeting these challenges, however, has been difficult as the Japanese aid administration is fragmented and involves intense competition and bargaining among various policy-making units.
Contrary to the popular Western notion of Japan as a monolithic entity, Japanese aid policy-making ministries and institutions exhibit diverse views and opinions as they perceive Japan’s ODA from their own sectarian interests. An attempt has been made to understand these issues in the next chapter. Therefore, to analyse how Japanese aid leaders have viewed and dealt with these emerging challenges, necessitates careful scrutiny of the interests, goals, and policies of a variety of Japanese aid organisations and groups in this context.

Japan started transforming into a mature aid donor in the second half of the 1990s. First, it began to focus on soft power – the promotion of Japan’s model of economic development, backed by own development experience. The Japanese government began to implement the ODA policy that would establish Japan as a major soft power. Besides focusing on soft power, Japan showed maturity as an aid donor through self-interested humanitarianism – i.e., focus on its national interests and global challenges. Anticipating strong pressure to reduce the foreign aid budget, Prime Minister Hashimoto in 1996, began to emphasise the role of foreign aid in achieving national interests such as increased market access and regional security. A newly revised ODA Charter was adopted in 2003 which began with the words: “The objectives of Japan’s ODA are to contribute to the peace and development of the international community, and thereby to help ensure Japan’s own security and prosperity.” As this thesis is dealing with the period 1992-2001, it would be inappropriate to discuss the incidents after 2001 and particularly the revision of the ODA Charter in 2003.

One of the main features of Japan’s increasing maturity as a foreign aid donor is its strengthening relationship with Asian countries, which were its favourite foreign aid recipients. The Japanese government stepped-up its efforts to support its Asian neighbours by launching the US$ 30 billion New Miyazawa Initiative in the wake of the Asian financial crisis in 1997-98. The Initiative allowed for a temporary increase in its aid between 1998 and 2000. However, the aid budget is clearly on the decline, as demonstrated by its drop since 2001, as a result of which many Asian countries have been graduating from Japanese foreign aid, particularly its yen loans. Besides being economically successful, these countries have extensive access to international capital and financial markets and are paying back more yen loans than they are receiving.
Throughout the fifty years of its foreign aid history, Japan has thus matured tremendously from an ‘insecure mercantilist’ to an aspiring soft power. However, evaporating funding sources and public support has been a matter of serious concern for the increasing aspirations of the Japanese government (Katada 2005:7-12).

Circumstances surrounding Japan’s ODA to Vietnam and Cambodia typify the international and domestic challenges to Japanese aid in the 1990s. The reduced US presence in Indochina left Japan with a major opening for achieving economic and diplomatic influence in the region. Japan resumed full-scale aid to Vietnam in 1992, well before the US had lifted its own embargo on that country. Tokyo also sent Self-Defence Forces to Cambodia in 1992-93, to take part in peace-keeping operations of the United Nations Transitional Authority in Cambodia (UNTAC), representing the first deployment of Japanese forces overseas since World War II. Japanese aid and involvement in Indochina can be seen as an opening shot in defining a new Japanese role in the post-Cold War world. This has brought about conflict, which is at times sharp, among various policy-making leaders in Japan, about the role that Tokyo’s aid to Indochina can and ought to play. During this period that Japan was devoting substantial aid resources to the region, the focus of contention was exactly how and for what purposes aid policies should be carried out.

New Challenges to Japan’s ODA in the Post-Cold War Era:

Japanese ODA in the late 1980s and 1990s was based on a complex mixture of purposes and a broad array of programmes influenced by international and domestic environment. The Cold War ended in 1990 and new issues of development emerged, such as the democratisation and marketisation of the former Soviet bloc. Since the end of the Cold War, regional conflicts intensified, which increased the need for peace keeping efforts. Globalisation also accelerated which demanded international awareness for global issues such as environmental deterioration, contagious and infectious diseases like AIDS, TB, polio, malaria; population growth and increasing poverty in the developing world. Japan has been pressurised by other donor countries to take a more constructive role in its aid and development programmes, especially by increasing “soft aid” at the grassroots level. At the same time, many donors suffered

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from aid fatigue and budget cuts, and raised expectations that Japan, being the world’s largest aid donor, would take a more proactive role to address these issues of human security and development in the developing world. Meanwhile, the Asian economic crisis of 1997 made many East Asian countries seek assistance from Japan (Castellano1999a).

Japanese ODA faced two critical challenges in the post Cold War era. The first challenge was the country’s serious fiscal deficit. Contrary to the large trade surplus accumulated in the private sector, the Japanese government recorded its worst fiscal deficit in history, which was a grim sign for the rapidly aging society. Japan's public debt incurred by both central and local governments stood at around seven percent of the country's Gross Domestic Products (GDP). Debt-servicing costs accounted for 22 percent of the total budget. The budgetary crisis forced the government to reduce the deficit through cutbacks in public spending and a tax increase. ODA, a budgetary item that due to its importance emerged unscathed from the previous fiscal cutbacks, could no longer be treated as an exception. The growth rate of ODA expenditures declined from a high of 8.2 percent in Financial Year (FY) 1990 to 3.5 percent in FY 1996 and to 2.1 percent in FY 1997. Furthermore, the Conference on Fiscal Structural Reform, a committee headed by Prime Minister Ryutaro Hashimoto, announced in June 1997 that the FY 1998 ODA budget would be cut by 10 percent from the previous year and that there would be no increase afterwards. The 10 percent budget cut indicates a radical change in Japan’s aid policy, as ODA had never undergone budget cuts in yen terms since Japan first launched its aid at the end of the 1950s. The Japanese government announced that it would abandon the goal of the fifth mid-term ODA plan to increase Japan’s ODA from US$ 50 billion during the years of 1988-92 to US$ 70-75 billion for FY 1992-97 (Hirata 1998).

The second challenge to Japan's future ODA concerned the country's aid leadership. During the Cold War period, the international aid community including Japan, followed dominant US leadership in providing strategic aid to capitalist governments in the Third World. However, in the post Cold War era, US leadership slipped due to a declining US commitment to supply strategic and military aid to the

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developing world, which was coupled with Washington's fiscal problems. Similarly, the phenomenon of "aid fatigue" also spread among European donor countries, such as France, Britain, and Germany, which began to cut back their ODA programmes in the midst of their own domestic financial difficulties. These changes i.e., the loss of US aid leadership and the general trend of aid fatigue among Western donors, raised expectations from Japan for a leadership role, as Tokyo became the world's largest aid donor. The international aid community, represented mainly by the DAC of the Organisation for Economic Cooperation and Development (OECD), pressed the Japanese government to improve its existing ODA programme, so that it would be more beneficial to the recipient countries, as well as to the entire world. This pressure was particularly targeted to Japan's infrastructure-oriented aid policy which allegedly brought insufficient benefits to the poor in the developing world (Rix 1993).

These two challenges to Japan's aid prompted many Japanese aid leaders to search for new strategies to deal with the rapidly changing environment surrounding ODA. However, meeting these challenges had been a difficult task for the Japanese government, as it required a skillful balancing act. Japan, has had to combat the serious fiscal problem at home, while being pressurised to play a leadership role abroad. Furthermore, forging a coherent aid policy in dealing with these challenges became a more difficult task, since the various Japanese policy-making units had divergent goals and interests in ODA.

To understand the making of its aid policy, it is vital to understand why the internal inconsistencies of Japan's foreign aid increased in the 1990s. One track of Japan's aid policy became concerned with its business interests, particularly among the relatively high-income Asian neighbours while the other stressed Japan's benevolent side through humanitarian, environmental, and grassroots foreign aid activities. The inconsistency is all the more puzzling because the 1992 ODA Charter was introduced precisely to provide a consistent overall framework for Japan's foreign aid philosophy. As the 21st century began, there were several questions on the direction of Japan's aid policy that were worth answering: What was it that motivated making these changes to the Japanese government's foreign aid policy in the 1990s? What constituted the underlying forces that produced inconsistencies? And finally,

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given that a substantial ODA budget cut is in the offing, in which direction is Japan's ODA going?

In the 1990s, a series of endless corruption scandals involving top bureaucrats, businessmen and politicians came into the limelight which shattered their image and shocked the Japanese common people. The country also faced a prolonged economic recession, the worst in the post World War II era. Worsening fiscal deficits and a rapidly aging society posed a great threat as well. Japan realised that it could no longer spend massive aid without fiscal considerations.

However, the silver lining of these domestic crises was that it also created new opportunities and aid vision for the country. It was realised that aid reforms were necessary in the new global environment. Aid reforms also drew support from the public because of the decade long recession. New emphasis was placed on transparent, effective and efficient implementations of aid policies and programmes. With less money budgeted for the ODA, people became more and more aware of the government's aid policies (Kusano 1998; Nikkei Weekly 1998a). In the post Cold War era, Japan also witnessed a gradual development of civil society and NGOs. Many activists of civil society began to participate in the aid debate and demanded that its ODA be used in the social and humanitarian sector, instead of in the economic sector.

Japanese ODA in the post Cold War era has been shaped by international and domestic constraints. Aid has been used to address emerging global issues and to promote Japan's kokusai koken (international contributions). Unlike the previous period, its aid has become more politically oriented. The objectives of aid has been realised as a tool to secure Japan's wider economic and political goals, national security and prosperity, strengthening diplomatic relations with the developing world, increasing global influence and gaining the respect of the international community. For the first time, aid was linked to issues of democracy, human rights, and UN-sponsored peacekeeping operations. In short, since the beginning of 1990s, at least, six new directions of ODA emerged:

1. The incorporation of the concepts of democratisation, market economy and human rights;
2. Aid was linked to UN-peacekeeping efforts;
3. A new emphasis on "soft aid" to address global issues and respond to Japan's aid reform movements;

4. A new emphasis on the Least Less Developed Countries (LLDCs), especially countries in Indochina and Africa;

5. The use of aid in response to the Asian economic crisis of 1997; and

6. A reduction of ODA budget (Japan's own aid fatigue).

All the above directions are distinct from the features of the second period of Japanese aid. The main difference between aid programmes in the 1990s and the mid-1970s to the late 1980s is that the aid in the 1990s is far more diverse and globalised. Aid is now used to promote the political and economic stability of the entire world (not just that of the Western bloc) and to address emerging global issues. In addition, the ODA amount has also reduced in quantity, which is in sharp contrast to the rapid aid growth in the second period. These six directions are Japan's strategies for dealing with the new situations in the post-Cold War era.

1. **Democratisation, human rights and market economy:**

After the end of the Cold War, the first policy change was realised by incorporating democracy, human rights, and market economy into it. The collapse of the former Soviet Union had a serious impact on Japan’s aid policy, leading Tokyo to consider all these concepts for the first time in its aid history. Prime Minister Kaifu Toshiki declared in 1990 that as a member of the industrialised democracies, Japan would play a political role and support the democratisation process of Eastern Europe. Being a member of the European Bank for Reconstruction and Development (EBRD), it accepted its political and economic mandates, that is, the recipient of EBRD must (1) adhere to the rule of law, (2) respect human rights, (3) introduce a multiparty political system, (4) hold free and fair elections, and (5) develop market-oriented economies. This was also the first time when the government accepted political conditions for giving aid.

Japan began humanitarian and technical assistance to the Central Asian countries in the early 1990s. Mongolia was also provided with loan aid in 1991. Japan resumed its aid (grant aid for emergency relief) to Cambodia in 1991 for the first time in sixteen years, and to Vietnam (commodity loans) in 1992 for the first time in

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thirteen years (MOFA 1995b). All the three concepts were further officially integrated into Japan's ODA Charter of 1992. The fourth principle of the ODA Charter reflects Japan's commitment to the promotion of democratisation, human rights, and market economy (MOFA 1997).

2. **ODA for UN peace-keeping efforts:**

   The second characteristic of Japan's aid policy in the post Cold War period is the linkage of ODA with UN peace-keeping efforts. After receiving severe criticism for its tardy response and cheque book diplomacy in the Gulf War of 1990-91 (Operation Desert Storm), Japan committed US$ 13 billion but failed to earn recognition, prestige and respect. Recognising the value of humanitarian and peace-keeping efforts in addition to cheque book diplomacy, Japan participated in the United Nations Transitional Authority of Cambodia (UNTAC) by dispatching its Self Defense Forces (SDF). It was the first deployment of Japanese forces to any Asian mainland since the end of World War II. Promoting UNTAC's efforts, Japan actively participated in Cambodia's reconstruction and development, and this has been recognised as a major international initiative. Japan's participation in the UN peace-keeping efforts has been seen as being politically motivated and largely as part of its ongoing efforts to secure a permanent seat on the UN Security Council.

3. **New emphasis on "Soft Aid" to address global issues:**

   In the post Cold War period, a major shift was observed in Japan's aid in the form of "soft aid" policy. Tokyo began to emphasise "soft aid" to address global issues such as poverty alleviation, population control, women in development (WID), child problem, healthcare (AIDS and other parasitic and infectious diseases), environment, drinking water, sanitation, education etc. This has involved: (a) a shift in the target sector of aid (e.g., from economic institutions to healthcare); (b) a shift in emphasis within particular target sectors (e.g., from building hospitals to training community health practitioners as well); (c) an expansion of groups to carry out aid projects (e.g., NGOs have been added to Japanese business firms); and (d) a new emphasis on LLDCs, including Indochina and Africa. Although Japan's main emphasis still continues to be funding on infrastructural projects that are to be carried out by Japanese construction firms, and "soft aid" is a new phenomenon for Japan, nevertheless, it is certainly a significant step in the right direction in the aid policy.
The incorporation of the “soft aid” policy was widely believed to be politically motivated. A vacuum left by the withdrawal of other major donors in 1990s due to the end of the Cold War, compounded by ‘aid fatigue’ among donor countries, offered Japan the opportunity to assume a leadership role in defining a new paradigm for development assistance. The promotion of "soft aid" in the 1990s can be seen as a strategic shift in Japan’s ODA. “Soft aid” is defined as assistance for “human resource development and institutional building” in economic and social development. It involves providing information and knowledge, often in forms such as training and policy advice, as opposed to ‘hard aid,’ involving provision of physical construction and equipment.

“Soft aid”, which usually comprises small-scale grants does not bring as much profit to contracting firms as does ‘hard aid’, through large scale loans. Increasing “soft aid” is to show a gesture of kokusai koken (‘international contribution’) and many critics believe that it is aimed at improving Japan’s international image and standing.

Moreover, “soft aid” is also a tool of softening domestic criticism of Japan’s aid. In the face of increasing fiscal deficit in the 1990s and never ending corruption scandals involving the top Japanese elite, aid officials and business contractors, the general public started losing their faith on ‘hard aid’ policy and they started demanding for transparency, efficiency and effective implementation of aid policy overseas. Emerging civil society and NGOs in the 1990s again pointed out that Japan should shift its emphasis from ‘hard’ to “soft aid” including grassroots based aid as it is less expensive and more efficient than infrastructure-based ‘hard aid’.

Contrast of hard aid and “soft aid”:

<table>
<thead>
<tr>
<th>Hard Aid</th>
<th>Soft aid</th>
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<tbody>
<tr>
<td>1. Emphasis on industrialisation</td>
<td>1. Emphasis on human resources</td>
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<tr>
<td>2. Infrastructure oriented</td>
<td>2. People oriented</td>
</tr>
<tr>
<td>3. Top-down (trickle down)</td>
<td>3. Bottom up</td>
</tr>
<tr>
<td>4. One-shot</td>
<td>4. Long-term and sustainable</td>
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<tr>
<td>5. Large-scale</td>
<td>5. Small-scale</td>
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<tr>
<td>7. Costly</td>
<td>7. Cost-effective</td>
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<tr>
<td>8. Carried out by firms (e.g., construction and trading firms)</td>
<td>8. Carried out by NGOs</td>
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4. Aid to the Least Less Developed Countries:

LLDCs such as Indochina and Africa received more attention in 1990s than before. Aid to Indochina resumed in the early 1990s, after the withdrawal of the Vietnamese forces from Cambodia. Japan became the largest aid donor to Cambodia and Vietnam. In 1992, the Japanese government hosted a Ministerial Conference on the Rehabilitation and Reconstruction of Cambodia. The following year, in 1993, MOFA established an aid-coordinating body called the Forum for Comprehensive Development of Indochina (known as Indochina Forum).

Aid to Indochina had both economic and political motives. ODA to Vietnam was basically economic, with a high level of involvement of Japanese firms in many large-scale capital projects. In contrast, aid to Cambodia was highly political. Cambodia was suffering from the aftershocks of its devastating civil war so it did not have much economic potential for most Japanese firms. In fact until 1999, Cambodia received no Japanese loans for large-scale infrastructure projects. Yet Japan believed that aid to Cambodia was important for the stability and integration of Indochina into the rest of Southeast Asia.

Africa also emerged as an important region for Japan in the post Cold War period as Tokyo was willing to expand its political role by increasing allies in this region. Economic motives were of minor importance but for political motives, Africa was considered crucial for Tokyo. Gaining their vital support for Tokyo’s ambition to

5. **Asian economic crisis of 1997:**

In the post Cold War era, the Asian economic crisis of 1997 proved to be another major catalyst in the new aid vision of Tokyo. Frustrated by Japan's slow response initially, the international community pressed Tokyo to take a bold action to solve the crisis. Responding to the criticism, Tokyo announced the Miyazawa Plan, an aid package totalling US$ 30 billion over and above its aid budget in 1998. The plan aimed to fulfil two objectives: (1) to quell international criticism and (2) to create goodwill between Japan and its neighbours. Taking into account Japan's uneasy bilateral relations with many Asian neighbours due to its aggression during World War II, the Miyazawa Plan was intended to smoothen out relations. Although the bulk of the funds did not qualify as ODA and was therefore handled by the Export-Import Bank, some funding was considered as ODA and handled by the OECF as concessional loans (Castellano 1999a).

Tokyo's aid commitment under the Miyazawa Plan had inherent economic objectives also. Strong East Asian economies were crucial for Japanese firms, internationalisation of the yen in the face of increasing competition from the euro and the US dollar. Japanese firms were seriously hurt by the crisis because they had a substantial amount of business in that region via trade and investment. The region's revival was considered important for the survival of these firms. Moreover, it was also a fair chance to circulate the Japanese yen in East Asia and strengthen the currency.

6. **Declining ODA budget:**

Due to Japan's fiscal problem in the 1990s, a declining trend in aid budgets had been another significant direction in the country's aid policy. Aid budget dropped by nearly 35 percent in 1996 from the 1995 level in US$ terms partly due to the weakened yen (Asahi Shimbun 1997a). In 1997, the fifth aid doubling plan was
abandoned because of the difficulty of acquiring funds. In the same year, the government decided to slash the 1998 aid budget by 10.4 percent. This decision was important because the cutback was not just for 1998, but for three consecutive years. This trend of slashing aid budgets continued in the following years (ODA White Paper 2003, pp.246-247).

In the face of mounting fiscal problems, Japan has been gradually shifting its focus from quantity to quality of aid. The budget for grassroots-based technical aid and humanitarian aid actually increased. Budgets to assist NGOs were spared severe cuts (International Development Journal, 1999e). Japan's rapid aid growth is over but its "soft aid" funding is expected to increase in the coming years.

Policy Makers of Japan's ODA: The Ministry of Foreign Affairs

Japanese bureaucracy plays a central role in ODA policy making. The leading ministries in the aid administration are the Ministry of Foreign Affairs (MOFA), the Ministry of Finance (MOF), and the Ministry of International Trade and Industry (MITI), all of which participate in the decision-making process of Japanese loan aid through the so-called four-ministry system (yonshocho taisei). The other participant in the four-ministry system is the Economic Planning Agency (EPA) and it plays the least influential role of the four ministries in the decision making of loan aid. Although, the EPA has a legal authority over the OECF, which is one of Japan's aid-implementing agencies, the other three members in the four-ministry system have a much stronger influence over the OECF than does the EPA. Some of the EPA employees are former officials from the MOF and the MITI who remain loyal to their home ministries. MOFA is the most prominent ministry concerned with Japan's aid. It not only participates in the decision making of loan aid through the four ministry system but also takes responsibility for Japanese grant aid. MOFA has jurisdiction over the Japan International Cooperation Agency (JICA), an implementing agency for grant aid. In addition, the ministry takes charge of coordinating with the other ministries that also carry out ODA activities under their own budgets. MOFA also received the largest ODA budget in the aid administration (585 billion yen) for the FY 1997.26

MOFA is called the Japan's 'window' to the world and of all the ministries, it is the one which is most sensitive to foreign pressure on Japanese aid. It tries to respond to external demands on Japan's aid policy, while simultaneously paying attention to its domestic needs. The ultimate goal of MOFA is to increase Japan's influence in the international political-economic arena under the ministry's leadership. Since the country lacks military means in its diplomacy, ODA is the most powerful tool to fulfill this goal.

MOFA's efforts to increase Japan's influence in the international arena coincides with the Ministry's domestic agenda to strengthen its own standing in the government. MOFA is a small ministry with less than five thousand officials; it is vulnerable in domestic politics because it lacks a constituency. Unlike other ministries such as MITI, which have powerful backing from the private sector and politicians, MOFA does not have strong supporters for its policies since they do not usually benefit any particular domestic interest group. In this context, the ministry hopes to increase its domestic influence through an expansion of the ODA under its jurisdiction. Since a continual expansion of Japan's ODA activities is critical to MOFA's domestic agenda, the ministry always pushes for a large ODA budget.

Due to its weak stance in domestic politics, MOFA often takes advantage of international pressure (gaiatsu) to pursue Japan's larger international role in the aid community (Orr, Robert M. Jr, 1990). Since MOFA lacks a domestic constituency, the ministry tries to find foreign allies and attempts to forge alliances with foreign governments in order to push for Japan's larger aid role in the world. MOFA often uses the gaiatsu to persuade other ministries. The official reason given is that the gaiatsu on the Japanese government is so high that the government has no choice but to comply with it. Thus, by successfully playing the gaiatsu card, the Ministry can strengthen its own domestic position.

In the 1990s, MOFA was grappled with the challenges to Japanese ODA, viz., the budget crisis and the question of aid leadership. In terms of the budget crisis, MOFA was forced to accept the declining ODA growth rates in the post Cold War period. According to a leader in the Aid Policy Division in the Economic Cooperation
Bureau of MOFA, this type of reduction could not be avoided due to the mounting fiscal problem.27

While MOFA resigned itself to accepting cutbacks in the ODA budget, the Ministry was aggressively seeking an expanded leadership role for Japan in international aid politics. With the declining US aid leadership and the general trend of aid fatigue among the donor countries in post Cold War era, MOFA searched for policies of new aid leadership, which would require new principles and concepts of aid such as, BHNs, poverty alleviation, women in development (WID), and people-centred, sustainable development. The significance of this new emphasis on aid in the social sector (“soft aid” policy) was that MOFA began to cover a wider range of activities for Japanese aid, including Japan’s traditional infrastructure-based aid as well as its small-scale, community-based aid in health, education, and environment. Hard-pressed to adopt new strategies to deal with the emerging challenges to Japan’s ODA, MOFA advocated four new reforms to reconstruct Japan’s ODA. They addressed both the budget crisis and the question of Japan’s aid leadership. They were designed to cope with the ODA cutbacks and also to improve the existing Japanese ODA programme, so that Japan could take a more active leadership role commensurate with its status as the world’s largest donor.

MOFA approached the budget crisis in a realistic manner. Since the ministry had been forced by MOF and other groups to accept a reduction in ODA growth for the coming years, MOFA had attempted to adjust to the financial crisis. With ODA funding limited, MOFA had decided not to disburse ODA indiscriminately in the future. Instead, the ministry had begun to give priority to certain regions of importance, while cutting funds for others. One such region of importance was Indochina, where MOFA hoped to increase ODA at a moderate pace in yen terms, despite the fiscal crisis. Since the end of the cold war, MOFA had come to regard the former and current socialist countries in Asia, particularly Vietnam and Cambodia, as a new frontier for Japanese aid. The Ministry had argued that assisting these countries to move towards market-oriented economies was essential in order to accelerate the economic integration of South East Asia as a whole. In the Ministry’s view, these countries were crucial to regional stability in South East Asia, directly affecting

Japan's foreign policy not only in Indochina, but also in the broader South East Asian region. In addition, Indochina offered great political opportunities for the Japanese government; if Japan could play an important political role in the stabilisation of Indochina, Tokyo would increase leverage over other countries throughout South East Asia. Japan's larger political role in Indochina could also allow Tokyo to win more international support for its pledge to gain a permanent seat in the UN. MOFA promoted ODA to Indochina through multilateral arrangements, such as the International Committee on the Reconstruction of Cambodia (ICORC), the Forum for Comprehensive Development of Indochina (known as "the Indochina Forum"), and the Mekong River Commission. The Ministry thus played a leading role in these organisations to promote the development of Indochina. For the Indochina Forum, MOFA had formed a task force ("The Task Force on the Greater Mekong Region") to design a blueprint for the development of the Mekong River region, and the task force published a report on the industrialisation of the region, with a focus on the development of infrastructure.

Due to the significance of Indochina in Japan's overall foreign policy, MOFA was not likely to lessen its aid role in Indochina; rather, it was expected that the Ministry would continue to play an important role in regional development, despite the budget crisis. Several MOFA officials anticipated that the growth of aid to the region would not be as rapid as it used to be in the early 1990s, but that aid disbursement would gradually increase.

Ministry of Finance

The Ministry of Finance (MOF), the most powerful and prestigious Ministry at the apex of the Japanese bureaucracy, views ODA mainly in relation to its impact on Japan's national budget. Unlike MOFA, MOF does not formulate its ODA policy from the framework of foreign policy and thus, does not find it urgent to respond to international pressure (gaiatsu) to improve the quality of Japan's aid. Because of Japan's continued budget crisis, MOF usually takes a conservative approach to the allocation of budgetary resources. MOF is particularly critical of hiring new aid

28 ICORC was established at the Ministerial Conference on Rehabilitation and Reconstruction of Cambodia in Tokyo in 1992 to promote aid coordination among bilateral and multilateral donors in Cambodia. Japan has served as chair since the first ICORC meeting in Paris in 1993.

29 The Indochina Forum was established at the initiative of Japanese Prime Minister Kiichi Miyazawa in 1993.
personnel and starting new aid programmes, since it is difficult to lay off personnel or eliminate new programmes, once they are in place. MOF generally prefers loan aid over grant aid because (1) loans imply repayment and thus cost less money for Japan in the long run and (2) loans are under the ministry's jurisdiction. MOF's preference for loan aid over grant aid presents an obstacle to MOFA's efforts to implement "soft aid" projects in the social sector, because such projects are usually financed through grant aid. MOF is often criticised as being ungenerous and hard on developing countries since it imposes higher interest rates for Japanese ODA loans than for loans from international development banks such as the World Bank. A Vietnamese aid representative in the Ministry of Planning and Investment expressed his frustration over Japan's loans to Vietnam. He complained that the current interest rate imposed by MOF was 2.3 percent, a large increase from 1.8 percent in 1995 and from 1.0 percent in 1992.  

MOF's main concern is with the budgetary aspect of aid and thus the Ministry has not responded to the changing international environment that demands more aid leadership from Japan, not only in the economic field, but also in the social sector. The Ministry has concentrated only on the problem of the fiscal deficits.

Ministry of International Trade and Industry

The Ministry of International Trade and Industry (MITI) represents the interests of the Japanese private sector. The Ministry had a dominant influence in the aid administration in the 1960s and the early 1970s, when Japan's ODA was purposely designed to promote Japanese external trade and investments. However, MITI's influence in aid administration has gradually declined over the years, as the focus of Japanese aid has broadened from economic concerns to include political and strategic factors.

MITI is less concerned about the budget crisis and its implications on Japan's future aid policy than MOFA because MITI is not in charge of Japan's overall aid programmes. MITI is mainly interested in preserving the share of the ODA budget under its jurisdiction. For FY 1997, MITI received an aid budget which was less than

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10 percent of that of MOFA and approximately 12.6 percent of MOF.\textsuperscript{31} Because of its smaller share of the aid budget, MITI is less outspoken than MOFA in calling for the preservation of ODA programmes in the face of threatened cutbacks. For example, MITI's Industrial Structure Council supported the FY 1998 plan to cut ODA by 10 percent on the grounds that ODA should be subject to the same budget cuts as other budgetary items.\textsuperscript{32}

Like MOF, which has a narrow interest in the financial aspect of Japan's aid, MITI also has a limited interest in ODA: the protection of Japanese business interests in aid projects. MITI is frequently criticised as being insensitive to the needs of the poor in the developing world because the Ministry often opposes an increase of "soft aid", such as aid for BHNs and poverty alleviation, which would not bring economic benefits to Japanese firms. MITI's narrow business interest in Japan's ODA clashes with MOFA's new strategies to increase aid in the social sector.

As many Japanese firms were losing bids for the Japanese loan aid, MITI advocated for the revitalisation of the tied aid policy to allow only Japanese firms to participate in Japanese aid.\textsuperscript{33} The Ministry has pressured MOFA to abolish the general untied aid policy that has put Japanese firms at a disadvantage; since their projects are costly, Japanese firms cannot easily win in open international competition under the current system.

In the post Cold War period, MITI has attempted to recover its influence over Japan's aid, particularly in Indochina, where the Japanese private sector sees abundant business opportunities. In rivalry with MOFA's Indochina Forum, MITI established with ASEAN, a Working Group on Cooperation for Industrialisation on Cambodia, Laos and Myanmar (or CLM WG) in 1994, at the ASEAN Economic Ministers-Ministry of International Trade and Industry (AEM-MITI) Meeting in Chiang Mai, Thailand, in 1994. In this group, MITI seeks to take a lead in planning economic development in the region while working with representatives of both public and private sectors from ASEAN, Indochina, and Myanmar. CLM WG has the following

\textsuperscript{31} MITI's ODA budget for FY 1997 was 55.83 billion yen, while MOFA was allocated 585.09 billion yen. MOF's share was 441.90 billion yen. \textit{International Development Journal}, p. 33.
\textsuperscript{32} "MITI Panel to Urge ODA to Tie to Purchases," \textit{The Nikkei Weekly}, June 19, 1997.
six objectives for the development of Indochina and Myanmar: (1) promoting the transition toward a market economy, (2) establishing special market economy zones, (3) supporting infrastructure development, (4) providing trade and investment policy, (5) enhancing market linkages on a sectoral basis, and (6) providing cooperation in the development of mineral resources. However, MITI had not launched any concrete development projects to meet these objectives. To have an effective Indochina policy, the Ministry would most likely need to consult with MOFA to eliminate overlaps with MOFA’s Indochina Forum.

In summary, MITI’s interest in ODA greatly differs from that of MOFA. MITI is less concerned with the aid budget problem than is MOFA, because MITI’s share in the overall ODA budget is much smaller than that of MOFA. MITI has also resisted MOFA’s efforts to improve the quality of aid through the adoption of the untied aid policy. Now that many Japanese firms have been losing bids for Japanese loan aid, MITI has recently advocated the revitalisation of the tied aid policy to allow only Japanese firms to participate in Japanese aid. In terms of Indochina, MITI is basically in agreement with MOFA that the region is a new frontier for Japan. However, MITI’s ambition to take a leadership role in designing the region’s development plan through CLM WG clashes with MOFA’s plan to do the same thing through the Indochina Forum.

Implementing Agencies: Overseas Economic Cooperation Fund (OECF) and Japan International Cooperation Agency (JICA)

Both OECF and JICA are in charge of aid implementation. While OECF is under the jurisdiction of the Economic Planning Agency (EPA), an implementing agency for loan aid, JICA is under the supervision of MOFA. In the Japanese aid administration, there is a clear demarcation of responsibilities between the government ministries and these aid implementing agencies. Major decisions for loans are made by MOFA, MOF, and MITI, which belong to the four-ministry system. Grant aid is determined by MOFA, in consultation with MOF. Neither OECF nor JICA directly participates in the high-level aid decision-making process that determines the overall direction of ODA. Instead, OECF and JICA take part in lower-

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34 The Working Group on Cooperation for Industrialisation on Cambodia, Laos and Myanmar, Policy Recommendation to ASEAN Economic Ministers - Minister of International Trade and Industry (AEM-MITI) Meeting, approved at the Fifth CLM WG Meeting in Cambodia, August 1996.
level tasks such as finding projects, conducting feasibility studies, and carrying out evaluations under the supervision of the ministries in charge. In addition, they conduct research on the economies of aid recipient countries and submit the research to recipient governments to make recommendations for economic development. Since OECF and JICA lack their own development specialists, such as engineers and economists, they rely heavily on the private sector and academia to conduct research. For example, OECF uses many engineers sent from the private sector to do development research such as project finding and pre-feasibility studies. Similarly, JICA has a pool of consultant firms which have registered to work for JICA-led development research. JICA also has country-based research groups consisting of economists in academia and business. JICA's Vietnam group, for example, has conducted research on Hanoi's Five-year Plan for 1996-2000 and submitted recommendations to the Vietnamese government.

Since the Japanese aid administration excludes OECF and JICA from ODA decision making at the macro level, these agencies do not have the means to inject their own perspectives into the government's aid policy. There is an indication that some JICA officials engaged in grass-roots development projects, particularly those who live in developing countries and have knowledge of local situations, are unsatisfied with Japan's ODA system in which their concerns and opinions are not reflected in the policies they carry out. These officials are often critical of MOFA officials in Tokyo, who are seen as lacking basic understanding of local conditions but who nevertheless make decisions about aid policy. JICA and Japan Volunteer Center (JVC) regularly hold meetings in which they share their experiences in development.

In terms of Japan's ODA to Indochina, the role of OECF and JICA was limited. They did not take part in the high-level aid policy making. Rather, they influenced Japan's ODA to the region by collaborating with Japanese private firms such as consultants and trading companies for research and implementation. JICA and OECF officials supervised these firms and served as a link between the business sector and the ministries in the aid administration. Overall, JICA and OECF have not addressed the emerging challenges to Japan's aid as their roles are limited in the

As often pointed out by Japanese aid observers, these agencies have sometimes served as te-ashi (hands and legs) of the ministries which have provided atama (brain). In other words, these agencies have basically offered labour to the ministries which control aid decision making at the higher level.

Politicians:

Japanese politicians can be divided into three categories with regard to ODA. We can consider them the *silent majority*, the *brokers*, and the *policy makers*. Most of the politicians in both ruling and opposition parties fit into the *silent majority*. These politicians are generally uninterested in foreign aid because it is a poor vote-catcher in Japanese elections. They also lack detailed knowledge of ODA and do not have concrete ideas or strategies to shape Japanese aid programmes for the future. Not surprisingly, these politicians also joined MOF in advocating budgetary reform. They supported the Hashimoto administration's plan to reduce the ODA budget by 10 percent for FY 1998 from the previous year. Cutting ODA growth has thus become part of their political agenda.\(^{37}\)

The lack of interest of the *silent majority* in ODA is further reinforced by the role of the Japanese Diet. Although the Diet approves the annual budget allocation of aid, the process is rather perfunctory. The legislature normally passes a budget bill for ODA that has been already determined by the bureaucrats. The Diet neither examines aid projects/programmes nor evaluates aid outcomes. The only exception to this general rule is that the Diet questions cases of aid fraud. The most notable example of this is the 1987 Marcos scandal, which involved a large amount of misused Japanese ODA to the Philippines.\(^{38}\) Because of their limited role and lack of interest in ODA affairs, these politicians have paid little attention to the question of developing Japan's aid leadership through an emphasis on quality aid. The only concern they have explicitly exhibited is over budget deficits.

*Brokers*, who are politicians of another type, take part in ODA decision making, but only at a bidding level. In cases where aid decision making involves routine, day-to-day operating procedures (*tsujo-anken*, or "ordinary cases"), these politicians often represent Japanese business interests, "introducing" some business

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people to bureaucrats in the aid administration, so that the former can win a bid for a Japanese aid project. A former MOFA official who became a member of the Special Committee for External Economic Assistance (Taigai Keizai Kyoryoku Tokubetsu Iinkai) in the Policy Research Council within the Liberal Democratic Party (LDP), a committee consisting of approximately 70-80 LDP members to investigate Japanese overseas assistance suggested that it is up to the bureaucrats whether to accept such an offer. These politicians participate sporadically in ODA affairs as brokers between the business sector and the bureaucracy. Because of their limited role in aid, they have not responded to any of the emerging challenges to Japan's ODA. They are primarily interested in fostering relations with the business sector which represents their constituency.

Finally, the policy makers include a small number of high-ranking legislators who play a crucial role in aid decision making. Their participation in ODA takes place when highly political aid or large-scale projects are involved. The 1992 resumption of Japanese ODA to Vietnam was a case in point. This was a politically and economically significant step for both the Japanese government and the Japanese business community. The resumption of aid to Vietnam was highly political because it indicated that Tokyo would improve bilateral relations with Hanoi at the time that the United States, Japan's strongest ally, still had an economic embargo against Vietnam. This aid initiative was also economically significant, signalling to the Japanese private sector that it could expand investments in Vietnam, as the restarting of Japan's ODA was a precondition for an increase of Japanese investment there. Accordingly, the decision on aid resumption to Vietnam involved high ranking Japanese politicians, particularly those with strong ties with Japanese bureaucrats, the Japanese business circle, and Vietnamese officials in Hanoi. The late Liberal Democratic Party (LDP) member Michio Watanabe was one such politician who took part in the decision-making regarding Japan's resumption of aid to Vietnam. He was then situated in a perfect position to take on such a role, as he was Foreign Minister in charge of MOFA bureaucrats, a powerful LDP member, an influential politician in ODA circles (ODA-zoku or aid caucus) with strong ties with Japanese business, and an active member of the Japan-Vietnam Parliamentarian Friendship Association (giin-

40 Ibid, pp.176-78.
41 In this case, Watanabe's interest in Vietnam coincided with the goals of MOFA bureaucrats. It was expected that this LDP politician hoped to expand Japanese business activities in Vietnam, a country with abundant human and natural resources and thus of great economic potential in the future. Watanabe knew that the ODA resumption would be essential for Japanese firms to increase investments in Vietnam. Japanese ODA would not only provide the basic infrastructure for Japanese business activities in the country but would also guarantee a more secure investment climate for Japanese firms. Taking advantage of his role as Foreign Minister, Watanabe intervened in the bureaucracy-led aid decision-making process, as MOFA officials alone were unable to proceed with their resumption plan due to strong US pressure. Watanabe took measures to soften US opposition to the resumption of Japanese aid to Vietnam. He tried to solicit US approval by helping improve US-Vietnam relations. When he asked his counterpart, the Vietnamese foreign minister, to make efforts to meet US demands on Prisoners of War (POW) issues, the Vietnamese Foreign Ministry responded positively to Watanabe's request and became more flexible on POW issues. The US-Vietnam negotiations over these issues proceeded and thus the United States expressed its gratitude to Watanabe that he had helped the Vietnamese government deal with that difficult problem. In return, the US government softened its stance on the resumption of Japanese aid and finally gave Watanabe tacit US approval in early 1992 for restarting ODA to Vietnam after the 1992 US presidential election (Tomoda 1997).

As seen by this example, some politicians take a crucial part in aid decision making at politically and/or economically significant junctures. At the same time though, their participation in aid does not necessarily indicate that they are concerned about the challenges to Japan's future ODA. Rather, they are interested in maintaining relations with their business constituency. As such, these politicians have not seriously addressed either the budgetary crisis or the need to promote Japan's aid leadership. Here it is important to point out that LDP leadership had become less interested in using ODA as a foreign policy tool. Since Watanabe's death, there has been no strong ODA advocate like him among key LDP leaders. In particular, LDP leaders younger than Watanabe, such as Obuchi Keizo, Kato Koichi, and Taku Yamazaki, have been critical of the current ODA policies because they perceive aid as

not helping the Japanese government pursue its "national interest." They have therefore advocated for a large budget cut in ODA and accused MOFA of providing "Santa Claus style handouts" to the developing world.42

Private Sector

The participation of Japanese firms in Japan's ODA is largely due to a serious dearth of government personnel with appropriate aid expertise. Japanese officials in the aid administration are often unable to carry out proper oversight functions. The collaboration between the government and the private sector is further encouraged by Japan's "request-based policy" (yosei-shugi), which demands that recipient countries assess their development needs on their own and make requests for ODA to the Japanese government. Many recipient countries lack the knowledge and techniques to measure their own needs, so they rely on Japanese firms to advise them as to what kind of programmes they should request from the Japanese government. The problem is that these firms sometimes design requests more conducive to their own interests rather than those of the recipients.

There are three types of Japanese firms involved in Japan's ODA. The first is made up of trading companies (sogo shosha). These have extensive networks and information on developing countries and often participate in ODA through the procurement of goods. The second type of Japanese firms involved in Japan's ODA is made up of construction companies. These companies cultivate networks among themselves through various organisations, such as the International Construction Association. The third type is made up of consulting firms,43 many of which belong to quasigovernmental associations, to promote overseas activities. One such organisation is the Engineering Consulting Firms Association (ECFA), which is under MITI's umbrella and thus receives subsidies from the ministry. ECFA, which has 113 members, undertakes overseas projects totaling 60 billion yen. Its major clients are JICA and OECF. In 1996, 31.3 percent of its monetary output went to JICA-related projects, and 47.1 percent to developing country governments for projects which were

mostly financed by OECF loans. Indochina is one of the ECFA’s new priority regions.

Role of Keidanren:

Many Japanese firms involved in ODA are also active members of Keidanren (the Japan Federation of Economic Organisations), the largest and most powerful Chamber of Commerce in Japan. Keidanren directly negotiates with bureaucratic leaders over aid and often makes ODA policy proposals to the Japanese government. For example, the 1997 Keidanren report proposed that the government (1) streamlines the fragmented aid administration by establishing an International Aid Agency, (2) makes effective use of both financial and human resources in the private sector for ODA, (3) encourages greater public participation in aid, and (4) stops setting a quantity target for the midterm aid plan (FY 1998-2003) and instead, focus on the efficiency and quality of aid. Of particular significance in these four suggestions was Keidanren’s emphasis on the strengthening of collaboration between the government and the private sector. Keidanren was especially eager to promote private sector financing of Japanese ODA through Build-Operate-Transfer (BOT) and Build-Operate-Own (BOO) schemes. BOT/BOO means that private firms invest in infrastructure building within an ODA scheme and later recoup their investment with profits from operating what they have built.

As Japanese firms began to lose bids for Japanese loan projects, they went on the offensive against their international competitors. In 1996, Japanese construction firms formed a study group together with OECF and Keidanren. The official purpose of this group was to re-evaluate the bidding system of Japanese loan aid in order to improve the mechanism, which the group argued required a change of the then bidding criteria. The group maintained that the bidders' technological capacity should become one of the criteria in the selection for a bid. Such a change would clearly create a system in which more Japanese firms can win bids for Japanese loan aid, since Japanese firms are more technologically advanced than those of developing countries. The Japanese private sector won in this regard when the Japanese government announced it would start a new loan aid programme based on LDC untied

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aid, that is, allowing only firms from Japan or developing countries to bid on loan projects, and eliminating competition from firms in the United States or Europe. This new aid project would make available environmental loans at 0.75 percent interest. Though the OECD generally opposed tied aid policies, it made exceptions in cases when aid was given on beneficial terms to the recipient country, and the low interest rate of these loans thus allowed the project to satisfy OECD guidelines. The new loans were intended to boost Japanese firms' involvement in Japanese ODA and to gain support for Japanese aid from the private sector.\(^\text{47}\) In Vietnam and Cambodia, Japanese firms had been highly involved in aid procurement and planning. All Japanese grant aid and feasibility studies were provided as tied aid, which allowed prominent Japanese corporations to win contracts without any foreign competition. It allowed major Japanese firms to dominate grant projects in Indochina; for example, a single Japanese company, Nissho Iwai, won bids on five of the eight largest grant projects in Vietnam in FY 1994.\(^\text{48}\)

As many Japanese corporations had a keen interest in Indochina, Keidanren sent its missions to the region. In 1995, Keidanren's President visited Hanoi to appeal to the Vietnamese government to improve the conditions for foreign investment in the country. In 1996, Keidanren sent another mission to the Mekong River region (Cambodia, Laos, and Yunnan Province of China) to investigate business opportunities for Japanese firms in the region, and to promote public/private cooperation in Japanese ODA through BOT and BOO.\(^\text{49}\)

The major role of the private sector in Japan's ODA was to design projects for Japanese aid and to take part in their implementation. Japanese firms were generally uninterested in the creation of new strategies to improve the quality of aid. They were ultimately seeking profits for themselves and thus they participated in aid projects that would directly benefit them. The private sector could present an obstacle to meeting the international challenge to improve the quality of Japan's ODA. At the same time, it offered a strategy to the Japanese government to solve the problem of


\(^{48}\) Association for Promotion of International Cooperation, Vietonamu: Kaihatsu-tojokoku Keizai-kyoryoku Sirizu, p. 56; Association for Promotion of International Cooperation, Kambodia: Kaihatsu-tojokoku Keizai-kyoryoku Sirizu, no. 20 (Tokyo: Association for Promotion of International Cooperation, 1995), p. 60.

\(^{49}\) Keidanren, Ho Mekon Karyuiki Kaihatsu Kyoryoku Missshon Hokokusho, a report on the Keidanren mission to Yunnan in China, Cambodia, and Laos, July 1996.
shrinking government funding for ODA by suggesting that the Japanese government start taking advantage of private financing through the BOT/BOO scheme.

**Fiscal and Administrative Reform**

Fiscal and administrative reform gave some indication of the balance of forces in controlling and shaping Japanese ODA. In response to the political-economic crisis facing Japan in the late 1990s, Prime Minister Hashimoto implemented 'six great reforms': (1) administrative, (2) fiscal, (3) economic, (4) financial, (5) social security, and (6) education. It was the fiscal reform that most directly affected Japanese ODA. Many other budgetary programmes had support from the business sector and/or politicians who provided some protection from budgetary cutbacks. ODA lacked support either from businesses (who were unable to win bids when loans were untied) or from politicians (who didn't view foreign affairs as a 'vote catcher'). This had made it particularly vulnerable to pressure for budget cutbacks. These cutbacks represented a policy triumph for MOF. Given the economic situation of that period in Japan, MOFA was forced to operate under fiscal constraint imposed by MOF and politicians. It was MOF that pushed for these cuts, and MOFA had no choice but to accede.

Another important aspect of the reform was administrative restructuring. An Administrative Reform Council was established in 1996 under the leadership of Prime Minister Hashimoto, in order to streamline Japanese bureaucracy. One of the many ideas initially raised by the private sector, academicians, and journalists was for the establishment of a unified aid agency (such as 'the International Aid Agency' or 'ODA Agency') by integrating aid related divisions in different ministries and agencies. Despite the apparent broad appeal of such reorganisation, the Administrative Reform Council did not pursue the idea. There appear to be three main reasons for the council's failure to take up this issue. **First**, the Reform Council's main goal was to streamline the bureaucracy, which it hoped to achieve by sharply reducing the number of ministries and agencies. Creating an entirely new agency, however, would have contradicted this trend toward organisational reduction. **Second**, since ODA involves so many ministries - nineteen of the twenty-two ministries - any such consolidation would have been extremely complex organisationally. Lacking a compelling reason to carry out the change, the idea was not pursued. **Third**, creating a new aid agency was never a major priority of the council. Even more serious undertakings, such as privatising the postal services or restructuring MOF, remain
undone. Thus, it is not surprising that lesser priorities, such as creating a new aid agency, have been dropped for now. The fact that this idea was even raised and discussed indicates that there is growing recognition in Japan that current approaches to developing and implementing aid policies are too fragmented among a multitude of competing organisations. However, as has been shown in this study, this fragmentation is not just a matter of organisational bureaucracy, but rather reflects competing political interests among different ministries and sectors. Therefore, the creation of an overall aid agency is a substantial political task, which can be expected to take a long time. While there will not be a unified aid agency in the foreseeable future, the council has recommended other steps that will streamline aid coordination in small ways. The reform council has decided to abolish EPA as part of its agency/ministry reduction plan and hand EPA’s aid role, the supervision of OECF (the implementing agency for loan aid), over to MOFA. Thus MOFA was made in charge of both aid-implementing agencies, JICA for grant aid and OECF for loan aid. The abolition of EPA meant the replacement of the four-ministry system for loan aid, which was being managed by MOFA, MITI, MOF, and EPA, with a three-ministry system consisting of MOFA, MITI, and MOF.

The reform council also acknowledged that more inter-ministerial coordination is necessary and urged MOFA to take a leadership role in promoting such coordination. According to the council’s final report, MOFA should: [Take] on the role as the core ministry, for the inter-ministerial coordination in formulating overall policies on economic cooperation (Official Development Assistance), including policies on loan aid (yen loans), as well as, technical cooperation. As for cooperation through international organisations, collaboration between the ministry and other relevant ministries shall be intensified while basically maintaining the existing system.50

Conclusion:

Summarising the developments and important policy changes in the post Cold War era, we can say that Japan’s aid has become increasingly more complex, with multiple objectives and diverse programmes. ODA has been used from Japan’s perspective to contribute to the international community for the creation of a stable

and peaceful world, to strengthen Japan's diplomatic relations, to increase its influence in global politics, to play a dominating role in addressing global issues related to poverty and human development, human security, and to help Japanese firms recover from the economic crisis in Asia. Foreign Minister Kono Yohei wrote in 1995 that the end of the Cold War had enhanced Japan's options and Japan was no longer to base its decisions on the demands of the East-West confrontation and on the fact that it is a 'member of the west.'\(^{51}\)

Although, economic interests of the country remained to be a major factor in aid programmes, political interests are gradually becoming equally important in the rapidly changing global politics and power structure. Therefore, political motives of aid disbursement have been established after 1990s. Prior to the 1990s, the majority of Japanese aid was intended to promote economic interests through large scale capital projects ('hard aid' or 'hardware aid' as named by many scholars) suitable for Japanese firms for their profit and expansion. In the 1990s, Japan began to stress the importance of "soft aid", aimed for social and humanitarian purposes, as it has been already mentioned in the chapter. Japan assumes that "soft aid" could be an effective tool to secure its political interests and to play a more vital role in global politics. It could be helpful for Japan's new global role and international ascendance. It can earn trust and respect from the international community which has largely been shattered by its 'hard aid' policy, as many national and international aid thinkers and policy makers believe. With the incorporation of "soft aid" in the aid scheme, ODA policy has become more politically oriented than ever. It does not mean that Japan's economic interests have been overshadowed by political interests. Japanese firms are still playing a major role in securing economic interests of the country. It was well exemplified in the Asian financial crisis of 1997, when the Japanese government provided substantial aid to affected countries to stabilise the Asian market for Japanese firms. However, Japan's aid in the crisis has largely been seen by its policymakers as an example of kokusai koken (international contribution) to help bring about stability in Asia.

The incorporation of NGOs into Japanese aid programmes has been another significant development in terms of "soft aid" policy. Emergence or strengthening of

civil society and NGOs, particularly in the last 25-30 years, and their increasing influence in aid policy formulation and implementation in recipient countries has been one of the major developments in recent years. Since, government agencies or traditional aid contractors for 'hard aid' (such as construction or trading firms) lack expertise in grassroots development; the government is gradually relying on NGOs to meet these new challenges. An indicator of the increase in social aid is the number of volunteers in the Japan Overseas Volunteer Cooperation (JOVC), which is the Japanese equivalent of the US Peace Corps. In Vietnam, the number of JOVC volunteers increased from only four in 1994 to 468 in 1995. In Cambodia, Japanese technical training also became more available. The number of Cambodians receiving training from the Japanese government increased from only 54 in 1992 to 133 in 1993, and to 183 in 1995.

Japan saw an opportunity in the 1990s to play a more vibrant and decisive role, largely because of several national constraints and international circumstances to protect its national interest and to secure a more respectable position in the international community. For fulfilling such ambitious motives, it was imperative to make some changes due to the changing global scenario. It was rightly done by diversifying aid objectives to a greater extent, drawing aid principles and including the "soft aid" policy with more emphasis on BHNs. Japan successfully incorporated and diversified strategic, diplomatic, political and philosophical components into its aid policy which was previously over-burdened by largely one-dimensional economic motives as critics viewed. By diversifying aid objectives and incorporating and initiating "soft aid" as a major weapon to challenge mounting criticism of its old aid policy, Japan clearly aimed for a more respectable position and influential role in the global world order.

53 Ibid, pp.59-60.