Chapter III
A Brief History of Japan’s ODA Policy: 1954-1991

The development of Japan’s aid policy in the Cold War period can be divided into two periods, and each period reflects the relationship of aid to both the international and the domestic environment:

I. From the mid 1950s to the mid 1970s (Japanese economy-first policy);

II. From the mid 1970s to the end of the Cold War in 1990-91 (beginning of aid diversification and politicisation for broader foreign policy objectives).

The first period was characterised by the single-minded pursuit of economic growth by both the Japanese government and the corporate sector. Aid was primarily used to promote Japan’s post-war economic recovery and rapid growth and to secure natural resources for itself. In the second period, politico-strategic objectives of aid emerged under a policy of “burden sharing” with Japan’s Western allies. During this period, ODA was used not only to bring economic benefits to Japanese firms but also to consolidate relations with the West.

I. From the mid 1950s to the mid 1970s: ODA and Japan’s Economic Development:

Japan’s ODA policy in this period was a reflection of changing environments – both international and domestic. Japan had a high degree of dependence on the US in the post World War II period. The US provided not only aid but also the market for Japanese goods. In addition, Japan was provided with military protection against external threats to its security. The US encouraged Tokyo to foster good relations with its allies in Asia by means of trade, investment, and ODA. In return, the Japanese government was attentive to the geo-political interests of the US and followed its Cold War leadership in Asia.

After the end of World War II, Japan itself became an aid recipient of American aid programmes such as ‘Government and Relief in Occupied Areas’ (GARIOA) and ‘Economic Rehabilitation in Occupied Areas’ (EROA). These aid programmes provided emergency assistance and played an important role in helping Japan recover from the confusion and devastation caused by the war. From 1946-1951, the total amount of GARIOA and EROA aid was two billion dollars. Thereafter, the
World Bank, the US Export-Import Bank and private foreign banks provided the much needed help to Japan. The World Bank loan began in 1953 and lasted for 14 years until 1966 and reached up to approximately 860 million dollars. Japan's borrowings from the World Bank ranked second only to India's in the early 1960s. To graduate from being an aid recipient to a top donor is a unique history unparalleled in the annals of aid.

The aid programme has evolved through several stages. Japan extended reparation payments to many nations that had been victimised by Japan's aggression in Asia. The origins of aid can be traced to Japan's membership in the 'Colombo Plan' with a US$ 50,000 contribution in 1954 which was aimed at regional co-operation and socio-economic development of South and South-east Asia. Japan concluded reparation agreements with Burma (now Myanmar) in 1955, the Philippines in 1956 and Indonesia in 1958. India received the first yen loan as part of a contribution to a World Bank Consortium in 1958. Technical assistance was also provided side by side. In 1954, Japan invited 138 technical trainees from the South East countries to its own sites at various locations. Following the Colombo Plan guidelines, Japan started with a technical co-operation programme but the main focus remained on reparations and export credits; thus its ODA component was weak in those days. The ODA gradually increased with the passage of time and in the 1970s, its growth rate accelerated manifold.

In 1960, Japan was admitted to the Development Assistance Committee (DAC) of the OECD. The Development Assistance Group (DAG) was later renamed DAC. In 1960, the MITI Aid White Paper referred to economic cooperation towards developing countries, as the "mission of the world's industrial nations." According to the paper, Japan would co-operate in this mission, not through concessional aid but by extending commercially tied loans and increasing investment overseas. Thus, economic co-operation was aimed at developing Japan rather than the less developed

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2 JICA, 10 Nen, p. 9.
countries. The overwhelmingly commercial and self-centered approach of foreign aid changed in the 1970's due to the oil crisis of 1973. A series of events in the late 1970s represent the turning point in Japan’s aid leadership. In 1977, the then Prime Minister Fukuda Takeo announced the first of a series of aid doubling plans. In 1971, 98.4 percent aid went to Asia but in 1972, it dropped to 88.1 percent and by the late 1970s, it stabilised between 65–70 percent. During this period, approximately 70 percent of Japanese aid went to Asia, whereas 10 percent each went to Latin America, the Middle East and Africa.

If we look at the historical background of Japan’s ODA, we find that four developments define the evolution of Japan’s ODA policy since its inception in the 1950s. These are the following:

A) Diversification - emergence of multiple use of ODA for broader foreign policy objectives beyond development.

B) Globalisation - globalising the ODA policy beyond the Asian region.

C) Politicisation - use of ODA for wider political and strategic diplomatic objectives.

D) Multilateralisation - channeling aid through international institutions rather than relying only on bilateral aid.

The evolution of these themes has been gradual, cumulative and often overlapping in the contexts of the ODA policy. ‘Diversification’ and ‘Politicisation’ appeared in the 1970s and 1980s and ‘Multilateralisation’ and ‘Philosophising’ appeared in 1980s and especially in 1990s. These themes reflect the emergence of Japan’s ODA diplomacy and have become an integral part of understanding its foreign policy objectives.

During the first period, three policy decisions emerged as the core of Japanese foreign aid: (A) War reparations from the mid 1950s to the mid-1960s; (B) aid to promote the “Income Doubling Plan” by Prime Minister Ikeda Hayato in the 1960s, and (C) “resource diplomacy” in the 1970s.

6 Ibid, p. 54
7 Ibid, p. 55
(A) War Reparations:

The origins of Japan's aid programme lay in the war reparation programmes. Japan's first form of aid was in the form of *baisho* (war reparations). According to Article 14 of the San Francisco Treaty (1951): "Japan will promptly enter negotiations with the Allied Powers so desiring, whose present territories were occupied by Japanese forces and damaged by Japan, with a view to assisting to compensate those countries for the cost of repairing the damage done, by making available the services of the Japanese people in production, salvaging and other work for the Allied Powers in question." \(^9\)

Reparations were counted as grant aid and were intended to fulfill Japan's international obligations to wartime indemnities. At the same time, reparations were designed to promote Japan's own economic recovery by means of distribution of Japanese goods and services to recipient countries. MOFA established an internal reparations division and became the primary agency to manage the reparations programmes.

In the latter half of the 1950s, the Japanese government settled reparation agreements with the South East Asian countries, specifically, with Burma (1955), the Philippines (1956), Indonesia (1958), and South Vietnam (1960). Japan also concluded agreements for quasi-reparations (grants in lieu of formal reparation commitments) from the late 1950s and 1960s with Cambodia (1959), Laos (1959), Thailand (1962), South Korea (1965), Burma (1965), Singapore (1968), and Malaysia (1968) (Rix 1980).

Although, the total amount of the reparations (approximately US$ 1 billion) and quasi reparations (US$ 490 million) was relatively small (Hasegawa 1975), they benefitted the Japanese economy significantly. Procurement of reparations was tied to Japanese industrial goods. It helped Japanese firms in their expansion of manufactured production. Furthermore, the Japanese products under the reparations brought about further demands for their goods in the recipient countries, as local markets became dependent on them. In the 1950s and early 1960s, Japanese private companies, especially consulting firms, expanded their business activities in South

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East Asia. They undertook infrastructural projects funded by the reparations (Rix 1980).

During the reparation period, the Japanese government consolidated its aid institutions. In the early years of Japanese ODA, the main implementing agency for concessional loans was the Export-Import Bank of Japan. In 1961, the OECF was established as a quasi-governmental lending institution that was to take control of all loan programmes which were previously managed by the Export-Import Bank. In the following year, the Overseas Technical Cooperation Agency (OTCA) was established as a technical assistance agency. In 1965, OTCA began to oversee the newly established Japanese Overseas Cooperation Volunteers (JOCV) (Caldwell 1972).

(B) Aid to Support the Income-Doubling Plan in the 1960s:

By the 1960s, Japan had recovered from the post war defeat and destruction and had achieved a double-digit economic growth rate. By then, economic assistance to developing countries was not limited to the reparations programmes. In 1958, Japan disbursed its first bilateral loan aid as part of the World Bank Consortium to India. Subsequently, Japanese bilateral loans aid was given to other countries, such as South Vietnam, Pakistan, and Brazil in the late 1950s and in the early 1960s (Yanagihara & Emig 1991).

In the 1960s, Japan’s ODA was closely linked to Prime Minister Ikeda’s Income-Doubling Plan. This domestic economic policy was announced by him in 1960, to double the national income within ten years. This plan encouraged exports of Japanese heavy industrial products to Asia, envisaging a 10 percent annual growth in the total volume of Japanese exports and a 13 percent annual growth in the exports of heavy industrial products. The growth of the export-oriented policy was to redirect Japan’s industrial structure from light to heavy industry (Little & Clifford 1965). Led by the MITI mainly, the ODA became an important tool to assist Japanese heavy industry firms in finding large markets in Asia. Aid was considered significant for promoting Japan’s export-based growth.

As a result of the government’s strong support, Japanese aid increased rapidly in the 1960s. Bilateral loans grew from US$ 48 million in 1960 to US$ 191.3 million in 1968. During the same period, Japan’s bilateral grants and grant like flows
(including reparations) expanded from US$ 67 million and multilateral aid increased from US$ 30 million to US$ 48 million (Rix 1980).

(C) Resource Diplomacy:

The above pattern changed with the oil crisis of 1973. Japan's vulnerability due to heavy energy imports became obvious when the Organisation of Petroleum Exporting Countries (OPEC) placed an oil embargo on the USA and its allies who had supported Israel during the Yom Kippur war. During this time, the aid policy became politicised and it was used as a diplomatic tool to restore neutralist credibility in the Arab world. A Japanese mission, endowed with a huge aid package was sent to placate Arab anger. As a consequence of the oil crisis, the stable supply of natural resources became another ingredient of Japanese aid policy. It gave rise to the unofficially adopted regional aid distribution doctrine of 7: 1: 1: 1 in which 70 percent of aid was allocated to Asia and 10 percent each to the Middle East, Latin America and Africa. Japan increased its aid contributions (from US$ 1 million in 1973 to US$ 5 million in 1974) to the United Nations to assist Palestinian refugees. In addition, it extended aid packages to Arab and Gulf countries such as Egypt, Syria, and Iran (Hasegawa 1975). Economic aid was seen as a necessary diplomatic tool because Japan lacked military means to pursue its foreign policy. Tokyo tried to secure oil from OPEC members by the so called resource diplomacy.

The 1973-74 OPEC oil shock proved to be a catalyst for the globalisation of Japanese aid. Japan increased its economic and technical aid to the Middle East, Central America and Africa. It extended massive aid to Arab and the Sub-Saharan African countries following OPEC's oil embargo and the fact that oil prices had jumped to four times their original price. These events inaugurated Japan's comprehensive security policy by which it actively sought to diversify its foreign sources of markets and natural resources as widely as possible, in order to reduce its vulnerability in this area. The imperative need to diversify its aid programme was reinforced in the late 1970s by events like the fall of South Vietnam (1975), the Vietnamese invasion of Cambodia (1978), the Iranian Revolution and hostage crisis (1979), the steep increase in oil prices to almost double (1979) and the invasion of Afghanistan by the erstwhile Soviet Union (1979). All these events added to Japan's

continued high economic growth and prosperity and caused it to make a series of promises to upgrade both the volume and quality of its ODA.11

Although, the recipients of Japanese aid expanded enormously over the years, they were the countries of geo-economic importance to Japan, with significant natural resources and huge markets. In the first period, Tokyo concentrated on its “economic above-all” policy- a policy launched by the then Prime Minister Yoshida Shigeru in the 1950s to promote economic growth while under the US military protection-by pursuing overseas markets for its industrial products and acquiring raw materials vital to its economic development. From the 1950s to 1973, Japan’s aid programme was directed to enhance its own economic development and designed to:

1. Spur the process of Japan’s reconstruction and growth,
2. Establish diplomatic relations with neighbouring countries,
3. Stabilise the economic, political and social life of recipient countries and tie them to Japan,
4. Raise the per-capita income in Japan,
5. Assert Japan’s influence and leadership in both regional and global spheres.12

As mentioned above, war reparations were provided to war torn countries damaged by Japanese military aggression during World War II and it was aimed at building-up their infrastructure, but the “tied aid” policy was regarded as the promotion of exports from Japanese industry. It was not given to the People’s Republic of China because of the Communist take-over and Japan’s own alliance with the USA and it was not given to South Korea until 1965.13 It is noteworthy because these two countries were the most affected by Japan’s aggression.

Major government economic cooperation began in 1957 with the yen loan programme, in which priority was initially given to South East Asia. Between 1957-1964, 16 of the 21 loan agreements were for India or for Pakistan funded by the Export – Import Bank of Japan. Economic cooperation was emphasised but to a large extent this money, besides filling certain needs in developing countries, benefitted

12 Ibid, p.85
Japanese industries and established them in Asia. During the 1960s, Japanese economy became strong and it established the country as an international power. As it has been stated above, Japan joined the OECD and extended the first grant aid in the same year (1969) as DAC introduced the concept of ODA.\(^\text{14}\) Thus we find that in the 1960s, Japanese aid was almost totally confined to Asia and overwhelmingly served the country's commercial interest.

To summarise, Japanese reparations and other ODA programmes from the 1950s to the mid-1970s (first period) were primarily intended to benefit the domestic economy. Japanese firms became crucial agents in aid, initially undertaking reparations projects and subsequently contracting loan and grant aid projects. Most of these bilateral projects, both grants and loans, were tied to the procurement of Japanese goods and services, thus exclusively benefitting Japanese firms (Hasegawa 1975). Economic interests explicitly dictated Japanese aid programmes (Yanagihara & Emig 1991:38).

Although the aid was primarily confined to economic purposes, political objectives were generally implicit and they were overshadowed by strong economic interests.\(^\text{15}\) Several aid patterns emerged in the first period that dictated the future course of Japan's aid programmes. Because Japanese aid was largely economics-oriented, it was extended primarily in the form of large-scale, infrastructure-based projects. Loans typically comprised more than 50 percent of Japanese aid, in sharp contrast to other donor countries in the DAC of the OECD. Many of the DAC countries, such as Australia, France, and Sweden, began to allocate more than 70 percent of their ODA commitments for grants (Hasegawa 1975). In addition, the terms and condition of Japanese loans were hard, and they offered fewer grant elements than the average DAC countries.

Another distinct characteristic of Japanese aid in this period was its geographical concentration. In 1963, Japan extended more than 98 percent of its aid to Asian countries (Rix 1980). Although, Japanese aid globalised as a result of the oil crisis in the 1970s, by the end of the decade, Asia's share remained as high as two-

\(^{14}\) Ibid, p.34

thirds of Japan's total aid. The early emphasis on Asia established the pattern of geographic concentration of Japanese aid.

II. From the mid 1970s to the end of the Cold War in 1990-91: The major events in brief.

By the end of the 1970s, the Japanese Ministry of Foreign Affairs (MOFA) had two motives as justification for aid. The first motive was that Japan should contribute to peace and stability in the world through economic aid because Japan had declared itself a peaceful country without military power in the Constitution. The second motive was related to the first and had to do with Japan's image of itself as a country lacking natural resources. Since trade was a prerequisite to obtain natural resources and raw material, Japan recognised its significant interdependence with developing countries. A certain amount of infrastructure was needed in recipient countries to conduct trade effectively and to extract natural resources in Asia. Therefore, Japanese aid was focused on building economic infrastructure in recipient countries. Aid was regarded as a necessary cost for achieving a more secure and peaceful world and Japan's own prosperity in the future.16

A turning point for policy activism came in the 1970s when diversification and politicisation emerged and by the 1980s, the Japanese ODA policy became less one dimensional and less regionally focused. 1970s was the decade of globalisation of Japanese aid and Asia was given more attention than before. There were many incidents which proved to be a catalyst behind this Asia policy of Japan. The implications for Japan and Asia of the 1969 Nixon Doctrine, the Sino-American rapprochement of 1971, the Vietnam War and the defeat of US in 1975 are significant in this context. Another major turning point of its Asia policy was realised when Prime Minister Tanaka Kakuei visited South East Asia in January 1973 but he was greeted by street riots and mass protests in Indonesia and Thailand, which shocked Japan. Eventually, Japan rationalised and modified its aid policy particularly for this region and broadly for Asia. This region was given more attention in the following years and economic assistance received more priority and attention. Japan softened its ODA terms and conditions, increased the ODA amount, untying of aid progressed and a number of new aid forms gradually emerged. Tanaka's successor, Prime Minister,

Miki Takeo (1974-1976) announced the "Asian Marshall Plan" which was designed to incorporate Japanese technical and financial assistance in a rice doubling programme. Eventually, Japan carried this plan to the Asian Development Bank (ADB). "Manila Doctrine" announced by the Prime Minister, Fukuda Takeo (1976-78), envisioned a contribution of US$ 1 billion to five ASEAN projects which were emphasised for a growing political agenda in Asia.¹⁷

These aid doubling plans gave another motive to Japanese ODA i.e., to be respected in the international community where considerable 'Japan bashing' was taking place. Moreover, it was also a way of improving Japan's image in Asia. This was the start of the so called 'gift-giving diplomacy' (omiyage gaiko). Since then, it has been used extensively by Japanese prime ministers touring in Asia. Humanitarian considerations, as reasons for giving aid, did not appear explicitly until the late 1970s.¹⁸ In the 1970s, Japan extended ODA to communist countries like Mongolia and Vietnam. In order to improve its relations with ASEAN nations, Tokyo paid more attention to this region.¹⁹

Prime Minister Fukuda promised Washington in November 1977, that due to the growing criticism, Japan would do away with its "tied aid" policy. After the invasion of Afghanistan in December 1979, Washington exerted renewed pressure on Tokyo to aid strategic countries. As a result, Prime Minister Ohira made an announcement to increase aid to Pakistan, Turkey and Thailand.²⁰

In search of an alternative source of energy, Japan started looking towards Africa and Latin America. It is quite evident by the fact that throughout the 1960s, Asia received nearly 100 percent of Japan's ODA, but by the end of the 1970s, the Middle East, Latin America and Africa constituted roughly 30 percent of the ODA budget of Japan. By the end of the 1980s, the percentage for Asia dropped to the 60 percent range and by 1992, Asia's share further decreased to 50 percent. But here it is important to notice that even though the percentage decreased, the amount of aid in absolute terms, increased greatly. The Asian countries still maintained their top

positions as aid recipients. In the list of aid recipients, South East Asian countries and China hold top positions.\textsuperscript{21}

**Major Policy Changes:**

The second period of Japanese aid witnessed rapid changes in aid orientation, reflecting the volatile climate of international politics. Three major developments influenced its aid policy at that time:

1. The withdrawal of US forces from Indochina at the end of the Vietnam War left a power vacuum in South East Asia.

2. Cold War tensions heightened in the late 1970s, with a series of conflicts between Western and Communist blocs. Three incidents of 1979 were of critical importance to the Japanese government: (a) the establishment of the Vietnamese-backed People's Republic of Kampuchia (PRK), (b) The Soviet invasion of Afghanistan, and (c) the Iranian hostage crisis.

3. Debt crisis spread among developing countries in the mid-1980s. It posed a great threat to the stability of the world economy.

These international incidents prompted the Japanese government and policymakers to take appropriate action. By the mid-1970s, Japan was a wealthy country, and the international community expected Japan to play a larger role which was commensurate to its position in international affairs. Japanese policy makers realised that ODA was an effective foreign policy tool as otherwise, the country lacked military means to conduct diplomacy.\textsuperscript{22}

Japan's aid in the second period consisted of three main policies corresponding to the aforementioned international scenario:\textsuperscript{23}

1. **Fukuda Doctrine** (aid was used to play a political role in Asia, announced by Prime Minister Fukuda Takeo in his 1977 Manila Speech);

2. **Strategic Aid** (inclusion of the 'burden sharing' concept to countries of critical geo-political importance to the Western world);


3. **Capital Recycling** (further efforts for burden sharing through capital recycling plans for debt-ridden developing countries).

1. **Fukuda Doctrine:**

   Prime Minister **Fukuda Takeo** presented this doctrine in his Manila speech of 1977. This doctrine marked a significant departure from Japan's traditional 'economy-first' ('economics above all') aid policy, propounded by Prime Minister **Yoshida Shigeru** in the 1950s to promote economic growth. It was a well-timed speech, given the fact that the US presence in South East Asia had declined due to the withdrawal of its troops from Indochina.

   **Fukuda** presented three doctrines:

   (A) Rejection of the role of a military power,

   (B) Consolidation of the relationship of mutual confidence and trust based on a "heart-to-heart" understanding, and

   (C) Equal partnership with the ASEAN for building peace and prosperity throughout South East Asia. The third doctrine was important in the sense that Japan was willing to mediate between ASEAN and Indo China, for a peaceful co-existence.

   The Fukuda Doctrine was the first official statement in the post World War II period. It clearly expressed Japan's intentions as to its Asia policy. Fukuda's pledge of US$ 1 billion aid package demonstrated Japan's willingness to utilise economic aid for the purposes of playing larger political and economic roles in South East Asia (Sudo 1992).

   The aid pledge signalled the beginning of Japan's aid policy emphasising on quantity. Fukuda's declaration was the first major pledge to support the "aid doubling plan" which was announced by him at the 1977 Bonn Summit. Under his leadership, the ODA grew rapidly in the late 1970s. Succeeding Prime Ministers from the late 1970s to the early 1990s, such as Suzuki Zenko, Nakasone Yasuhiro, Takeshita Noboru, and Kaifu Toshiki, followed Fukuda's doctrine with similar slogans promising to double the amount of aid disbursement.
2. Strategic Aid:

Emergence of ‘burden-sharing’ (strategic aid) was another major policy in this period. ODA was increasingly used for strategically important Western allies because the Japanese Constitution prohibits the use of military force, Tokyo hoped to strengthen the Western security alliance through strategic aid. US-Japan trade friction was another factor that prompted Tokyo to act. Bilateral trade relations rapidly deteriorated in the late 1970s and the 1980s. Japan’s trade surplus with the US set a new record - more than US$ 50 billion in the mid 1980s (Schoppa 1997).

The Ohira government in the 1980s, implemented strategic aid by developing two new concepts of aid: (A) “countries bordering conflict”, and (B) “comprehensive national security.”

(A) “Countries bordering conflict” (funso shuhenkoku): Countries of Western (US) bloc, specifically Thailand, Pakistan and Turkey, which were crucial in warding off Soviet influence (Communist bloc), were designated as priorities for the Japanese aid policy. Although Turkey had no conflict on its immediate border, it was considered an important Western ally in the Middle-East. Thailand and Pakistan were considered important against the Vietnam-backed PRK and the erstwhile Soviet invasion of Afghanistan, respectively. As a result in 1980, Japan’s aid to Thailand increased by 1.3 times over the previous year, to Pakistan by 3.7 times, and to Turkey by about 10 times (Yasutomo 1986).

In addition to these three countries, Egypt also emerged as a strategically important country in the Middle-East in the late 1970s and 1980s. Western donors increased their aid to Egypt after Cairo’s 1977 ‘Camp David Peace Agreement’ with Israel. Tokyo also disbursed 32 billion yen in 1980 which increased to 50 billion yen in 1981, following the footsteps of its Western allies (Yasutomo 1986). On the other hand, Tokyo sanctioned aid to countries under erstwhile Soviet influence. It froze aid to Vietnam and Cambodia and stopped or reduced aid to Afghanistan, Cuba, Angola, and Ethiopia for political reasons (Yasutomo 1986).

(B) Comprehensive National Security (sogo anzen hosho): The other concept developed by the Ohira government, recognised military as well as non-
military threats to national security and urged non-military counter measures to combat them. The non-military measures included conservation and stockpiling of resources, ODA, development of high technology industries, and other endeavours. ODA was recognised as an important foreign policy tool to deter threats by creating a stable and favourable global environment for Japan.

Prime Minister Suzuki Zenko, Ohira's successor, continued the same policy of strategic aid. Although, he changed the rhetoric of "countries bordering conflict" to "areas that are important to the maintenance of peace and stability of the world", the core of the aid policy remained the same.

'Strategic aid' was also extended to the Pacific Island region. The Kuranari Doctrine (Foreign Minister Kuranari Tadashi of the Nakasone government announced it) outlined aid objectives primarily to counter increasing Soviet influence in the Pacific area. Complying with the US demands, Tokyo increased its aid volume in this area from US$ 68 million in 1987 to US$ 93 million in 1988 and to US$ 114 million in 1990.

3. Capital Recycling:

By the mid-1980s, Japan had accumulated trade surpluses of approximately US$ 100 billion (Yasutomo 1995). The country decided to provide its recycled surplus savings to debtor countries (in the face of an economic crisis first triggered in Mexico in 1984) in the second half of the 1980s. Japan being the largest creditor, was under continuous pressure from the US to improve the economic conditions of the developing world. Tokyo was increasingly expected to play a role in burden sharing for the debt crisis (Wood 1986). Given Japan's limited defence role, capital recycling was considered a suitable way to achieve these goals under those circumstances.

Between 1986 and 1989, Tokyo devised three separate debt relief plans. It took place primarily through the coordination between Japanese public and private banks, Multilateral Development Banks (MDBs), and other International Financial Institutions (IFIs). First, in 1986, Finance Minister Miyazawa announced that Japan would recycle US$ 10 billion in public and private capital to developing countries.

through multilateral development agencies, for the next three years. Secondly, Prime Minister Nakasone announced further efforts in capital recycling in 1987. Although, the majority of these contributions were not ODA, the total amount extracted for ODA in this plan was still substantial (US$ 4 billion in total, with US$ 1 billion deriving from government contributions to the MDBs and US$ 3 billion from OECF as loans).  

Thirdly, at the Arche Summit in 1989, Prime Minister Takeshita Noboru pledged to provide debtor countries with an additional US$ 35 billion by 1992 (Yanagihara & Emig 1991). In January 1989, Japan planned a 7.8 percent increase on ODA spending, over the previous year’s budget. As a result, it spent more than US$ 10 billion on foreign aid and became the largest foreign aid donor in the world. In 1990, it continued to be the number one aid donor with a budget of around US$ 11 billion (a 5.8 percent increase over the previous year).  

Continued Japanese enthusiasm for foreign aid activities was considered vital for this impressive expansion, but Western experts frequently criticised Japanese initiatives as self-serving. It has been argued that Japan was more concerned about its own economic development than about the recipients' needs. Indeed, Japanese foreign aid has resulted in several negative outcomes for social and economic development as well as for environmental conditions in recipient countries. In many cases, Japanese foreign aid also created a financial burden on developing countries. Compared to other donors, Japan provided more loans (38 percent of ODA budget in 1986) than grants and technical assistance (see table 1).

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Table 1

Comparison of major aid donors, ODA by types in 1986 (on net disbursement basis; in millions of dollars and percentage of ODA total)

<table>
<thead>
<tr>
<th>Rank*</th>
<th>ODA amount</th>
<th>Total</th>
<th>Grant assistance**</th>
<th>Technical assistance</th>
<th>Loans</th>
<th>Contribution to multilateral institutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. U.S.</td>
<td>9,564</td>
<td>7,602(79.5)</td>
<td>5,527(57.8)</td>
<td>1,506(15.7)</td>
<td>569(5.9)</td>
<td>1,962(20.5)</td>
</tr>
<tr>
<td>2. Japan</td>
<td>5,634</td>
<td>3,846(68.3)</td>
<td>1,104(19.6)</td>
<td>599(10.6)</td>
<td>2,143(38.0)</td>
<td>1,788(31.7)</td>
</tr>
<tr>
<td>3. France</td>
<td>5,105</td>
<td>4,162(81.5)</td>
<td>1,202(23.5)</td>
<td>1,975(38.7)</td>
<td>985(19.3)</td>
<td>943(18.5)</td>
</tr>
<tr>
<td>4. West Germany</td>
<td>3,832</td>
<td>2,642(68.9)</td>
<td>569(14.8)</td>
<td>1,230(32.1)</td>
<td>844(22.0)</td>
<td>1,189(31.0)</td>
</tr>
<tr>
<td>5. Italy</td>
<td>2,403</td>
<td>1,487(61.9)</td>
<td>799(33.3)</td>
<td>412(17.1)</td>
<td>275(11.4)</td>
<td>917(38.2)</td>
</tr>
<tr>
<td>6. U.K.</td>
<td>1,750</td>
<td>1,022(58.4)</td>
<td>697(39.8)</td>
<td>405(23.1)</td>
<td>-80(-4.6)</td>
<td>727(41.5)</td>
</tr>
<tr>
<td>7. The Netherlands</td>
<td>1,740</td>
<td>1,180(67.8)</td>
<td>658(37.8)</td>
<td>386(22.2)</td>
<td>136(7.8)</td>
<td>560(32.2)</td>
</tr>
<tr>
<td>8. Canada</td>
<td>1,695</td>
<td>1,054(62.2)</td>
<td>801(47.3)</td>
<td>157(9.3)</td>
<td>97(5.7)</td>
<td>641(37.8)</td>
</tr>
<tr>
<td>9. Sweden</td>
<td>1,090</td>
<td>777(71.3)</td>
<td>664(60.9)</td>
<td>103(9.4)</td>
<td>10(0.9)</td>
<td>313(28.7)</td>
</tr>
<tr>
<td>10. Norway</td>
<td>798</td>
<td>479(60.0)</td>
<td>417(52.3)</td>
<td>57(7.1)</td>
<td>5(0.6)</td>
<td>319(40.0)</td>
</tr>
</tbody>
</table>


NOTE.—As the figures in the table are rounded off, they do not necessarily add up to the total figures; ODA = Official Development Assistance. Values in parentheses are percentages.

* Order of countries is according to the ODA amount, from the largest to the smallest.

** Grant assistance includes administrative costs and support for non governmental organisations (NGOs).

Japan reduced the proportion of “tied aid” and increased its “grant element”. Its proportion of grant element came to 81.7 percent of the total ODA budget in 1986. Yet this was the second lowest among major donor countries (see table 2). Thus, a large part of Japanese foreign aid returned some benefits to itself through loans and development projects. Moreover, because the aid supported

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29 A grant element is an economic index that indicates a condition of foreign aid. A government loan at a 10 percent interest rate or higher is considered a 0 percent Grant Element. The percentage changes are based on the conditions of aid, namely, interest rates, length of payment, and repayment periods. A 100 percent grant is equal to 100 percent grant element. The DAC was established by the Organisation for Economic Cooperation and Development in 1960. It consists of 18 major donor countries, including the European Community members in 1987.
development projects that returned direct benefits, Japanese aid resulted in the
deterioration of the natural environment and the social and political conditions in
recipient countries as well.

Table 2
Percentage of grant elements of major donor countries, 1985 and 1986

<table>
<thead>
<tr>
<th>Country</th>
<th>1986</th>
<th>1985</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rank</td>
<td>Grant element</td>
</tr>
<tr>
<td>Australia</td>
<td>1</td>
<td>100.0</td>
</tr>
<tr>
<td>New Zealand</td>
<td>1</td>
<td>100.0</td>
</tr>
<tr>
<td>Ireland</td>
<td>1</td>
<td>100.0</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>1</td>
<td>100.0</td>
</tr>
<tr>
<td>Canada</td>
<td>5</td>
<td>99.0</td>
</tr>
<tr>
<td>Sweden</td>
<td>6</td>
<td>(99.5)</td>
</tr>
<tr>
<td>Norway</td>
<td>7</td>
<td>99.4</td>
</tr>
<tr>
<td>Switzerland</td>
<td>8</td>
<td>99.2</td>
</tr>
<tr>
<td>Finland</td>
<td>9</td>
<td>98.4</td>
</tr>
<tr>
<td>The Netherlands</td>
<td>10</td>
<td>97.6</td>
</tr>
<tr>
<td>Belgium</td>
<td>10</td>
<td>(97.6)</td>
</tr>
<tr>
<td>Denmark</td>
<td>12</td>
<td>97.4</td>
</tr>
<tr>
<td>United States</td>
<td>13</td>
<td>96.8</td>
</tr>
<tr>
<td>Italy</td>
<td>14</td>
<td>96.0</td>
</tr>
<tr>
<td>France</td>
<td>15</td>
<td>(89.1)</td>
</tr>
<tr>
<td>West Germany</td>
<td>16</td>
<td>88.9</td>
</tr>
<tr>
<td>Japan</td>
<td>17</td>
<td>81.7</td>
</tr>
<tr>
<td>Austria</td>
<td>18</td>
<td>79.6</td>
</tr>
<tr>
<td>DAC countries</td>
<td>(93.2)</td>
<td></td>
</tr>
</tbody>
</table>


NOTE.-Debt relief is not included. Values in parentheses are figures estimated by the Development Assistance Committee (DAC) secretariat.

Alternative to a Military Role: 'Soft' Power

For many years after World War II, Japan was a minor player in international politics, acting passively and unimaginatively on many international issues and
overshadowed by the United States. For instance, despite its keen interest in doing business with the People's Republic of China, Japan refused to recognize the PRC until President Nixon's visit to Beijing in 1971; it then scrambled to reconcile itself with China. The Japanese government believed that as a result of its economic success, Japan had an important role to play in the international community, especially in the economic field. A Foreign Ministry publication in 1987 stated: “Japan is truly at a major turning point in its history, and never before has the Japanese posture been watched as closely as it is today.”

Japan did not hesitate to use its newly found might in the following years and “playing a more active role” in international politics emerged as a major theme in its foreign policy. In 1988, Japan offered to mediate a Vietnamese withdrawal from Cambodia and to dispatch civilians to the proposed UN peace-keeping operations in Iran, Iraq and the Middle East. In 1989, it played host to the talks between Prince Norodom Sihanouk and Hun Sen, Head of the Vietnamese-backed government in Cambodia, in a bid to bring peace to that war-torn country. Its prominence and influence have been increasingly felt in international organisations; for example, it held the second largest voting share and one of the three most senior posts in the International Monetary Fund (IMF) and a Japanese national, Horoshi Nakajima, headed the Geneva-based World Health Organisation during this period.

However, Japan cannot build up the military force that such a world power usually projects. First, Article 9 of Japan's Constitution renounces war and the threat or use of force to settle international disputes, inhibiting to a certain extent the Japanese defense effort. Second, widespread resistance elsewhere in Asia to a resurgence of Japanese militarism and major Japanese rearmament also acts to constrain a Japanese military build-up. The horror of World War II is still fresh in the memories of neighboring countries like China and Korea. Consequently, although the government considers its planned forces inadequate to defend Japan against a massive armed attack, the sheer size of its defense budget one of the largest in the world - has spread ripples of anxiety among its neighbors, some of whom fear that Japan is on road to remilitarization. In addition, the aversion to war and the antimilitarism of the people place limits on Japan's military capacity. With the passage of time, the predominant strains of antimilitarism have been blunted, but post war pacifism still

heavily influences the Japanese public and most of them do not want the country to become a military power again. Moreover, the Japanese seem to have been convinced that "economic, scientific, technological, and social and cultural factors are becoming more and more important in international relations". They further believe that economic strength can turn into political muscle without the addition of a formidable military capacity. Economic aid serves as a political tool, which along with diplomacy, will allow Japan to meet its major foreign policy objectives in the way that military might does for countries like the United States and Russia.

**Economic Security:**

Japan still depends heavily on outside suppliers for energy and raw materials. In 1985 it relied on imports for 80.3 percent of its energy needs in contrast to 11 percent for the United States. Its self-sufficiency rate in energy stood around 19 percent and raw materials imports supply about 90 percent of its wheat, corn, and soya beans. Japan also depends on external sources for practically all of its needs for such minerals as iron ore, copper, lead, zinc, and aluminum. In addition, as a result of its structural adjustment plan, imports of manufactured goods were expected to increase in the future. Japan, of course, exports a significant portion of its goods and services; its exports grew at an average annual rate of 7.3 percent, between 1980 and 1985, compared with 2.4 percent for imports.

Japan's economic well-being is susceptible to events and changes overseas. Its prosperity would be threatened if its supply of energy, food, or other important raw materials were interrupted for an extended period, and sharp price increases in those imported goods would also have an appreciable adverse impact on the Japanese economy. Furthermore, protectionist measures, such as import controls and excessive tariffs by major trading partners, can undermine Japan's efforts to sustain high economic growth. For this reason, Japan is more preoccupied with economic security than many other nations. As it embarked on its second income-doubling program, Japan found the international environment as "increasingly harsh" and it felt that present world economic order in which the country successfully evolved into an economic superpower could be seriously threatened if the present trend

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31 Ibid, p.3.
continues.\(^{34}\) This perception sharpened Japan's sense of economic security and of the need for special efforts to make the "income-doubling" plan successful.

**The Japanese Government's view on Aid during the period 1970-1990:**

In the period, 1970-1990, the Japanese government defended its aid programme by saying that it had been extending it to the less developed countries for their socio-economic development, in spite of their own limited resources and domestic requirements.\(^{35}\) However, Japan extended aid for many reasons that were actually aimed at the attainment of its own national interests. During the 1960s, it was extended to enable the recipient countries to buy more Japanese goods and to promote the country's own political security. \(^{36}\) In 1967, the official declaration was made that the motive of its aid policy was the advancement of less developed countries because it was considered to be essential for the maintenance of both international peace and a viable world economy. The Japanese government considered these as necessary conditions for the continued economic prosperity of Japan. \(^{37}\) By 1973, Japan started taking the official stand that as an advanced member of the world community, \(^{18}\) it was its responsibility to do so.

**Saori N. Katada,** an authority on the Japanese ODA policy, is of the view that Japan was a 'nurturing mercantilist' and 'insecure financier' until the 1980s. As a 'nurturing mercantilist,' the Japanese government advanced its own interests in terms of contracts for Japanese companies and its access to export markets and natural resources. Japanese business interests clearly dominated its foreign aid from the beginning. According to early DAC statistics, 65.7 percent (double the DAC average of 34.8 %) of Japanese aid in 1972 was 'tied' to the procurement of Japanese goods and services. During 1973-74, 59.1 percent of Japanese ODA was allocated to the economic-infrastructure and production sector. Foreign aid, in the form of war reparations, allowed Japanese business to re-enter South East Asian markets, as the country had 'lost' access to China in the 1950s. Katada is of the view that 'request-

\(^{35}\) Ibid, p.16.
\(^{37}\) Japan, Ministry of Foreign Affairs, "Japan's Foreign Aid", (Tokyo, 1967).
based' ODA policy increased the involvement of Japanese businesses since they helped guide Least Developed Countries (LDCs) through ODA programmes. Meanwhile, Japan was considered to be 'nurturing' because by concentrating on physical infrastructure, its foreign aid managed to provide a solid economic base for many LDCs, particularly in South East Asia, and this in turn helped to attract private direct investment from Japan and elsewhere, for industrialisation and increase of exports. Such positive steps contributed to the economic growth and poverty reduction in those countries in the 1980s and 1990s and therefore, those countries managed to achieve rapid capital accumulation. In the early 1990s, the "tied" status of Japanese foreign aid dropped significantly and aid that contributed to sectors other than physical infrastructure—such as social sector and NGOs increased.39

Besides being a 'nurturing mercantilist,' Japan can be termed as having been an 'insecure financier' during its formative years as an ODA donor. The term 'insecure' implies either lacking in confidence or lacking in security, diplomatically or militarily. Even during the first several years of Japan's aid, it assisted South East Asian countries because after World War II, it needed to re-establish diplomatic and economic relations with them. The Japanese government has treated the potentially powerful China in a special way, partly to smoothen out relations after Japan's decade-long invasion and war in the 1930s and 1940s. Japan's 'insecure' relationship with its neighbours led Tokyo to actively finance their development.

Summarising the aid policy of both the periods, we can say that from the mid-1950s to the mid-1970s (first period), Japanese ODA policy served as an extension of its own postwar reconstruction, export promotion, and resource acquisition efforts. Japanese 'economics-first' policy had a dominating role in the aid objectives. From the mid-1970s to the late 1980s (second period), we can observe the beginning of diversification and politicisation. Political objectives which were not explicit in the first period influenced the aid policy significantly, in the second phase. Although, economic objectives for being a donor country was a priority for Japan, yet occasionally, these economic goals were overshadowed by its urgent political objectives, which was largely due to strategic aid for burden sharing and supporting the Western allies in the Cold War.