JAPAN'S DEVELOPMENT AID: ECONOMIC, POLITICAL AND SECURITY CONSIDERATIONS

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In recent years Japan's foreign aid has often come up as both a domestic and an international political issue. Domestically, for example, the propriety of aid to the Philippines became the subject of debate in the National Diet in 1986, and this legislative discussion led to serious questioning of the nation's foreign aid policy. On the international level, meanwhile, the United States has been seeking increases in Japan's aid, mainly as a way to share the cost of promoting international security. And the increase in Japan's official development assistance to the countries of the South Pacific in recent years is said to be partly in response to the increasing presence of the Soviet Union in this region.

Observers have often complained that Japan's aid program is motivated by narrow economic interests. It cannot be denied that in the early stages of the program, which started with postwar reparations, the economic assistance that Japan provided was linked to the expansion of Japan's own exports, especially in the late 1960s. Similarly, after the first oil shock in 1973, Japan's desire to secure steady supplies of energy and other resources affected its aid policy as well.

Over the course of time, however, this self-interest posture became the target of resentment. As the Japanese economy grew in scale, people in other countries expected Japan to do what it could to promote global peace and prosperity. Partly in response to this pressure from abroad, in 1977 the government announced a three-year plan to double Japan's official development assistance. Since then, appropriations for ODA have grown steadily, and they have been exempted from the fiscal austerity drive of the 1980s.
In assistance to Asian countries in particular, Japan surpassed the United States in 1977, and as the figure (1) illustrates, the level of its aid is now much higher than America's. The total ODA appropriation in the draft budget for fiscal 1989 (April 1989 to March 1990) comes to ¥ 1,369.8 billion, or about $10 billion at the current exchange rate. Meanwhile the U.S. ODA budget in the 1989 fiscal year (October 1988 to September 1989) is expected to be at most $9.0 billion. If the disbursement of these appropriations proceeds smoothly, Japan will surpass the United States in 1990 to become the world's largest ODA donor.

ODA to Asian Countries from Japan and the United States

Source: OECD Development Assistance Committee statistics (calendar years).

Note: Figures represent the total of net disbursements to East, Southeast and South Asia.
Providing aid as a means of fulfilling the country’s responsibilities as a major economic power is itself a significant aspect of Japanese diplomacy. But to date little serious research has appeared on Japan’s aid as a tool of the country’s foreign policy.

Aid is by nature an integral element of foreign policy. The Marshall Plan that the United States undertook after World War II, for example, aimed to help the countries of Western Europe recover and become stronger as a means of countering the influence of the Eastern bloc. Since then the United States has continued to make security concerns an explicit part of its aid policy. Britain and France, meanwhile, have placed heavy weight on the maintenance of the ties with their former colonies through their aid programs.

In the late 1970s, Japan also began to define its aid in terms of its overall foreign policy, taking the provision of aid to be part of the cost of maintaining the country’s “comprehensive security.” And recent years have seen prominent U.S. observers suggesting that Japan should increase the volume of its foreign aid as a way of compensating for the limits on its military spending, which until 1986 was subject to an official ceiling of 1% of gross national product. Former National Security Adviser Zbigniew Brzezinski, for example, proposed that if Japan was going to hold its military spending far below the level of other western countries, it should increase its aid to the point at which the sum of the two reached 4% of GNP. Even after the decision to lift the 1% ceiling, people like former Secretary of State Henry Kissinger have suggested that Japan should still concentrate on increasing its economic assistance rather than defense expenditures.


Alongside this sort of discussion relating Japan’s aid to its defense posture, there have also been repeated calls from abroad for qualitative improvements in the country’s aid program and criticisms of the economic self-interest that it is seen to reflect. Some of the specific complaints are that too little of Japan’s aid is provided as grants (and too much as loans) that not enough is given in the “general untied” category (and too much is linked to exports from Japan).

This international attention is partly attributable to Japan’s huge trade surplus, and it also reflects the onset of what has been dubbed “aid fatigue” among the other major donors of the industrial world. Like it or not, therefore, Japan finds that its aid program involves political and diplomatic issues beyond the realm of purely economic concerns.

In the midst of this growing attention, however, some of what is said about Japan’s aid does not reflect the actual situation. One reason is that perceptions have tended to lag behind the reality, which is that Japan’s ODA has grown sharply in volume in recent years and is gradually improving in quality as well. Also, the fact that aid policy—in particular, the process of deciding how the aid should be distributed by country and what specific projects should be distributed by country and what specific projects should be funded—is mainly in the hands of bureaucratic administrators which has tended to make it hard for observers to determine how the program is being conducted and to discuss it in an informed manner.

In this article it is my intention to shed some light on the actual state of Japan’s aid program as I consider three questions: (1) Is Japan’s aid becoming more political, or “strategic,” in nature? (2) What political and diplomatic considerations go into the formation of Japan’s aid policy? (3) Is Japan’s aid still dominated by commercial interests? I hope that this will offer a new perspective on the issues facing Japan’s aid policy and its political role.

Japan’s Aid: Becoming More Political?

1. What is “strategic” aid?

The term “comprehensive security” was first used officially in expressing the conceptual framework of Japan’s aid policy in 1980. The year before that the Iranians had seized the U.S. embassy in Tehran and taken the Americans working there as hostage, and the
Soviets had invaded Afghanistan. These events had created additional pressure, particularly from the United States, for Japan to play not just an economic but also a political role as a member of the Western bloc, and this pressure also came into play in the formulation of Japan’s aid policy.

In the wake of the December 1979 Soviet invasion of Afghanistan, the Japanese government stepped up its aid to neighboring Pakistan. It also started building up its assistance to Thailand and Turkey, which it similarly defined as “countries bordering areas of conflict.” And in 1981 it declared its intention to strengthen its assistance to “those areas which are important to the maintenance of [the] peace and stability of the world.” The media in Japan took these government moves to mean that the country had embarked on a program of what they termed “strategic” aid.

In the years from 1981 to 1983, the Japanese media gave extensive treatment of South Korea’s appeals to Japan for “security-related economic assistance.” Another area in which security-related aid received a great deal of press attention was the issue of Japan’s assistance to the Philippines in the years following 1984, as the Marcos administration grew increasingly unstable, and after Corazon Aquino became President in 1986, at which point the volume of Japanese aid was greatly increased. Aid to the Philippines was also a major topic of discussion in the Diet. Since this aid was increased partly in response to the wishes of the United States, which viewed the Philippines as a strategically important country, it also brought up the larger issue of defining Japan’s political and economic roles as a member of the free-world community.

The Japanese government—the Ministry of Foreign Affairs in particular—has not officially used the term “strategic aid,” the appearance of which has been limited for the most part to newspapers and other media. The very concept of “strategic aid” lacks a precise definition. Within the Foreign Ministry, in fact, there are some who deny that the assistance that is so labeled has anything to do with military security or with support for existing local

6. This declaration was contained in the Japan-U.S. communique issued on May 8, 1981, after Prime Minister Zenko Suzuki and President Ronald Reagan met in Washington.
governments; one official has suggested that it should be called "peace aid."

In order to discuss whether or not Japan's foreign aid is "strategic," we must clarify what this term means. One point that is clear is that even what might be called "strategic aid" in Japan's case is not military aid, since Japan's assistance to other countries is limited entirely to economic cooperation. Some countries, like the United States, may aim to satisfy military objectives even when they extend economic aid, but in Japan's case the government has been explicitly enjoined, in an April 5, 1978, resolution by the Foreign Affairs Committee of the House of Representatives, to "take all precautions not to carry out external economic assistance of a sort that will be applied toward military use or that will promote international conflict." The committee subsequently confirmed this resolution on March 30, 1981.

When people suggest that Japanese aid is "strategic," what they are apt to mean is that it is being conducted in accord with U.S. strategy. It is true that ever since 1978 Japan and the United States have undertaken repeated policy-planning talks on assistance, supplemented since 1985 by Japan-U.S. consultations between vice-ministers in charge of political affairs. These and the other talks that frequently take place on a working level have served as forums for numerous U.S. requests for Japan to increase its economic aid to countries that America perceives as important for military or diplomatic reasons.

It is also a fact that the United States has in recent years been expecting Japanese aid to play a much larger role, partly because the mammoth federal budget deficit has forced foreign needs to take a back seat to domestic priorities in America. The U.S. government has feared that its diplomatic strategy will be undermined by congressional budget cuts in aid for areas of conflict, like Central America and the Middle East, and for strategically important countries, such as Pakistan and the Philippines. This is the background against which the Americans have been seeking a greater Japanese contribution in aid, particularly to the regions that are of special strategic significance to the United States.

2. Cases of "strategic aid"

To what extent have these American requests affected the actual conduct of Japan's foreign aid program? Let us first consider how
Japanese ODA is distributed by country. One feature that has remained unchanged is the emphasis on other Asian countries (excluding the Middle East), which have been receiving about two-thirds of Japan's net disbursements (62.8% as of 1988). In America's case, these countries' share is less than one-tenth of the total (9.2% in 1987), indicating how much weight Japan places on the region in its aid program.

The table [1] shows in more specific terms how the amount of Japan's aid to specific countries has changed during recent years. The countries in question are those in areas that may be considered "important to the maintenance of the peace and stability of the world." They can be divided into two broad categories. The first consists of countries to which aid increased sharply at some point and subsequently declined or leveled off. Examples of countries to which aid increased sharply at some point and then peaked off are Jamaica (to which aid peaked in 1983), Somalia (1982), and Turkey (1981); countries to which aid went up sharply at a particular point and remained high are Pakistan (since 1980) and Sudan (since 1982).

Table 1. Key Recipients of Japanese Aid ($ billion)

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<td>Jamaica</td>
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<td>2.18</td>
<td>0.03</td>
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<tr>
<td>China</td>
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<td>—</td>
<td>63.39</td>
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<td>0.48</td>
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Source: Ministry of Foreign Affairs.

Note: Figures are for ODA on a notes-exchanged basis. (Aid performance may be measured on any of three bases: net disbursements, exchanges of notes, or pledges. Of these, the measurement based on exchanges of pledges is perhaps the best as an indicator of the workings of political forces on aid policy.)

Aid to the countries of the second group, meanwhile, though showing a certain amount of fluctuation in some cases (particularly
that of Malaysia), has tended to remain steady or increase gradually. Typical of this pattern are China, Indonesia, the Philippines, and Thailand. Aid to South Korea shows a sharp increase in the years since 1983, but large quantities of aid had also been provided in the years up to 1978 that are not shown in the table.

A characteristic feature of the countries of the first group is that developments in international affairs made them important for the security of the Western bloc, with the result that the United States strongly urged Japan to increase its aid to them. The jump in aid to Turkey, for example, reflects the deteriorating situation in Iran in 1979-80, that to Pakistan after the Soviet invasion of Afghanistan at the end of 1979, that to Sudan and Somalia after the increasingly close Soviet involvement in Ethiopia from around 1980, and that to Jamaica after the October 1980 switch from a socialist to a pro-American administration. In each of these cases, the change of circumstances prompted the United States to seek an increase of aid by Japan to the country or countries in question. In this sense it is therefore possible to refer to the increased assistance provided in these cases as "political", in the narrow sense of the term "strategic" in other words.

The second group also includes some countries for which the Americans requested a rise in Japanese aid, as they did for Thailand in 1980 and for the Philippines in 1984. Meanwhile, there are some first-group countries, like Pakistan and Sudan, that might be considered to have shifted to the second group in recent years. The classification into two groups is not static.

We also find cases that are just the opposite of the first group, that is to say, countries to which aid was cut off because of changes in their international circumstances. This might also be considered a type of strategic aid, or rather, strategic non-aid. After the end of the war in Vietnam, for example, that country had become the recipient of around Y 14 billion a year in Japanese aid, but this assistance was suspended following the December 1978 Vietnamese invasion of Kampuchea, and it has still not been resumed.

What should be apparent from this discussion is that even among "countries bordering areas of conflict" there is a difference in Japan's aid policy with respect to first group of countries like Turkey and Pakistan and second-group countries like Thailand. It should also be clear that the 1981 declaration by the Japanese government of its intention to strengthen its aid to "areas important to the main-
tenance of the peace and stability of the world" did not refer to the increase of only narrowly defined political aid (in other words, "strategic" aid) but also included the provision of greater assistance to countries that had traditionally been high-priority targets of Japan's aid program.

3. Cases of political aid

As we have seen above, even in those cases where it may often be suggested that Japan's aid is strategic, the increased assistance is often provided not so much to respond to narrowly defined security considerations as to strengthen its assistance to countries that have been important aid targets for Japan all along.

In this sense it might be possible to consider the 1981 declaration that Japan would strengthen its aid to "areas important to the maintenance of the peace and stability of the world" as mere rhetoric reflecting no change from its previous policy. This declaration was significant, however, as an explicit statement by Japan of its intention to do its part as a member of the Western bloc.7

In practice, Japan's doing its part as a "member of the Western community" is also a concept subject to varying definitions. It does not refer only to the provision of "strategic" aid. Be that as it may, it is natural to see this desire to do its part as a factor behind Japan's affirmative response to U.S. requests for additional aid to countries like those of the first group in the table above, which the United States considers strategically important. This sort of positive response has been a way of demonstrating Japan's cooperative stance to the Americans and improving Japan-U.S. relations.

Japan may also be seen to be striving to play its proper role within the Western community when it extends official assistance to countries where the United States, for historical or political reasons, finds it hard to be an active donor. Japan's aid to Turkey and Pakistan, for example, has served to fill gaps left by the Americans: U.S. relations with rival Greece preclude a substantial hike in aid to Turkey, while Pakistan's pursuit of nuclear technology resulted in a temporary freezing of U.S. aid to that country.

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7. "One member of the West" (Nishigawa no ichiin:) is the generally used term. In its 1981 diplomatic blue book (p. 14) the Foreign Ministry used the phrase "one member of the advanced democratic community" (senshin minshushugi shakai no ichiin:) in the 1981 edition (p. 3) the official terminology was "one member of the [community of] free democracies" (jiyu minshushugi shokoku no ichiin:).
Another category of Japanese aid that may be seen as fulfilling a role on behalf of the Western bloc is to communist countries—not only China but also countries like Laos that do not receive any direct U.S. assistance.

When Japan commenced its aid to China in 1979, one body of supporting opinion was represented by the Ministry of International Trade and Industry, which saw China as a major potential market for Japanese goods and a possible source of oil, coal, and other resources. But this was accompanied by the thinking of members of the Foreign Ministry and their sympathizers, who felt that Japan should assist China in its modernization program as a means of strengthening the hand of the pragmatists within the government and thereby helping keep China in line with the Western bloc on major foreign policy issues. Japan is also continuing to provide assistance in the form of grants to Laos as part of its own efforts to contribute to stability in the Indochinese Peninsula. The aid to these countries, though it has run into some opposition within the Association of Southeast Asian Nations, may be seen as an action on behalf of the Western bloc, in particular the United States which is not in a position to offer aid to such countries itself.

The main target of Japan's ODA program is the ASEAN member countries, which are also in an area "important to the maintenance of the peace and stability of the world." The volume of this aid increased sharply starting in 1978. This was a time when the U.S. commitment to Southeast Asia had decreased following the end of the Vietnam War. The increase in Japanese aid represented an attempt to increase the "resilience" of ASEAN by assisting the economic development of its member states. As mentioned above, Japan suspended its aid to Vietnam in the wake of that country's December 1978 invasion of Kampuchea, after which it sharply increased assistance to Thailand. And following the assassination of Benigno Aquino in August 1983, as the internal stability of the Philippines rapidly deteriorated, Japan provided large amounts of commodity loans, and it further increased its aid after Corazon Aquino became President in 1986 in order to promote the country's economic and political stability.

The first objective of Japan's aid to these countries is to help them develop their economies and improve the welfare of their people; over the long run this is expected to contribute indirectly to regional political stability. In this sense the assistance extended to
the countries of the second group described above, such as China
and the ASEAN members, may be seen as political aid in the broad
sense of the term.8

The concept that assisting the developing countries should
indirectly contribute to regional political stability has long been
part of Japanese thinking on aid policy. As early as 1959, in the
third edition of its diplomatic blue book, the Foreign Ministry
wrote that “the economic development of the less advanced
countries is of extremely great significance for the achievement of
permanent world peace.”9

In the years following 1965, the Japanese government rapidly
stepped up its concessional lending of yen funds to developing
countries. In particular, the commencement of yen loans to South
Korea and Taiwan in 1965 can be seen as a reflection not only of
the fact that Japan’s economy had grown to the point that there
were enough extra funds to make such lending possible, but also
of an awareness of the need to make up for the decrease in the
United States’ economic assistance to these two countries as its
deepening involvement in the Vietnam War took up more of its
resources.

This same period also saw a rise in Japanese aid to Indonesia,
where in a de facto military coup d’etat the anti-American President
Sukarno saw his power taken over by General Suharto, who set up
a more pro-American administration.

It is thus apparent that political considerations, as broadly
defined, played a role in the formulation of Japan’s aid policy even
in the 1960s. Japan had already started providing assistance
designed to show its cooperation with the United States and its
awareness of its role as a member of the freeworld community well
before the current decade. It is not accurate to see Japan’s aid
policy as having suddenly taken on strong political overtones in
the 1980s.

Aid Policy Making: The Facts Behind Political Input

(1) The bureaucratic process of aid distribution

If, as suggested above, the provision by Japan of political aid
is not as much of a special recent development as is generally

9. *Gaiko seiho*, 1959, p. 27
thought and cannot be explained simply as a response to US requests, then what are the political and diplomatic considerations that have gone into Japan’s aid policy? To answer this question it is necessary first to look briefly at the decision-making process behind Japan’s official development assistance.

In Japan’s case, the bureaucracy plays a large role in the formulation of ODA policy, and the legislature is not greatly involved in the process. The situation in Japan thus contrasts sharply with that in the United States, where Congress plays a major part in determining the specifics of foreign aid policy. The appropriation for ODA in the draft budget presented by the government to the Diet every year is the sum of the individual categories of aid, such as loans, grants, and technical assistance, proposed by various ministries and agencies. The extent of the Diet’s involvement is to consider the total ODA budget and the amounts sought by each government organ. The decisions on how much aid will go to which countries and what particular projects will be funded are left up to the administration; exchanges of notes with other governments concerning the provision of loans and grants are authorized by administrative decision and do not require individual legislative approval.

On occasion, to be sure, the nature or amount of aid being provided to a particular country may turn into a political issue and become the subject of questioning in the Diet, as was the case with Japan’s assistance to the Philippines in the final years of the Marcos administration. In almost all cases, however, the legislature is satisfied with an after-the-fact explanation of the aid agreements into which the government has entered.

The political and diplomatic considerations that go into the formulation of Japan’s ODA policy are therefore mainly those of the bureaucrats who dominate the decision-making process. Let us look a bit more deeply into the mechanics of this process.

The country-by-country distribution of Japan’s ODA is handled basically on an incremental basis, with the previous years’ appropriation levels serving as the starting point. The two major categories of Japan’s ODA are yen loans and grants. The decisions on the amounts and recipients of the yen loans each year are made primarily through discussions among four government agencies: the Ministry of Foreign Affairs, Ministry of Finance, Ministry of
International Trade and Industry, and Economic Planning Agency. But in practice the greater part of the loan budget is predetermined. There are a number of countries that receive yen loans on a regular annual basis, and the amount of each year's lending to them is based on the previous year's loans, increased by a percentage matching the rise in the total ODA budget. And even with respect to the remainder of the lending, the decision makers are constrained by the fact that any sudden cut may adversely affect bilateral relations. As a result, the country-by-country shares of the total yen loan budget tend to change relatively little from one year to the next.

The allocation of grants is handled not through four-agency discussions as with yen loans but at the Foreign Ministry, which consults as appropriate with other government bodies. There is potentially greater scope for flexibility in deciding how to distribute these grant funds, but in practice the previous year's appropriations are, as for yen loans, the starting point for determining the general breakdown among regions and countries.10

The second-group countries described in the previous section and listed in the table are all regular annual recipients of yen loans. Japan considers these East and Southeast Asian nations all to be "key countries" in the context of the distribution of its ODA budget. Their position reflects the totality of their political and economic relations with Japan and has deep historical roots. Many of these same countries, after all, were among the recipients of the postwar reparations out of which the present aid program grew.

(2) The politics of aid increases

Though the country-by-country distribution of the ODA budget may be relatively stable in general, changes do occur when political and diplomatic considerations dictate. The clearest examples of these sorts of considerations at work involve meetings between government heads, as when a foreign leader visiting Japan strongly requests increased aid or a Japanese Prime Minister takes along plans to increase assistance as a "present" when visiting a foreign country.11 Generally a country seeking increased aid will initiate

10. Interview with an aid official of the Ministry of Foreign Affairs.
11. Politicians will also occasionally make requests concerning the foreign aid program, but almost invariably these are either for an increase in the total ODA budget or for funding for some specific project; they do not entail major change in the country-by-country distribution of aid.
its request through working-level channels, and the Foreign Ministry may well approve it for diplomatic reasons. The approval of the Foreign Ministry, however, is subject to the checks built into the four-agency discussion process, particularly the budgetary review of the Finance Ministry. Prime Ministerial decisions can be important in securing an aid increase in the context of this bureaucratic maneuvering.

The tendency is for Japan to attempt to meet the requests for increased aid made by foreign leaders both as a means of maintaining friendly bilateral relations with the requesting country and as a demonstration of Japan's readiness to contribute to the international community as an economic superpower. This tendency applies to Japan's foreign aid in general.¹²

More specifically, the first-group countries described in the previous section have all been the targets of aid increases carried out through the sort of political process that I have just mentioned. These increases may be regarded as "strategic," but the decision to raise the amount of aid in Japan's case is not "strategic" in the American sense, that is to say, a reflection of military considerations. What it reflects is rather Japan's desire to maintain healthy bilateral relations with the United States and to demonstrate its contribution to global security, quiet "diplomatic" concerns, in other words.

Furthermore, it bears nothing that even though political and diplomatic considerations affect the decisions on how much aid to be provided to particular countries, the decisions on how the aid is to be used are a different matter. The determination of how the aid is to be provided and specific projects are to be funded are handled nonpolitically by government ministry bureaucrats and officials of the aid-administering agencies, The Japanese government has adhered firmly to the principle that the assistance is to be in the areas of economic and social infrastructure, and it has also taken care to keep commodity loans from becoming political issues by limiting the purposes for which they may be used. In this sense, even when assistance is provided for "strategic", or narrowly defined political purposes, its actual content is no different from that of the general development assistance that Japan extends to promote economic development and national welfare.

¹² Interview with an aid official of the Ministry of Foreign Affairs.
It is also to be noted that Japan does not increase aid simply because other countries lodge strong requests. To see what sorts of considerations have gone into the political decisions to increase aid, we need to look at the individual cases.

Two examples of such political decisions are the 1979-80 increase in aid to Turkey and the 1983 increase in aid to South Korea. In January 1979, when Turkey’s external debt problem had reached serious proportions and the deterioration of the situation in Iran led to fears of greater Soviet influence in its neighbour, countries like the United States and West Germany requested Japan to increase its aid to that country. The Japanese Prime Minister Masayoshi Ohira played a large part in making the final decision, particularly in 1980. The working-level proposal that year was for an increase only to $80 million, but it was decided that Japan would pledge $100 million in accordance with Ohira’s wishes. Japan’s global role as a member of the Western community was a major consideration behind this decision.13

In the year from 1981 to 1983, South Korea pushed for additional aid from Japan under the rubric of “security-related economic assistance.” The reaching of a final agreement, under which Japan pledged to provide $4 billion over a five-year period is said to have been greatly influenced by the position taken by Prime Minister Yasuhiro Nakasone, who decided to recognize in principle the importance of South Korea for Japan’s own security and to increase the amount of Japan’s offer.14 It seems likely, however, that the desire to improve bilateral relations by demonstrating Japan’s readiness to cooperate in South Korea’s economic development had more weight as a factor than the security element advanced by the Koreans.15

Regardless of the political motivation and possible security ramifications of increased assistance in cases like these, the actual aid provided has been economic, not military. The bulk of the 1979 yen loan to Turkey went for the building of a dam, and the debt-relief measures and substantial commodity loans that have been provided to that country since 1980 have all been for the purpose of

bringing about short-term economic benefits. And while South Korea raised the issue of security in its aid request, as a donor Japan held to position that its assistance was for economic development. The projects funded by yen loans were mainly for improvements in the country's social infrastructure, including the construction of waterworks and sewage disposal plants, a multipurpose dam, and disposal facilities for urban waste.

More recently, in the summer of 1987, when several Western countries sent minesweepers and other naval vessels to the Persian Gulf to make it safe for shipping, Japan was also expected to do its part. The measures that Japan adopted in October were not military: They consisted of paying the cost of installing high-accuracy radio aids to navigation, promising to contribute financially upon the establishment of an international peace-keeping framework for the region, such as a team of U.N. cease-fire observers, and providing about $500 million in economic and technical aid to Oman, Jordan and other countries of the region. This is another increase for political reasons.

Latin America is an area in which the U.S. government and American banks have special interests, and Japan's recycling of funds to this region was announced when Prime Minister Nakasone visited the United States in September 1987 as one example of how Japan was shouldering its international responsibilities. The untied grants to Africa are intended to counter the criticisms heard in Europe and America that Japan's aid is overconcentrated in Asia and that it aims to further Japan's own economic interests.

Though different political or diplomatic considerations may be at work in each of these individual cases, Japan has maintained a consistent policy of limiting its aid to economic development purposes. It is not "strategic" aid in the sense that America's aid is with its emphasis on security concerns.

When Japan provides aid, its intentions are, first, to cooperate in countries' economic development as a means of strengthening bilateral relations with them; second, to foster international economic stability and thereby promote Japan's own economic well-being; and third, to fulfill a part of its international responsibilities by indirectly contributing to the political stability of the countries receiving aid. In a 1981 document the Foreign Ministry expresses Japan's aid philosophy concisely, describing ODA spending as "the
cost of building an international order so as to achieve comprehensive security for Japan."\(^{16}\)

**Commercial Interests: Myth or Reality?**

In the former section, I have outlined what political and diplomatic considerations go into the formation of Japan’s aid diplomacy. However, there are many arguments that Japanese aid policy has been driven solely by economic interests, by a desire to expand exports, to acquire natural resources and so forth. Such arguments often neglect the development of Japan’s aid program over the past ten years. Nonetheless, they are widely accepted. They are based on the idea that the Japanese are “economic animal”, and that the Japanese government does not consider the welfare of the recipient countries, but only the prosperity of its own country in its aid program. In this section, I will examine to what extent, if any, this argument is valid.

Analysts differ over who determines the supposed economic objectives in Japan’s aid. Most point to Japanese companies which want to expand their exports: Japanese firms and trading companies find specific aid projects in recipient countries, submit aid proposals to the Japanese government, and then lobby in Tokyo for the projects that would require procurement orders from their companies. These companies are aided by influential politicians, and the aid bureaucrats then accept and carry out aid allocations to those projects.\(^{17}\)

To assess the role of companies in making aid policy, we should examine the following two questions: (1) What is the influence of companies on the decision-making process of Japan’s aid, and (2) What is the role of Japanese companies in finding aid projects in the recipient countries.

**\(^{(1)}\) The influence of companies on aid policy decision-making**

Historically, it is true that Japan’s aid policy has been influenced by economic or commercial interests. Many analysts argue that

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Japan's reparations and aid to the Asian countries led directly to an expansion of Japan's exports to that region. There are, in fact, some cases in which Japanese firms influenced procurement orders of tied aid (loans and grants tied to Japanese goods and services). However, Japan's aid program has changed considerably in recent years.

For instance, it is true that most of Japan's grants and loans were tied to the purchase of Japanese goods. However, there has been significant progress in the untying of the Japanese government's yen loans since 1978. In January of that year, the Japanese government announced that it would promote "general-untied" loans, which permit procurement of goods from any country. This was a measure to reduce Japan's huge trade surplus and soften the Japan-U.S. economic conflict. 18

Almost half of Japan's untied aid is "LDC untied", loans which can be used to buy goods from Japan and from less-developed countries. Still, Japan is criticized by other advanced countries for not untying more of its aid. But, in 1987, 72.1% of Japan's loans were untied. This is relatively high in comparison with other advanced industrial countries; for example, the proportions of untied loans were 57.4 per cent for West Germany, 45.4 per cent for the United States, 55.6 per cent for France and 38.0 per cent for the United Kingdom.

Moreover, the Japanese ODA included in the $20-billion capital recycling plan announced at the Venice summit in June 1987 consists entirely of general untied loans. Also in 1987, the Japanese government announced that it would provide $500 million untied grants to African countries for three years. This is the first case in which grant aid was untied. Is it really true that Japanese firms are involved in the decision-making and implementation of the official ODA program? Firms are not formally involved in determining loan allocations by the Japanese government. However, four ministries, including the Ministry of International Trade and Industry consult on aid policy, so commercial interests may be reflected in the aid program through MITI.

For example, in the case of aid to China in 1979, it was an important decision whether or not the aid was to be untied. The

initiation of Japan’s aid to China in 1979 concerned other advanced countries who feared that Japan would monopolize the Chinese market by giving a large amount of aid (47 million yen over seven years). The U.S. and some European countries requested that the Japanese government make its loans to China general untied loans. The Ministry of Foreign Affairs promoted general-untying of its loans, but this was strongly resisted by business circles and the MITI. In the end, the loans were in LDC-untied.\textsuperscript{19}

In contrast, the decision to promote general-untying of Japanese loans in January 1987 was made in spite of strong opposition from business circles and the MITI. The influence of the business community on Japan’s aid policy has not been as strong in recent years as is commonly asserted internationally against Japanese “economic animalism” and the “Japan Inc.”

On the other hand, there are some cases in which companies are aided by influential politicians. Companies often request politicians to intervene in specific decisions on aid projects or procurement, for instance, and it is reported that some “nouringiin” (Dietmen who have special interests in agricultural issues) pushed government officials to build water systems as aid projects in the Philippines, Bangladesh and Nepal at the request of Japanese companies which had commercial interests in building them in the recipient countries.\textsuperscript{20}

Japan’s aid projects are in principle based on the requests from recipient countries. Procurement orders for projects funded by general-untied aid are offered for public tender in the recipient countries, not in Japan. Whether Japanese companies can get orders for aid projects from the recipient government depends on their competitiveness in price and skill, or their effort in finding good projects, and not their special relationship with the Japanese government or politicians. In effect, the process of untying Japan’s ODA has reduced the influence of private companies on Japan’s aid allocation.

(2) The role of companies in the recipient countries

The role of Japanese companies in devising and implementing aid projects in the recipient countries should be examined. The effect of untying Japan’s loans will encourage Japanese companies to approach the recipient governments to get the procurement orders

\textsuperscript{19} Niho K\textsuperscript{n} Keizai Shinbun, October 25, 1979.

\textsuperscript{20} Interview with an aid official of the Ministry of Foreign Affairs.
Japanese companies, in fact, are actively trying to develop aid projects in the recipient countries in order to get procurement orders. For instance, there was strong criticism in the National Diet in 1986 of Japanese companies in the Philippines that offered large bribes to officials in the Marcos regime.

However, one reason for Japanese participation in the aid process is that many recipient governments do not have sufficient ability to formulate aid projects. Japanese companies are helping them in developing projects. Another reason is that the Japanese government has a limited staff responsible for aid policy in the recipient countries, particularly in contrast with the large number of personnel from the U.S. Agency for International Development (USAID). In that sense, the participation of representatives from Japanese companies in the process of developing and implementing aid projects in the recipient countries has a positive and important role in Japan's aid system.

On the other hand, although Japan decided in principle to untie its loans in 1978, 40-50 per cent of the procurement for these untied loans has been, in fact, secured by Japanese companies. This figure is not very high compared with other donor countries. But, it cannot be denied that the increase in Japan's ODA will lead to an expansion of Japan's exports to the developing countries. It will also result in closer economic ties between Japan and the recipients.

This will likely to give rise to political frictions between Japan and other advanced countries. For instance, increase of Japan's aid to Turkey, which is a typical case of 'strategic aid', may have helped Japanese companies to get procurement orders for the Second Bosporus Bridge in 1985. Furthermore, the competition over the procurement order for that bridge brought about a diplomatic problem between Japan and the United Kingdom.

"Aid friction", which is caused by the precautions against expanding its exports to developing countries by increase of aid, seems to be increasing between Japan and other donor countries, as Japan is rapidly increasing its aid to become the world's number one donor, while other advanced countries are decreasing their ODA (in so called "aid fatigue").

21. Interview with an aid official of the OECF (Overseas Economic Cooperation Fund).
22. Nihon Keizai Shinbun, May 2 (Evening), May 22, May 24, May 29, 1985
Conclusion

Since the late 1970s, the relative growth of Japan’s economic power, along with the occurrence of incidents like the Soviet invasion of Afghanistan, have increased the pressure on Japan to play a political role as a member of the Western community. The Japanese response, as we have seen, has been to strengthen its aid to “countries bordering areas of conflict” and “areas important to the maintenance of the peace and stability of the world.” The distribution of Japan’s ODA has in fact changed to a certain extent, and there is an increasing number of cases in which Japan provides aid to particular countries in line with American requests. The general view is that this means Japan’s aid is becoming more ‘strategic’ in orientation.

If, however, we look more carefully at the political and diplomatic considerations involved, we find that even in cases where there has been a U.S. request, this is not the only factor behind the provision of aid. Japan’s own desire to maintain good relations with the country in question and to demonstrate its readiness to fulfill its political responsibilities also come into play. Furthermore, the main recipients of Japanese assistance continue to be those countries to which Japan has traditionally directed a large portion of its aid, mainly its Asian neighbors. And even when increased ODA is provided in response to diplomatic considerations, Japan continues to maintain its policy of extending it in the form of economic assistance. In this respect Japan’s stance is quite different from that of the United States, which stresses military security concerns.

At first glance this might be taken to mean that Japan’s aid program is independent of political considerations. In fact, the exclusively economic nature of the aid program is itself a clear statement of Japan’s definition of its own national interests, including its position concerning the nature of international relations and its view of the role it can play in the context of global realities. A world free of military conflicts is to Japan’s advantage, and since it does not possess military power of its own as a means of resolving such conflicts, the provision of economic aid is a major pillar of Japan’s “comprehensive national security” policy.

Toward the end of his book The Manner of Giving: Strategic Aid and Japanese Foreign Policy, American political scientist Dennis
Yasutomo describes Japan's aid policy as a "hybrid" that reflects both its recognition of the forces of Realpolitik and its striving for a world of "complex interdependence." This policy, in other words, has two sides: It is a means of coping with the realities of today's power politics, but at the same time it is part of a fundamental strategy that aims to create a different sort of system, one where security will be based not on military might but rather on the shared economic and social interests of the international community.

When he was President of the World Bank, Robert Macnamara often said that economic development is the best form of security. It may also be suggested that the best defense for Japan is to contribute to the economic and political stability of the developing countries by aiding their development. In this sense, economic assistance is a necessary part of the "diplomacy of peace" through which Japan seeks to protect its own interests, and the growing role of Japanese aid may be expected to contribute to the real security both of Japan and of the entire international community.

However, the provision that the increase of economic assistance to developing countries will always lead to harmony and friendship is not true. Increase of economic aid can be regarded as a use of economic power and may cause political conflicts not only with the recipients but also with other donor countries as seen in the cases of "aid frictions". There exists the difficulty of aid diplomacy in that point, and that is the reason why Japan is now in search of the comprehensive "strategy" which calculates and balances the economic, political and diplomatic effects of aid.