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THE POLITICAL ECONOMY OF
JAPANESE OFFICIAL DEVELOPMENT ASSISTANCE
IN THE CHANGING CONTEXT

by

KATSUHIKO MORI, B.A., M.A.

A thesis submitted to
the Faculty of Graduate Studies and Research
in partial fulfillment of
the requirements for the degree of
Doctor of Philosophy

Department of Political Science

Carleton University

Ottawa, Ontario

October 1, 1993

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THE POLITICAL ECONOMY OF JAPANESE
OFFICIAL DEVELOPMENT ASSISTANCE IN THE CHANGING CONTEXT

submitted by

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in partial fulfilment of the requirements
for the degree of Doctor of Philosophy

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Abstract

This thesis examines existing explanations for some of the key puzzles regarding Japanese foreign aid-giving behavior. It will then attempt to develop a more comprehensive explanation of those puzzles through a synthesis of those pre-existing explanations. The first chapter identifies three major approaches to the paradoxes: liberalism, realism, and Marxism. These yield four explanatory frameworks for Japanese Official Development Assistance (ODA): politics of aid, economics of aid (both liberal), politics over economics (realism), and economics over politics (Marxism). These dichotomous frameworks are criticized for being mono-causal in terms of agency or structure and/or mono-analytical in terms of the level of the international system, the state or society. Chapter Two then presents a descriptive historical overview of changes in the disaggregated dependent variable (volume/form, geographical distribution, sectoral allocation, terms/conditions, delivery mechanisms), while referring to the dominant ideas of aid in the respective periods identified empirically. Chapter Three through Six use linear regression analysis to test the predictive power of various independent variables, as suggested by the four explanatory frameworks. The basic conclusion of the statistical analysis is that the explanatory power of the hypotheses generated by each of the four frameworks is variable, though often low, and that the explanatory power can usually be improved by adopting a synthetic causal nexus model, which reflects the relationships between intentional effects of human agency and

unintended effects of political and economic structures, in the time domain. Chapter Seven focuses on the state structure of the aid delivery. The conclusion suggests that both institutional and substantial frameworks of the ODA policy and program need to be restructured if they are to be more responsive to the balanced and sustainable development of the global political economy.

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List of Abbreviations

ADB	Asian Development Bank
AID Plan	Asian Industrial Development Plan
ASEAN	Association of Southeast Asian Nations
ASPAC	Asian and Pacific Council
BHN	basic human needs
BOA	Board of Audit
CFEC	Council of Foreign Economic Cooperation
CIDA	Canadian International Development Agency
DAC	Development Assistance Committee
ECAFE	Economic Commission for Asia and the Far East
ECFA	Engineering Consulting Firms Association
EPA	Economic Planning Agency
Ex-Im Bank	Export-Import Bank of Japan
FASID	Foundation for Advanced Studies on International Development
FILP	Fiscal Investment and Loan Program
GNP	Gross National Product
IDA	International Development Association
IDE	Institute for Developing Economies
IDEAS	Institute of Developing Economies Advanced School
IGGI	Inter-Governmental Group on Indonesia
JAIDO	Japan International Development Organization
JETRO	Japan External Trade Organization
JICA	Japan International Cooperation Agency
JSP	Japan Socialist Party
Keldanren	<i>Keizai Dantai Rengokai</i> or Federation of Economic Organizations
LDC	less developed country
LDP	Liberal Democratic Party
LLDC	least developed country
MAFF	Ministry of Agriculture, Forestry and Fisheries
MCA	Management and Coordination Agency
MEDSEA	Ministerial Conference on the Economic Development of Southeast Asia
MFA	Ministry of Foreign Affairs
MITI	Ministry of International Trade and Industry
MOF	Ministry of Finance
MSAC	most seriously affected country
NGO	non-governmental organization

NIE	newly industrializing economy
OAU	Organization for African Unity
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
OECF	Overseas Economic Cooperation Fund
OOF	Other Official Flows
OTCA	Overseas Technical Cooperation Agency
PARC	Policy Affairs Research Council (of the LDP)
PF	Private Flows
SAL	structural adjustment loan
SECAL	sectoral adjustment loan
UN	United Nations
UNCED	United Nations Conference on Environment and Development
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
USAID	United States Agency for International Development

INTRODUCTION

Research Questions

Why do countries, including Japan, provide foreign aid? Some regard aid as one of the political weapons of the nation.¹ Others build the moral case that rich nations ought, for ethical reasons, to provide aid to poorer ones.² Still others say that foreign aid is, in essence, a businessman's program based on capitalist values to protect declining industries, or to promote ascending industries.³ In other words, at least three intertwining motivations for providing aid are usually recognized: politico-strategic, humanitarian, and economic.⁴

In terms of motivations each partially answers the question, but there is no necessary connection between intent and result. Consequently, these interpretations of aid provide little help in responding to the following question: why does the same country give aid differently across time and across space? The answers to this question are basic to understanding the changing nature of

¹Hans J. Morgenthau, "A Political Theory of Foreign Aid," American Political Science Review 56 (1962), 301-309.

²Roger C. Riddell, Foreign Aid Reconsidered (Baltimore: The Johns Hopkins University Press, 1987).

³Ensign argues that Japanese aid is channeled to the strong sectors, in which Japanese firms have a comparative advantage. Margee Ensign, Doing Good or Doing Well: Japan's Foreign Aid Program (New York: Columbia University Press, 1992), 84.

⁴Kim R. Nossal, "Mixed Motives Revisited: Canada's Interest in Development Assistance," Canadian Journal of Political Science 21 (1988), 35-56.

foreign aid. The present research identifies a number of key puzzles about Japanese foreign aid, and attempts to explain why and how Japanese aid has altered in what appears to be a paradoxical way. The research agenda is summarized into five paradoxes.⁵ The first four issues are concerned with substantive aspects of Japanese Official Development Assistance (ODA), the fifth with a procedural one.

Forms and Volumes

Why and how did Japan, a former aid-receiving country, increase the volume of its ODA and become one of the world's largest donors? Despite this increase, why does Japan's ODA/GNP ratio remain stagnant? Why did Japan come to extend more yen loans than grants, though its aid program had evolved from grant-like reparations? Why did Japan provide more bilateral than multilateral aid, in spite of its official "UN-centered" foreign policy?

Geographical Distribution

Why did Japan concentrate its ODA on Asia, and why did this regional "core power" subsequently begin to diversify the geographic focus of its ODA?

Sectoral Allocation

In accordance with liberal theory, program aid is provided to the trusted recipient governments, while project aid is the common form when a sophisticated development plan and administrative

⁵These five aspects are usually described by the DAC and liberal observers of aid. For instance, see Martin Rudner, "Japanese Official Development Assistance to Southeast Asia," Modern Asian Studies 23, 1 (1989), 73-116.

apparatus is lacking in recipient countries. While most Japanese aid recipients, especially Asian Newly Industrializing Economies (NIEs), have attained notable success, why did large-scale project aid, in particular for economic infrastructure, dominate Japan's ODA programs? Moreover, how and why did Japan actively choose specific sector projects, while outwardly insisting on the reactive principle of responding to requests?

Terms and Conditions

Why has the proportion of Japan's grant aid and the grant element of Japanese ODA remained low? If this is explained by Japan's mercantilism, why and how did the "business-oriented" state come to have a relatively lower proportion of tied aid when compared to other major OECD donors?

Delivery Mechanisms

Why did the Japanese state, which is often described as "reactive," not set up a single, powerful ODA agency in responding to outside pressures? In contrast, if Japan is a "stateless nation," why and how was Japanese aid guided in a specific direction?

Significance of the Study

This study approaches these paradoxes by adopting a political economic perspective, which recognizes recent substantial changes in international relations and responds to theoretical development in the social science. Political economic perspectives are attractive because they invite merger with existing approaches toward a

genuinely causal theory of foreign policy.⁶ It seems that the central problem in the existing approaches stems from their tendency to resort to conceptual dichotomies, such as "left versus right," "legislative versus executive powers," "state versus society," "parts versus whole," "tradition versus modernity," and "center versus periphery."

The dichotomous approach was especially prevalent in the context of the bi-polar relations of the Cold War. Traditional Western social science, rooted as it is in conceptual dichotomies, finds itself in difficulty with the end of the Cold War and the multiple and rapid transformations that the world is facing. The theme running through the present analysis is that the meaning, causes and prospects of Japan's foreign aid can all be understood using a triangular, or tri-polar framework of political economy. Triangular attempts as such would respond to five metatheoretical research problems: the nature of political economy; epistemology; the agent-structure problem; the level-of-analysis problem; and history.

The present study will deal with the question of what is political economy, by starting with Robert Gilpin's conception of competing ideologies in political economy. After analytically applying Gilpin's conceptualization to Japanese ODA decisions, this thesis will propose a synthesis of those pre-existing approaches to the study of political economy.

⁶See discussion by Bruce E. Moon, "Political Economy Approaches to the Comparative Study of Foreign Policy," in Charles F. Hermann, et al. (eds.), New Directions in the Study of Foreign Policy (Mass.: Allen & Unwin, 1987), 33-52.

Different scholars have arrived at different categories by characterizing "separate tables" or "paradigms" not only by ideological differences, but also by epistemological and ontological breaks.⁷ The Kuhnian notion of incommensurability is often used to explain the discontinuous nature of knowledge progress, and the absence of a debate across paradigms. However, if social science is defined as an intellectual process connecting ontology to epistemology, the positions of major islands of the social science theory can be understood relative to one another, and an inter-paradigm debate becomes possible.

Social science is united at least by the object of, or the subject for research, that is human behavior. Since human nature is not stationary, political and social behavior is also dynamic. In order to understand and explain the complexity of human behavior, three major scientific methodologies were developed within the Western social science scholarship. The first methodology originating from Bacon is empirical induction or verification. It assumes that scientific knowledge as a concrete whole can be acquired through observation. The second methodology originating from the time of Descartes is deduction or falsification, in which a universal, abstract hypothesis is assumed to be true unless counter-evidence is found. The third methodology is derived from the Verstehen tradition since Dilthey, which understands a specific meaning of inter-subjectivity. Each

⁷Gabriel A. Almond, "Separate Tables: Schools and Sects in Political Science," PS: Political Science and Politics (Fall 1988), 828-842. For further discussion on comparative politics theory, see, for example, Ronald H. Chilcote, Theories of Comparative Politics: The Search for a Paradigm (Boulder, Colorado: Westview Press, 1981). For international relations theory, see K. J. Holsti, The Dividing Discipline (Mass.: Allen & Unwin, 1985).

methodology alone is not sufficient to solve puzzles, and therefore a combination of the three methodologies based on deeper philosophies can be employed to minimize the risk of reaching erroneous conclusions. Combining the three methodologies complementarily is the essence of what Takatoshi Imada called methodological triangulation.⁸

It is ahistorical and not sufficient to understand the reality of social phenomena simply by employing static triangulation. To go beyond a static taxonomy of reasons to provide aid, it is argued, the foreign aid phenomenon must be understood as a dialectical relationship between the intentional effects of human agency and the unintended effects of deep-rooted structures.⁹ By structures, following Anthony Giddens, I refer to recurring frameworks or "rules and resources" which enable agents to act and which delimit the course of possible action.¹⁰ By human agency I refer to meaningful action by individual agents, who have reasons and motives for that action, and to some extent are able to act with purpose. A dialectical relationship denotes the dynamo generating historical processes and

⁸A Japanese social theorist argues that the limitation of the existing formal functionalist theory stems from the parsimony that impedes reflection, and attempts to restructure social theory by "methodological triangulation." According to Imada, methodological triangulation is similar to the activities of Sherlock Holmes: detective's observation, breaking an alibi, and understanding of the motive of a crime. This analogy is defensible because both Holmes and social scientists tackle the full complexity of human behavior. See Takatoshi Imada, Jiko Soshikisei (Tokyo: Sobunsha, 1986).

⁹Alexander E. Wendt, "The Agent-Structure Problem in International Relations Theory," International Organization 41, 3 (1987), 335-370.

¹⁰For critical examinations of Giddens's structuration theory, see David Held and John B. Thompson (eds.), Social Theory of Modern Societies: Anthony Giddens and His Critics (Cambridge: Cambridge University Press, 1989).

trajectories through the fusion of agents and structures. This dialectical relationship resembles a chemical response, an interaction between chances and constraints, rather than a physical mixture. Institutions can be viewed as catalysts that intervene in dialectical processes but themselves undergo little change.

To understand this relational dialectic it is important to focus on the nexus of the international system, the state, and domestic society.¹¹ In so doing, this study will contribute to bridging the gap between the international relations and comparative politics literature. Although the two fields were distinguished by the level of analysis, this is becoming increasingly untenable because of the erosion of the distinction between foreign and domestic issues in the real world.¹² In this context, a multi-level and multi-variable explanatory framework is called for, and this study attempts to respond to such a demand by examining and constructing explanations of foreign economic policy at the three levels. At the same time, this study will also contribute to spanning the cleavage between the Western and Japanese political science literature by critically applying Western social science theory to the phenomenon of Japanese political economy.

This study asserts that the course of history is changeable, but only to some extent. In other words, history is somewhere between

¹¹This discussion is derived from G. John Ikenberry, et al., "Approaches to Explaining American Foreign Economic Policy," International Organization 42, 1 (1988), 1-13.

¹²See James N. Rosenau, "New Directions and Recurrent Questions in the Comparative Study of Foreign Policy," in Hermann, et al. (eds.), New Directions in the Study of Foreign Policy, 1-10.

unpredictable "clouds" and predictable "clocks."¹³ By taking account of the causation at the three levels of analysis, we can learn to what extent, under what conditions, what factors at what level are relatively important and interrelated to each other. The student of social sciences should be sensitive to the possible impact of research on social practices at these levels from the wider perspective of history. First, the analysis of the world's largest donor of foreign aid is particularly important for future development of recipient countries as well as the global community. Second, a comparative analysis of Japanese ODA is worthwhile for international policy-makers to avoid needless friction between Japan and other bilateral or multilateral donors. Lastly, the systematic understanding of Japanese ODA policy and program is necessary for the Japanese people who are saddled with heavy taxes but lack information on how Tokyo spends their money, especially in the field of ODA.

Outline of the Study

The overall structure of this thesis is outlined in Table I-1, which reflects dynamic triangulation. Social science starts with a question, a puzzle or a paradox. In order to generate appropriate research questions and to show how this study would extend, clarify or contradict the existing findings, the first chapter reviews critically the aid literature to provide the logic behind the present study. In reviewing the previous works, utilities and limitations of the existing

¹³Karl R. Popper, "Of Clouds and Clocks: An Approach to the Problem of Rationality and the Freedom of Man," in Popper, Objective Knowledge: An Evolutionary Approach (Oxford: Clarendon Press, 1972), and Gabriel A. Almond and Stephen J. Genco, "Clouds, Clocks, and the Study of Politics," World Politics 29 (1977), 489-522.

interpretations are assessed in explaining the key puzzles of Japan's ODA policy and program. In this critique of the literature, the existing approaches will be examined specifically from the perspective of their inability to answer all of the paradoxes raised above.

Although it is a value-laden concept, this study adopts the concept of ODA as defined by the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD).¹⁴ This is not because I agree with the DAC definition ideologically, but because the term ODA is becoming prevalent in Japan as well as other donor and recipient countries and, therefore, it is useful for a comparative purpose. For a sound comparative study and policy debate, it is equally important to distinguish ODA from the term "economic cooperation" or "international cooperation" employed by the Japanese government.¹⁵ One must be cautious about the differences in a variety of the elements used to discuss foreign aid.¹⁶

¹⁴For the DAC, ODA is regarded as part of "development cooperation," together with Other Official Flows (OOF), Grants by Private Voluntary Agencies, and Private Flows (PF) at Market Terms. In the 1969 DAC Review, ODA is defined as "all flows to less-developed countries and multilateral institutions provided by official agencies, including state and local governments, or by their executive agencies, which meet the following tests: (a) they are administered with the promotion of the economic development and welfare of the developing countries as their main objective; and (b) their financial terms are intended to be concessional in character." Regarding the latter criteria, the DAC clarified in 1972 that "it is concessional in character and contains a grant element," which measures the degree of concession, "of at least 25 per cent." See DAC, Development Assistance, 1969 Review (Paris: OECD, 1970), 241-242, and Development Co-operation, 1973 Review (Paris: OECD, 1973), 170.

¹⁵In the Japanese government, the term "foreign aid" has not been defined clearly and officially. The more encompassing notion of "economic cooperation" or "international cooperation" could refer not only to aid relations, but also reparations, investments, and even trade transactions in the broadest sense. Furthermore, MITI once used the term "economic cooperation" to refer to relations between developed countries as well as the North-South

In Chapter Two, the evolution of Japan's aid-giving paradoxes are identified empirically to provide the context for this analysis. In other words, this chapter describes the history of the substantive aspects of ODA decisions as dependent variables. It is not the purpose of this research to examine the economic or political effectiveness of Japanese ODA as an independent variable, although it will raise questions about policy implications for the aid's long-term effectiveness. Critical turning points are articulated in an inductive way by clustering patterns of Japanese ODA performance, procedures and ideas.

The following four chapters deductively analyze the causes, or the independent variables, in the respective aspects of Japanese ODA performance. The main hypothesis of this study is that the different aspects of Japan's ODA dynamics are explained by different combinations of agency and structural factors at the level of the international system, state or society, which interact with one another differently over time. For example, when Japan was a junior aid donor and its volume of aid was limited, it can be hypothesized that the donor state consistently responded to the demand for aid-tying from domestic industries and that the international community permitted it to do so. As the size of the Japanese economy and its foreign aid grows, international pressure for aid-tying will be

relations. Recently, however, the term "industrial cooperation" has been used for the former relations.

¹⁶For instance, the DAC's geographical category of "Asia" includes "the Middle Eastern" countries categorized by the Japanese government. While the DAC data is based on calendar year, most Japanese official data is based on its fiscal year, which runs from April 1 each year to March 31 of the following calendar year. Without recognizing these differences, some of the existing literature discuss and compare data which is incomparable.

stronger and the donor state as well as the Japanese business community may be more likely to accept such a pressure.

In addition to a multi-level and multi-variable analysis, this study hypothesizes that the causal nexus of Japanese ODA starts from the volume and forms of the ODA budget, which are followed by politics of geographical and sectoral distributions and terms and conditions. In other words, the dependent variables form a causal path beginning with quantity, and ending with quality of ODA. Changing characteristics of Japan's development cooperation policies are the reflection of a series of these endogenous decisions as well as exogenous causes.

In recent years, a salient feature of the Japanese ODA program has been a preoccupation with the increased volume, and pace, of ODA flows. The changing magnitude of Japanese economic cooperation since war reparations payments is the subject of Chapter Three. Chapters Four and Five examine competing perspectives of geographic and sectoral allocations of Japanese bilateral ODA. In Chapter Six, the terms and conditions of Japanese ODA loans are explored. A statistical analysis will be conducted in these chapters to test contending models deductively. In addition, to defend the synthetic model and refute alternative explanations, empirical evidence related to the respective aspects of ODA decisions will be tested. The new synthesis proposed will also be elaborated in three patterns of change: long-term, medium-term and short-term.

We cannot fully understand the forms and volumes or geographical and sectoral distribution or terms and conditions of aid without understanding how state and society interact with each

other, within a structural context that leaves some room for agency and which is influenced by structural factors. Therefore, Chapter Seven turns to the negative decision about the process of ODA policy formulation and implementation on the state. Japan's aid administration remains geographically centralized but functionally diffused. The central question of this chapter is why the Japanese state did not, or could not, set up a single, powerful ODA agency like the United States Agency for International Development (USAID) or the Canadian International Development Agency (CIDA). In searching for a theory of the Japanese state, the aid administrative organizations will be analyzed by focusing on intra-bureaucratic, inter-bureaucratic and outer-bureaucratic relations.

The concluding chapter answers the research questions by summarizing empirical results and policy implications. Theoretically, it draws appropriate conclusions concerning the adequacy of existing frameworks and of the key variables whose interrelation appears central in the synthetic model. Practically, this leads to a prescription for the role of Japan's ODA policy and program in the post-cold war world.

Table I-1: Structure of Study

Intro.: Research Question	Why and how did Japan provide its ODA?										
Chap. 2: Evolution of Paradoxes	Performance							Procedures		Ideas	
Chap. 1: Approaches to Political Economy	Liberalism		Realism	Marxism	Multivariate			Chap. 7: Bureaucracy			Conclusion: Summary and Implications
	Economics	Politics	Politics over Economics	Economics over Politics	Causal	Syn.	Time	intra -	inter -	outer -	
Chap. 3: Volume and Form	(system) 3.1.1		(system) 3.3.1	(system) 3.4.1	3. 5. 1	3. 5. 2	3. 5. 3	7. 1. 1	7. 2. 1	7. 3. 1	Conclusion 1
	(state) 3.1.3	(state) 3.2.1	(state) 3.3.2								
	(society) 3.1.2	(society) 3.2.2	(society) 3.3.3	(society) 3.4.2							
Chap. 4: Geographical Distribution	(system) 4.1.1		(system) 4.3.1	(system) 4.4.1	4. 5. 1	4. 5. 2	4. 5. 3	7. 1. 2	7. 2. 2	7. 3. 2	Conclusion 2
	(state) 4.1.3	(state) 4.2.1	(state) 4.3.2								
	(society) 4.1.2	(society) 4.2.2	(society) 4.3.3	(society) 4.4.2							
Chap. 5: Sectoral Allocation	(system) 5.1.2		(system) 5.3.1	(system) 5.4.1	5. 5. 1	5. 5. 2	5. 5. 3	7. 1. 3	7. 2. 3	7. 3. 3	Conclusion 3
		(state) 5.2.1	(state) 5.3.2								
	(society) 5.1.1	(society) 5.2.2	(society) 5.3.3	(society) 5.4.2							
Chap. 6: Terms and Conditions	(system) 6.1.2	(system) 6.2.1	(system) 6.3.1	(system) 6.4.1	6. 5. 1	6. 5. 2	6. 5. 3	7. 1. 4	7. 2. 4	7. 3. 4	Conclusion 4
		(state) 6.2.2									
	(society) 6.1.1	(society) 6.2.3	(society) 6.3.2	(society) 6.4.2							

CHAPTER ONE: Research Program

This chapter offers, first, a critical evaluation of the literature on foreign aid in general, or of Western donors and, second, on Japanese foreign aid decisions. Most existing theoretical approaches are inadequate in explaining the full complexity of Japanese ODA behavior, because they are mono-causal and/or focus on a single level of analysis. To overcome limitations of the existing explanations, an appropriate research program will be established.¹

In terms of causation, there are three major modes of explanation. Agency-oriented theory assumes that individual, organized, or class agents are the major explanatory power. Secondly, structure-oriented theory which supposes that human agents are embedded in social structures. Thirdly and finally, structuration theory synthesizes agency- and structure-oriented approaches.² This classification is deeply related to the problem of what is the most

¹The usage of this term is based on Lakatos's epistemology of "research programme," which assumes that one theory can include a part of the truth content of another theory and thus prospects for scientific knowledge progress by triangulation. See Imre Lakatos, "Falsification and the methodology of scientific research programmes," in Imre Lakatos and Alan Musgrave (eds.), Criticism and the Growth of Knowledge (Cambridge: Cambridge University Press, 1970).

²Although the term "structuration" is narrowly identified with Anthony Giddens's works at the level of society, following Wendt's usage, the term here is broadly used as a label for a theory with the assumption that both agents and structures are co-determined entities with equal ontological status. If structures are defined as unchanged framework or patterns across time, the ontological status of human agents is negligible by definition. Yet, if structures are conceptualized as restructurable by human ideas, they are almost same as structuration. See Wendt, "The Agent-Structure Problem in International Relations Theory," 336.

appropriate unit of analysis. Agency-oriented approaches explicitly or implicitly conceptualize micro-level individuals as being prior to macro-level society, in contrast to structure-oriented perspectives, which presupposes that a whole exists before the parts. Even though some explanatory theories claim to be structuralist at their face value, they tend to reduce their explanations to agents' behavior at the metatheoretical level. This is a problem especially for those who emphasize political or power structures on the basis of Western liberal democracy. On the other hand, those who conceptualize economic structures as determined by non-human materials are structuralists ontologically but still reductionists in terms of culture. This is because their political implications suggest that individuals should, and can be, liberated from economic structures.

In some contexts, however, even institutional and material structures can be chosen purposefully, or reproduced unintentionally, by human actions. It is a matter of degree and condition. In identifying the degree and conditions under which agency and structure are co-determined, it is possible to construct an analytical framework that is comparable in general but contextually specific. Equally important, the agency-structure problem is treated in a dynamic way by abandoning the dichotomous distinction between agency and structure. For structurationists, a dialectic process, or a trajectory, is the unit of analysis.

What is then the most appropriate level of analysis? In explaining foreign economic policy, another set of three approaches are dominant. The first are the international-system-centered approaches. In this view, foreign policy is regarded as a function of

the international system that creates opportunities (classical realism) or constraints (neo-realism or world-system theory) for agency. The second is society-centered explanations, which view foreign policy as either reflecting the interests of the dominant group (elitism) or class (classical Marxism) in society, or as resulting from the struggle for influence between various interest groups or political parties (pluralism). Thirdly, state-centered approaches emphasize the institutional structure of the state, and the capacities of political and administrative officials within it (neo-institutionalism), or the structure of a capitalist state that is determined in the last instance (the theory of the relative autonomy of the state). The present study argues that the most appropriate level of analysis is different depending on the question, and that it is important to look at the nexus of the above three levels to identify it.

1.1 Searching for the Political Economy of Foreign Aid

No matter what kinds of ideological bases or biases they have, the existing theories of political economy rely on the above metatheoretical assumptions. According to its intellectual roots, the literature of political economy is categorized into three: politics and economics; politics of economy; and economics of politics.³ A similar categorization is possible in reviewing contending perspectives on

³This is Gilpin's categorization of three ideologies of political economy: liberalism which assumes that politics and economics exist separately; economic nationalism which advocates the primacy of politics over economics; and Marxism which holds that economics drives politics. See Robert Gilpin, The Political Economy of International Relations (N.J.: Princeton University Press, 1987), especially Chapter 2. Similarly, Inada argues that liberal and realist perspectives on Japan's ODA are dominant, and that political and economic motivations coexist. Juichi Inada, "The Role and Influence of Japan's ODA in International System," International Relations 93 (March 1990), 115-130.

foreign aid. This section considers briefly the previous approaches to political economy of foreign aid, by examining political and economic agent-structure problems. How do they answer the question of why countries give aid? Why? If we accept their theories, then what sorts of utilities and limitations can be logically derived in explaining Japan's ODA policy and program?

1.1.1 Economics and Politics of Foreign Assistance

Among the three clusters of political economic approaches to aid, liberal economic theory was prevalent in the Western academicians and practitioners. This was in part due to the recognition of the effectiveness of the Marshall Plan in rehabilitating Europe, and in part because there were political demands for theory-building as such. In addition, liberal theorists applied their wishful views of the Marshall Plan to non-Western Third World development. Since the international capital market was not expected to work smoothly in the early postwar period, it was argued that rich countries should provide concessional aid as an external source of public capital, in order that recipient countries could facilitate the expected process of growth by temporarily transferring capital, technology, and attitudes. For example, Mikesell summarized the economic theory of foreign aid in accordance with the Keynesian view of investment.⁴ Similarly, Chenery, who worked for USAID and the World Bank, formulated a model of aid as the

⁴Raymond F. Mikesell, The Economics of Foreign Aid (Chicago, Ill.: Aldine Publishing Company, 1968).

independent variable for self-sustaining growth.⁵ This kind of economic theory of foreign aid was constructed on the basis of the so-called Harold-Domar model, in which the rate of economic growth was determined by the rate of investment. According to this theory, income and savings are identified as the key factors for what Rostow called "take-off."⁶

The economic model of aid based on modernization theory was concerned initially with economic growth. And yet, the paradigm of stage-of-growth was soon shared by political scientists and crystallized into political, or institutional, development theory. In the same way that it had been employed by liberal economists, political development theorists argued that Third World societies were in the process of being transformed into a Western type of pluralist democracy. For example, Lipset presented a set of requisites for political democracy in relation to economic development.⁷ Similarly, Apter formulated a unilinear process from the "sacred-collectivity" system to the "secular-libertarian" system through a transitional stage.⁸ In short, despite the difference of economics first, politics first, or a combination of the two, the liberal approaches to politics

⁵Hollis B. Chenery and Alan M. Strout, "Foreign Assistance and Economic Development," American Economic Review 56, 4 (September 1966), 679-733.

⁶W. W. Rostow, The Stages of Economic Growth (Cambridge: Cambridge University Press, 1960).

⁷Seymour Martin Lipset, "Some Social Requisites of Democracy: Economic Development and Political Democracy," American Political Science Review 53 (March 1959), 69-105.

⁸D. Apter, The Politics of Modernization (Chicago: University of Chicago Press, 1965).

and economics postulate that the consequence of growth is "density" in Durkheim's terminology, or "differentiation" in Weber's terminology, at the level of society.

Liberal theories of development share two basic ingredients: "monoeconomics," or monopolitics, and "mutual benefit" claims.⁹ In other words, it is assumed that a unilinear process toward a mass consumption society or liberal democracy is universally valid, and that all individuals and countries can benefit equally from a market economy and contractual politics. These explanations stem from their ontological beliefs that individual citizens can, and do have, the right and power to determine their courses of action unilaterally.

By the 1970s optimistic prospects for a liberal utopia turned into serious disappointment by the widening gap between developed and developing economies. Nevertheless, because of their insistent beliefs of unilinear and unilateral development, some of liberal theorists attributed such unintended effects to "backwardness," "tradition," or "political corruption." Having faced such difficulties, they offered prescriptions of increasing the volume of aid and its efficient and effective use. For example, Lester Pearson, at the request of then World Bank President Robert McNamara, headed the Commission on International Development and suggested a more interventionist policy, such as a call for an intensified effort to increase official and private flows to developing countries in the amount of 1 per cent of GNP of each donor country and effective aid

⁹Albert O. Hirschman, "The Rise and Decline of Development Economics," in Mark Gersovitz et al. (eds.) The Theory and Experience of Economic Development (London: Allen & Unwin, 1982), 372-390.

administration. Later, the United Nations and the Brandt Commission established the ODA "norm" of 0.7 per cent of the donor's GNP. In terms of "quality," the Pearson Commission recommended untied aid for liberal transfer of goods and services, and the DAC set up the 1972 and 1978 "norms" of grant element. In terms of sectoral distribution, basic human needs were emphasized, and in terms of geographic allocation, the focus was to be on lower-income countries. To effectively and efficiently respond to developmental needs in recipient countries, a unified aid agency in the donor country and its representative missions in recipient countries became fashionable trends.¹⁰ In accordance with such norms and trends, pluralists examined public opinion and aid lobby activities within the donor society.

By the 1980s the "successful" growth of the NIEs was also discussed as a vindication of the liberal principles of open markets. Liberal interpretations of the NIEs experience resulted in a new orthodoxy reflected in the structural adjustment loans policy of the International Monetary Fund and the World Bank, which called for limited state-intervention to shift from import substitution to export promotion structures. In spite of their adoption of "structuralism," liberal conception of structures still maintains the agency-oriented assumptions of market efficiency and minimum state-intervention.

For the liberal theorists, the history of Japan as an aid-receiver, appears to provide strong support for their arguments. In fact, the former aid-receiving country's GNP rose at a phenomenal speed

¹⁰George Cunningham, The Management of Aid Agencies (London: Croom Helm, 1974).

during the 1960s and the former undemocratic political system had stabilized by the mid-1950s. However, the explanatory variables suggested by liberal theorists are of very limited value in explaining Japan's behavior as a donor country. For example, the DAC reports repeatedly asserted that Japan's ODA compared to its GNP had remained virtually stagnant over the last three decades, despite its favorable balance of payment situation. Furthermore, the main form of Japanese bilateral ODA has been loans disbursed for middle-income countries. While the DAC has urged Japan to extend more aid to African countries, where "structural adjustment" support was believed to be needed urgently, Japan continued to focus its ODA attention on Asia. Why has the economic giant with a liberal democracy, who should have recognized fully the importance of liberalism, been less than generous in providing ODA based on liberal values? While the major DAC donors increasingly utilized tied grants, they were asking Japan to increase untied aid which they themselves never did. Which is preferable for liberal trading system, untied loans or tied grants? These questions are difficult to answer with a liberal framework that separates two realms of politics and economics.

1.1.2 Politics over Foreign Economic Aid

An alternative explanation concerns political realism in international politics, or conservative elitism in comparative politics, both of which advocate the primacy of politics over economics. As the Cold War between the United States and the Soviet Union intensified, the aid-giving competition became fierce to block the respective political objectives in developing countries. International

political theorists argued that countries gave aid as an instrument of strategic policy to gain advantages for donor's national interests. Morgenthau emphasized the agency of political leaders in donor countries, and asserted that American aid for economic development tended to be counterproductive in creating a stable world order, and political art was to minimize this drawback.¹¹ From a comparative politics perspective, White argued that the concepts of public opinion and aid lobby groups in the donor countries were not very helpful in explaining the aid decision.¹² Disagreeing with the pluralist notion of polity consisting of relatively equal and competing interest groups, he argued that the elites who actually administered aid policy were relatively unified and political power was cumulatively concentrated on their hands.

Political realism's theory of foreign aid has three basic premises in common: power-centrism, state-centrism (state autonomy from the international system), and utilitarianism, all of which form hard core assumptions of political realism in international relations. Similarly, but from a domestic perspective, modern elitist theorists developed an "iron triangle" model of political and economic power. Politico-security and mercantilist approaches to foreign aid are virtually based on the Hobbesian or Machiavellian view of human nature. Rational actors must seek their interests unilaterally in the domestic as well as international community.

¹¹Morgenthau, "A Political Theory of Foreign Aid," 309.

¹²John White, The Politics of Foreign Aid (London: Bodley Head, 1974).

The basic premise of the state autonomy, or what Montgomery called "unilateral policies in bilateral programs,"¹³ has also been modified as the United States and the world faced the crisis in international political economy in the 1970s. To account for this changing situation, Gilpin adopted a structuralist view without destroying the power-centric assumption of political realism. The hegemonic stability theorist hypothesized that hegemony was necessary for international stability, and yet comparative advantages and relative national power were not absolutely static because of the activities of multinational corporations and the bargaining skill of governments. In this way Gilpin explained the decline of the U.S. hegemony and the ascendancy of the Japanese economy. The 1980s, however, saw the relatively less unstable international political economy in spite of the continuing erosion of the U.S. hegemony as prospected by Gilpin. In explaining this anomaly, international regime theories have been formulated as auxiliary hypotheses to protect neo-realist theory. In this view, stable international political economy is temporarily or partially maintained by the already-established international regimes, which are conceived as intervening variables for foreign policy.¹⁴

¹³John D. Montgomery, The Politics of Foreign Aid: American Experience in Southeast Asia (New York: Praeger, 1962), 104.

¹⁴According to Krasner, the relatively stable situation has been maintained temporarily by the international regime that was formed by the hegemon but will eventually be transformed by endogenous and/or exogenous forces. Keohane argues that post-hegemonic stability is possible because states can cooperate in accordance with the already-established regimes. While Krasner focuses on an overall developmental sequence of regime dynamics, Keohane elaborates on the issue-structure of regimes at a specific point of time. Despite this difference, both of them conceive of regimes as an intervening variable and offer a protecting belt for the hard core of

Hegemonic stability theory and regime theory are useful in explaining why the United States was forced to cut back its foreign aid allocations, allowing Japan to surpass it, especially in Southeast Asia. The cooperation between USAID and Japanese aid agencies may be regarded as co-hegemony or an ODA regime. If Japan is not a full co-hegemon but a kind of junior partner providing bilateral aid on a complementary basis to countries not covered by the U.S., as a junior partner it would not need to exercise any leadership. Nevertheless, if Japan is a would-be hegemon, or condominium associate of the U.S.-led regimes, Japanese multilateral ODA, and its inter-donor coordination, should have increased significantly. In reality, however, Japan continues to concentrate on its bilateral ODA and has been accused of lacking international leadership on aid.

Another deficiency of classical realism derives from the assumption that aid is provided by the rational actor of the state. However, aid is not always provided by a unified state, but by a specific agency or agencies within a donor country. While Morgenthau and his followers examined the state in the international system, the state agency and structure were also explored in a domestic politics context. For instance, Allison conceived state action as an "organizational output" or "political resultant" of bargaining among players within the state.¹⁵ Although such an actor model still starts with individual players with interests and purposes, an

hegemonic stability theory. See Stephen D. Krasner (ed.), International Regimes (Ithaca: Cornell University Press, 1983) and Robert O. Keohane, After Hegemony (Princeton: Princeton University Press, 1984).

¹⁵Graham T. Allison, Essence of Decision (Boston: Little, Brown, 1971).

upsurge of re-evaluating the Weberian tradition led to the focus on institutional structures.¹⁶ Tandler, a former USAID economist, observed unintended consequences for technicians due to political and organizational settings.¹⁷ In a different context, but by focusing on bureaucrats, Nossal argued that the Canadian foreign aid program was designed primarily to benefit the interests of state officials, especially of CIDA. If the state is autonomous enough to secure bureaucratic interests, it remained a puzzle why the Japanese state did not create a central aid agency.

Yet, there is another strand of neo-institutionalism. Unlike those who regard the state as *the* independent variable to explain policy behavior, Katzenstein regarded the state as *an* independent variable among other things.¹⁸ In this view, states, as well as social institutions, such as banking and industrial organizations, matter. According to him, policy objectives are explained by "ruling coalitions," and policy instruments are explained by a "policy network." These concepts are still agency-oriented and similar to C. W. Mills' iron triangle, and yet the emphasis on sectoral and administrative guidance of Japan is much more elaborate than vulgar elitist or pluralist analyses. This approach might be useful in explaining why project-type aid, especially for infrastructure

¹⁶From this neo-institutionalist perspective, the state is regarded as collectivity of state officials. See Eric A. Nordlinger, On the Autonomy of the Democratic State (Cambridge: Harvard University Press, 1981).

development, rather than program-type assistance, has occupied Japanese ODA. However, it is necessary to examine the state-society relationship further to explain why some sectors occupy more than others, and how its dynamics transform.

1.1.3 Economics over Political Decisions on Foreign Aid

Another alternative is the Marxist-Leninist interpretation of foreign aid. In this view, economics drives politics, and foreign aid is only a small aspect of a larger phenomenon of modern imperialism or dependency. All Marxist analysis defines class positions and structures in terms of production relations at the level of society. Criticizing Rostow, Frank argued that underdevelopment in Latin American societies was not an original stage but a created condition of imperialism.¹⁹ Similarly, Wallerstein extended Frank's thesis of development of underdevelopment to the world-system level.²⁰ The role of aid can be easily delineated from this line of argument. In this view, as Richard explains, foreign aid is a method by which capital and capitalism are internationalized and integrated into the single

¹⁹For Frank, the Japanese development since the Meiji Restoration was due to the isolation from Western colonialism. Andre G. Frank, Capitalism and Underdevelopment in Latin America (New York: Monthly Review Press, 1967).

²⁰However, there are also some discontinuities in assumptions between Frank and Wallerstein. First, Frank stressed the double-track process of metropolis development and satellite underdevelopment, while Wallerstein emphasized the unilinear view of integrated world-system development. Second, Frank, following the stage theory of classical Marxism, conceptualized world capitalism as a transient stage of historical development, whereas Wallerstein viewed world capitalism having its own internal cyclical dynamics. Third, Wallerstein went beyond Frank's spatial dichotomy, and instead suggested the trichotomous polarization of core, periphery, and semi-periphery.

world economy.²¹ The development of infrastructure with aid funds would contribute to foreign as well as domestic private investment, and the tying of aid creates exports for the donor even after termination of aid. Multilateralization of aid is also explained as a part of a mechanism for a fuller integration of the world economy into one capitalist system. In the classic Marxist sense, humanitarian and interdependence ideologies are regarded as "false consciousness."

Compared to Frank and Wallerstein, Latin American dependency theorists stressed the dialectical formation of a specific internal structure, conditioned by international relationships of dependence. Dos Santos, for example, maintained the Frankian thesis of development of underdevelopment, but emphasized the internal phase of imperialism by reintroducing Marxian stage theory: colonial dependence, financial-industrial dependence, and technological-industrial dependence.²² Similarly, non-Marxist dependency theorists, such as Furtado and Sunkel, argued that without the restructuring of internal complexities state intervention could not rescue national economy from stagnation.²³

²¹Lynn Richard, "The Context of Foreign Aid: Modern Imperialism," The Review of Radical Political Economics 9, 4 (Winter 1977), 43-75. Similarly Hayter argues that "the existence of aid can be explained only in terms of an attempt to preserve capitalist system in the Third World." Teresa Hayter, Aid as Imperialism (Middlesex, England: Penguin Books, 1971), 9.

²²T. Dos Santos, "The Crisis of Development Theory and the Problem of Dependence in Latin America," in H. Bernstein (ed.) Underdevelopment and Development (Baltimore: Penguin Books, 1973), 57-80.

²³C. Furtado, "Elements of a Theory of Underdevelopment," in Bernstein, Underdevelopment and Development, 33-43.

The NIEs phenomenon in the 1970s represented a great challenge to Marx-Leninist and non-Marxist theories of dependency. Cardoso's and Faletto's thesis of dependent development is perhaps a more sophisticated version of dependency theory in explaining this phenomenon.²⁴ Cardoso, as well as other Latin American dependency theorists, emphasized the interrelationship between internal and international factors. In addition, Cardoso and Faletto paid attention to spatial and temporal diversities by taking account of the role of the state. They argued that dependent states in the pre-1930 Latin America acted as an agent for foreign investment, but after the 1929 crisis of world capitalism some peripheral states were able to intervene in the national economy for import-substitution industry, thus making dependent development possible.

The economic development of Meiji Japan, which was delinked from Western colonialism, is evidence to support Frank's argument. Nevertheless, in the new context of Japan as a donor, there emerge some puzzles for the instrumentalist interpretation of Japanese aid. If Japan's big business community is regarded as the dominant class, then why is the extent to which Japanese ODA is tied comparatively decreasing over time? If Japan is the core state in Asia, how has dependent development of Asian countries been made possible? Like the modernizationist temporal dichotomy of "tradition" versus "modernity," Marxist-Leninist theory tends to start with the spatial dichotomy of "center" versus "periphery." If one insists on such a dichotomy, it is difficult to explain the much more diversified reality.

²⁴Fernando H. Cardoso and Enzo Faletto, Dependency and Development in Latin America (Berkeley: University of California Press, 1979).

By looking at the state-society relationship of the donor side, the theory of the relative autonomy of the state would answer that there is a conflict within the dominant classes, but in the long run the capitalist state would serve to reproduce the capitalist system. Compared with what has been called the "instrumentalist" perspective, such a theory is more sophisticated in that it is more cautious about time dimensions.²⁵ On this line of research, Freeman asserted that Canadian aid was given because the Canadian state protected the long-term interest of the dominant class as a whole, especially in periods of crisis.²⁶ According to her analysis, Canadian involvement in northern and sub-Saharan African countries since the 1970s was a good demonstration of the protection of capitalist economic and political interests. Although Canada's conjuncture is markedly different from that of Japan, such an approach is useful in explaining why Japanese ODA has concentrated on Asia. However, the question as to why Japan diversified aid allocation during the 1970s still remains unanswered.

1.2 Review of the Literature on Japanese Aid Decisions

The previous section demonstrated that the terms of political economy and aid are used differently by different scholars in accordance with their respective ideologies, and that the agency-structure problem is not resolved by those ideologies. The following

²⁵For example, Miliband suggested a view of the state within capitalist society. According to this logic, dominant class interests are directly linked to a state's foreign aid policy. In contrast, Poulantzas conceived the capitalist state as superstructure.

²⁶Linda Freeman, "The Effect of the World Crisis on Canada's Involvement in Africa," Studies in Political Economy 17 (1985), 107-139.

section reviews the theoretical works on Japanese aid decisions in terms of the level of analysis. The prevalent analyses can be roughly categorized into state-centrism and society-centrism. One of the most prevalent state-centered models is that of bureaucratic dominance. Another interpretation prevalent in the literature is that of society-centered, or the model of "tripartite power elite" composed of senior bureaucrats, big business leaders, and the Liberal Democratic Party (LDP) leaders.²⁷ Within the respective schools, there have recently emerged new attempts to theorize dynamic changes in Japanese foreign aid. Likewise, the international relations literature has also begun to shift its focus from unchanged, to changing, foreign aid policy behavior. How does the existing literature explain Japan's aid decisions? To what extent can they explain a new context of the world's largest donor's ODA policy? What questions remain unanswered?

1.2.1 State-Centered Approaches

Sakurai outlines legal frameworks and problems of Japan's development cooperation.²⁸ The Japanese law scholar suggests that it is indispensable to understand international and domestic legal structures as well as quasi-international law, such as that between the recipient state and Japanese contractors. Yet, such a formal-legalist analysis of political institutions is essentially descriptive, and

²⁷Fukui discussed the elite-pluralist debate in the studies on Japanese policy-making. Haruhiro Fukui, "Studies in Policymaking: A Review of the Literature" in T. J. Pempel (ed.), Policymaking in Contemporary Japan (Ithaca: Cornell University Press, 1977), 22-57.

²⁸Masao Sakurai, Kokusai Kaihatsu Kyoryoku no Shikumi to Ho (Tokyo: Sanseido, 1985).

ignores the dynamic factors that shape and restructure legal institutions.

Compared to the static legalistic approach, some political scientists focus on the policy process from a comparative perspective. Following the distinction between intentional "policy output" and unintended "policy outcome," Rix asserts that Japanese aid decisions are well explained by a combination of Allison's organizational and governmental politics models. "In the aid policy area," he explains, "policy was not simply a reflection of prevailing political power structures or of social groupings. Rather, the organizational process of routine bureaucratic decision-making proved decisive."²⁹ "Aid policy in Japan," Rix describes, "although it moves in certain directions, is of no determinate shape."³⁰ This is mainly because "Japan's aid administration is diffuse, the line of responsibility blurred and the system of policy formulation and implementation both complex and haphazard."³¹ Rix acknowledges that Japanese aid "policy is derived from the actions of individuals in certain institutional patterns,"³² and only a high political pressure can prompt the changes for the united and effective program. However, since the fragmented parts of the program cannot be coordinated due to the rigid budgeting tradition, he proposes that it was likely that foreign aid would

²⁹Alan Rix, Japan's Economic Aid (London: Croom Helm, 1980), 16.

³⁰Alan Rix, "The future of Japanese foreign aid," Australian Outlook 31, 3 (December 1977), 422.

³¹Rix, "The future of Japanese foreign aid," 426.

³²Rix, Japan's Economic Aid, 16.

remain the "poor cousin" of foreign policy, and trade policy.³³ In short, in the opinion of Rix, bureaucratic interests were the main determinants of Japan's aid policy.

Rix's analysis of Japan's aid policy in the 1970s is still valid in accounting for some aspects of Japanese aid performance, such as the continuing relative geographical emphasis on Asia, in the 1980s and beyond. However, other aspects, including the dramatic increase in volume, are difficult to explain using bureaucratic incrementalism. This is parallel to the recent debate on the Japanese state between mainstream and revisionist Japanologists in North America. Mainstream scholars, such as Calder, have emphasized the responsiveness or "reactive" nature of the Japanese government.³⁴ In contrast, van Wolferen, a revisionist journalist, argues that Japan is a "stateless nation" without a central controller - similar to Rix's view of Japanese aid administration.³⁵ Compared to these extreme views, there is a much more sophisticated debate in Japan. LDP's political leadership vis-a-vis bureaucrats, as the longevity of the LDP government continued for over thirty years, might be increasingly influential in the aid issue as well. To explain the recent complexity of the policy-making of aid, it is necessary to examine the interplay

³³Rix, "The future of Japanese foreign aid," 438.

³⁴Kent E. Calder, "Japanese foreign economic policy formation: explaining the reactive state," World Politics 40, 4 (1988).

³⁵Karel van Wolferen, The Enigma of Japanese Power (New York: Alfred A. Knopf, 1989).

between the state and society, as well as between the state and international system.

1.2.2 Society-Centered Approaches

Yamamoto emphasizes that Japan's economic cooperation was primarily an initiative of businesses. Through an examination of Japan's postwar history, he explains that a business-oriented aid program evolved from the nation's resource-poor, trade-dependent economy.³⁶ Fortunately, or unfortunately, the initiative by the business elite was adopted by the Japanese government, which was supported by the "peace-loving" Japanese people and succeeded in pursuing "economic diplomacy" for export-promotion and resource security. Moreover, according to Yamamoto, this policy was accepted by the U.S. government which suffered from the dollar crisis and decreased its military presence in Asia in the post-Vietnam period, and by the recipient countries in Asia, where Japan's "economic diplomacy" was viewed as less evil than a revivalism of Japanese militarism.

A typical ruling triad model was adopted by Harrell who examined who and what factors determined the volume and geographic allocation of Japanese aid in the period 1954-1970.³⁷ Harrell argued that the most important determinants of the level of the Japanese aid budget were Japanese GNP and trade balance, and that aid allocation were largely determined by economic criteria.

³⁶Tsuyoshi Yamamoto, Nihon no Keizai Enjo (Tokyo: Shakaishiso-sha, 1988).

³⁷Edgar Carson Harrell, "Japan's Postwar Aid Policies," PhD dissertation, University of Columbia, 1973.

Japanese aid during the 1960s, Harrell concluded, was the instrument of the Federation of Economic Organizations (Kaidanren), the Finance (MOF) and Foreign (MFA) ministries, and the LDP factions to achieve domestic economic objectives; it was not due to factors related to humanitarian obligation, pressure from the United States, Third World demands, or political intention of anti-communism. Harrell's elitist view is misleading in conceptualizing different tiers of social actors at different levels. It should be recognized that the Kaidanren existed as the general business organization, the Finance, Foreign and other ministries at the sectoral level, and LDP factions at the socio-structural level. To explain the content of aid policy, a specific policy network should be clarified by looking at the nexus of these three tiers: the business circle at large - bureaucracy in general - the LDP as a party; sectoral business associations - sectorally divided ministries - policy "zoku" of the LDP's Policy Affairs Research Council (PARC); and Keiretsu business groups - bureaucratic factions - LDP factions.³⁸ In any case, like Marxists, the elitist view as such acknowledges the cumulative concentration of power on elites in

³⁸Based on a Levi-Straussian conception of social structure, Chie Nakane, a Japanese sociologist, argued in her book, Japanese Society (London: Weidenfeld & Nicolson, 1970) that vertical (hierarchical ranking) over horizontal (class and status-group) concepts of social differentiations are predominant in Japan. Similarly Takeshi Ishida, a Japanese political scientists, explained in his book Japanese Society (New York: Random House, 1971) that this quasi-familialistic relationship requires strong conformity within a factional group and led to fierce competitions between those factional groups. Thus, Japanese scholars tend to theorize factional structures are much deeper than class structures in Japan. On the other hand, Cox suggests that "class, as determined by relative power in the production process, is a factor in shaping the long-term trends in Japanese social structures just as it is in other societies. But this is class in the objective (*in itself*) sense much more than class as group consciousness (*for itself*)." Robert W. Cox, "Middlepowermanship, Japan, and future world power," International Journal XLIV (1989), 852. I am suggesting here that it is an empirical matter.

society. Unlike Marxists, however, the masses are ignored as the unorganized powerless insufficient to change the hierarchical structure of the ruling triad.

Samejima emphasizes the politics of political parties and pressure groups in Japan's aid policy. According to his view, opposition parties, led by the Japan Socialist Party (JSP), hardened their critical stance against the LDP government and its foreign aid programs which were criticized as inseparably incorporated into the world strategy of the United States.³⁹ Samejima asserts that Japanese aid policy is the result of the LDP's foreign policy responding not only to the U.S. and Korean demands, but also to those of business circles, especially in the oil crisis-induced recession. In particular, pressures from industries, including fertilizers, textiles, electric furnaces and shipbuilding industries, which partook in the enlarged ODA pie were cited as factors.

1.2.3 System-Centered Approaches

Many system-centered explanations emphasize the Japanese position in the international economic structure. Halliday and McCormack explain Japanese as well as other imperialist aid as "only disguised investment or export credits."⁴⁰ They criticize higher interest rates and the tied nature of Japanese official loans to Asia from a radical perspective. They predicted that Japan might soon hit

³⁹Shinsuke Samejima, "Can Japan Steer Its Foreign Aid Policy Clear of Militarism?" Japan Quarterly 29, (1982), 30-38.

⁴⁰Jon Halliday and Gavan McCormack, Japanese Imperialism Today: "Co-Prosperity in Greater East Asia" (Harmondsworth, England: Penguin Books, 1973), 25.

the target of 1 per cent of GNP, which Japan committed itself to meet "at a world capitalist conference on 'aid' convened by OECD in Tokyo in September 1970." However, in reality, Japan's ODA/GNP ratio still remained low and the DAC repeatedly accused it of insufficient "efforts," which is difficult to explain by the functionalist view of aid.

As some findings suggest, because the economic and social indicators are inconsistent with their assertion that the peripheries have been exploited and their underdevelopment has been perpetuated, dependency theory is perhaps misleading in the Asian-Pacific case, although this does not always mean that exploitation does not exist in the economic relations in this region.⁴¹ Dependency theory cannot sufficiently explain why Japan did not increase its ODA/GNP ratio but many Asian recipient countries could attain economic growth. Akamatsu's flying geese theory is very similar to Cardoso's dependent development thesis, in which Japanese imperialism develops infrastructure, rather than simply exploits Asian countries, thus making peripheral development possible while maintaining the dependent structure. According to this view, MITI is a pilot agency not only for Japan, but also for Asia. Even if this is so, why Japan began to diversify the geographic focus of its ODA is unclear.

To explain such a puzzle, international political structures were also examined. From a liberal economic perspective, Loutfi analyzed the net costs of Japanese aid in terms of the opportunity cost and the balance of payment cost. She concluded that because Japan incurred

⁴¹Dong Yul Chough, "Japan and Asian Pacific Regional Integration: A Test of Economic Dependency Theory (1950-1980)," PhD dissertation, The Catholic University of America, 1987.

significant net costs political motivations must be considered as a main factor in leading Japan to undertake the burden of aid, although Japan was sacrificing only about one-half to two-thirds as much as Japan appeared to be at face value.⁴²

Unlike those who stressed the international economic system's structure, those who emphasized the international political structure suggested that the Japanese aid program was conducted in accordance with the U.S. strategy. In the mid-1960s, White argued that when immediate outside pressures were strong Japan's anxiety to please became noticeable, when the pressure was eased Japan was more tempted to pursue its own interests.⁴³ Similarly, Inada has recently pointed out that Japan had already started providing aid designed to show its cooperation with the U.S. strategy, even in the 1960s, before Japan and the United States began policy-planning talks on aid in 1978.⁴⁴

In the meantime, Hasegawa took a realist position to explain the role of Japanese foreign aid during the two decades from 1953 to 1973.⁴⁵ He explained that Japanese aid was extended for the purpose of protecting Japan's national interest and ultimately attaining its

⁴²Martha F. Loutfi, The Net Cost of Japanese Foreign Aid (New York: Praeger Publishers, 1973).

⁴³John White, Japanese Aid (London: Overseas Development Institute, 1964), 10.

⁴⁴Juichi Inada, "Japan's Aid Diplomacy: Economic, Political or Strategic?" Millennium: Journal of International Studies 18, 3 (1989), 399-414.

⁴⁵Sukehiro Hasegawa, Japanese Foreign Aid: Policy and Practice (New York: Praeger Publishers, 1975).

two main national goals: its own national development and international ascendancy. According to his "historical national evolutionist" view, changing definitions of Japanese national goals explain changing priorities of immediate aid objectives, which reflected the extent and content of both bilateral and multilateral aid. The limited volume and harder terms in the first ten years were due to Japanese national goals of commercial motives and domestic material prosperity, whereas the increased volume and improved terms were due to the improvement of Japanese welfare. As well, he argued that Japan's leadership-seeking position in Asia, and associational obligation gesture in the global community, produced an Asian-focused aid and the limited contribution to multilateral agencies. Since he treated the Japanese nation as united in the international system, Hasegawa, unlike Rix, viewed Japanese aid administration as highly coordinated and "designed" to protect and enhance its national interest, and to fulfill its changing national goals.⁴⁶ Neglecting a diversity of interest within the state and society, prominent members of the business world were also regarded as united with national interest.

As Japan's status in the international economy was lifted, some observers have attempted to connect its economic power to the role of political agency of Japan in the international politics. Yasutomo introduces the concept of strategic aid that is officially denied by the Japanese government. By conceptualizing today's international system as a hybrid somewhere between Morgenthau-like Realpolitik and Keohane and Nye's world of "complex interdependence,"

⁴⁶Hasegawa, Japanese Foreign Aid: Policy and Practice, 135.

Yasutomo argues that Japanese political leaders introduced strategic aid policy to serve as "a hybrid policy designed to avoid the dangers of a realist world the Japanese acknowledge but do not favor and to prepare for participation in an interdependent world they favor but do not yet see."⁴⁷ He argued that, despite the lack of domestic consensus, strategic aid policy commenced as ad hoc, case-by-case policy measures that responded to immediate policy needs. Although Yasutomo did not always deny the U.S. and Western pressures, or the domestic and bureaucratic politics, he assumes that these political constraints were transcended by political leadership.

Yasutomo's explanation is useful to explain the politicization and globalization of Japanese aid policy, as well as the reasons behind its increase in quantity in the 1980s. The conceptual ambiguity of strategic aid offered the discretion of political leaders to increase the aid budget at the domestic level. Internationally, it led to the increase in the absolute volume of ODA with mystifying the relative decrease in Asian concentration. The implication of strategic aid is to weaken the liberal position of the "separation of politics from economics" with steady globalization and independent foreign aid policy from the United States. However, unintended effects must be addressed. The question of why aid is loaned or granted also remain unanswered.

Orr, a former USAID official, introduced "transgovernmental politics" factors, such as bilateral and multilateral pressures, into

⁴⁷Dennis T. Yasutomo, The Manner of Giving: Strategic Aid and Japanese Foreign Policy (Lexington, Mass.: Lexington Books, 1986), 123.

bureaucratic politics on Japanese aid.⁴⁸ He argued that Japan's aid program was explained by neither "hegemonic" intentions nor "reactive" behavior. Rather, like Rix, Orr contended that the state institutions were selectively interpreting foreign pressure to increase their bureaucratic interests. The concept of transgovernmental interplay was categorized into three types: "bureaucratic coalition building," "preemptive" decisions, and simple response to "direct pressure." While U.S. and DAC pressures to extend more aid to regions outside Asia were effective in increasing the absolute volume of Japanese ODA, outside pressure was purposefully used by the MFA to strengthen its bargaining position toward the MOF. Thus, Tokyo maintained its own aid presence to protect its political and economic interests in Asia, irrespective of the U.S. request.⁴⁹

With Orr's emphasis on the interplay of the state and the international system, I have only a few disagreements, largely with his U.S.-centered bias. That is, Orr does not fully account for the development demands of the developing countries at the systemic level. As well, he regards the lack of central authority in Japanese aid decision-making, which led to foreign pressure and primacy of the private sector, as "infancy," and as such "a highly cumbersome system" making Japan not necessarily suitable for a major aid donor. His policy implications are statist in favor of a centralized aid agency

⁴⁸See Robert M. Orr, Jr., The Emergence of Japan's Foreign Aid Power (New York: Columbia University Press, 1990).

⁴⁹Robert M. Orr, Jr., "The Rising Sun: Japan's Foreign Aid to ASEAN, the Pacific Basin and the Republic of Korea," Journal of International Affairs 41, 1 (1987), 39-62, and Orr, "The Aid Factor in U.S.-Japan Relations," Asian Survey 28, 7 (July 1988), 740-756.

and a foreign aid act, like in the U.S. Yet, his evolutionist view could not answer the question of why such policy proposals were not realized in Japan.

1.3 Framework for Analysis

Despite a large number of theories on the aid phenomenon, a coherent, comprehensive theory of political economy of aid has not yet emerged. The usefulness and range of applicability of the existing explanations are limited depending on context. In order to construct a more robust theory for solving unanswered or unsatisfactorily-answered questions, this section will set up a statistical methodology to be used in Chapters Two through Six.

1.3.1 Univariate Analysis

Political economic factors identified in the previous sections may be helpful in accounting for one or more substantive aspects of the ODA phenomenon. Therefore, it is important to distinguish and define the aspects of ODA as the dependent variables. Those aspects include volume and forms of ODA, its geographic and sectoral distributions, and its terms and conditions. The ODA variables used in this study are described in Table 1.1.⁵⁰ Chapter Two examines these variables using cluster analysis to describe Japanese aid-giving history.

⁵⁰The original data taken from the DAC publications is expressed in current U.S. dollars. The present study converts this data into yen terms using the exchange rate set by the DAC every year, when necessary. For detailed definitions or breakdowns of these ODA variables, see Appendix A.

The term "form" here refers to either bilateral or multilateral aid, and either loans or grants.⁵¹ The levels of ODA volume will be examined in absolute or relative terms, of its net or gross commitments or its disbursements. Geographical allocations are examined principally on the basis of individual nation states, and of regions, such as Asia, Africa and Latin America. Sectoral allocations can be examined, first, by project aid, which is for a specific sector or a combination of sectors, or by program aid, in which sectoral concerns are not specified. Terms and conditions of ODA will be operationalized by the grant element, and by its tying status.

⁵¹"Forms of aid" may refer to differences between loans and grants, between programs and projects, between tied aid and untied aid, and so on. See Goran Ohlin, Foreign Aid Policies Reconsidered (Paris: Development Centre of the OECD, 1966), Chapter 5. Yet, this study defines forms in terms of loans versus grants, and bilateral versus multilateral aid arrangements.

Table 1.1: Data Description of the Japanese ODA Variables

Aspect	Symbol	Variable (Dimension)	Year	Duration	Source
Volume	ODAY	Net disbursements of total ODA (¥ million)	CY	1956-89	OECD & OECF
	ODA/GNP	Ratios of ODA to Gross National Product (%)			
Form	MULTY	Net disbursements of total multilateral ODA (¥ million)	CY	1956-89	OECD & OECF
	BIY	Net disbursements of total bilateral ODA (¥ million)			
	GRANTY	Net disbursements of total bilateral ODA grants (¥ million)			
	LOANY	Net disbursements of total bilateral ODA loans (¥ million)			
Geographical Distribution	ASIA	Net disbursements of total bilateral ODA to Asia (US\$ million)	FY	1957-90	MFA
	MID	Net disbursements of total bilateral ODA to the Middle East (US\$ million)			
	AFR	Net disbursements of total bilateral ODA to Africa (US\$ million)			
	LATIN	Net disbursements of total bilateral ODA to Latin America (US\$ million)			
	OCEAN	Net disbursements of total bilateral ODA to Oceania (US\$ million)			
	EURO	Net disbursements of total bilateral ODA to Europe (US\$ million)			
	UNCL	Net disbursements of total bilateral ODA to unclassified (US\$ million)			
Sectoral Allocation	ICINF	Commitments of bilateral ODA loans through the OECF for economic infrastructure (¥ million)	FY	1966-90	OECF
	PRODUC	Commitments of bilateral ODA loans through the OECF for the production sector (¥ million)			
	SOCIAL	Commitments of bilateral ODA loans through the OECF for social services (¥ million)			
	NONPRO	Commitments of bilateral ODA loans through the OECF for non-project assistance (¥ million)			
	OTHER	Commitments of bilateral ODA loans through the OECF for other categories (¥ million)			
Financial Terms	INT	Average annual interest rates of ODA loans on an exchange-of-note basis (%)	FY	1957-90	MITI
	MAT	Average repayment periods of ODA loans on an exchange-of-note basis (years)			
	GP	Average grace periods of ODA loans on an exchange-of-note basis (years)			
Procurement Conditions	TIED	ODA loans fully tied to procurement in Japan on an exchange-of-note basis (¥ million)	FY	1957-90	MITI
	LDC	ODA loans partially untied for procurement from LDCs on an exchange-of-note basis (¥ million)			
	UN	ODA loans generally untied to procurement in Japan on an exchange-of-note basis (¥ million)			

1.3.2 Bivariate Analysis

Table 1.2 lists the conceptual definitions of the particular explanatory variables that are derived from the theories discussed in the literature review. These concepts in the three ideological columns at the rows or levels of the international system, the state and society are given empirical referents through operational definitions in Chapters Three through Six, respectively. The data set for both independent and dependent variables are recorded as ordinary time-series by calendar or fiscal year. In addition, the pooled time-series data set will also be used in Chapter Four. For the description of the explanatory variables used in Chapters Three through Six, see Appendix B. Using these variables, bivariate analysis will be conducted to identify the extent of explanatory power of each independent variable. Although the linear assumption may not be correct and no sophisticated theorist would take a bivariate approach to suggest that only one factor explains the complex phenomenon, we start with the adoption of linear bivariate regression methods. This is because this specification is most parsimonious when the ideological perspective is coherent and the level of analysis is clear.

Table 1.2: Testing Rival Hypotheses

	Liberalism		Realism	Marxism
Volume & Forms	North-South Gap in Economic Growth		International ODA Regime	Dominant Capital in the World Economy
	Roles of the Donor State	Budget-Making Contingencies	ODA Diplomacy	
	Affordability in the Donor Society	Public Opinion in the Donor Society	LDP Crisis and ODA Compensation	Oligopoly in the Donor Economy
Geographical Distribution	Recipients' Balance of Payments		International ODA Regime	Dominant Capital in the World Economy
	Roles of the Recipient/Donor State	Political Development of the Recipient State	ODA Diplomacy	
	Recipients' Needs/Donor's Affordability	Public Opinion in the Donor Society	LDP Crisis and ODA Compensation	Oligopoly in the Donor Economy
Sectoral Allocation	Recipients' Balance of Payments		Sectoral Regime	Dominant Capital in the World Economy
		Governmental Politics in the Donor State	ODA Diplomacy	
	Sectoral Needs in the Recipient Economies	Public Opinion in the Donor Society	LDP Crisis and ODA Compensation	Oligopoly in the Donor Economy
Financial Terms	International Monetary Market		International Regime on Financial Terms	Dominant Capital in the World Economy
		Financial and Fiscal Policies		
	Per Capita GNP of Recipient Countries			
Procurement Conditions		The Donor's Balance of Payments	International Regime on Aid-Tying	Dominant Capital in the World Economy
	Per Capita GNP of Recipient Countries	Unemployment Situations	LDP Crisis and ODA Compensation	Oligopoly in the Donor Economy

Because the operationalized data set for both dependent and independent variables consists of time-series data, there may exist problems of autocorrelation and non-stationary movement. The differential operation and the lag of transformations are useful for both methodological and interpretational reasons. The one-year difference in the variables, both dependent and independent, reflects the change in the ODA decisions that the Japanese government made more accurately than the original series. Then, the cross-correlation functions are calculated to identify an appropriate lag at which a series of independent variables leads the series of dependent variables. The lag with the highest correlation coefficient will be

chosen from meaningful lags, such as project cycles, under the assumption that pressures are translated into decisions one or some years later. It should also be noted that the theoretically justifiable direction of the coefficient will be chosen with reference to the respective theoretical tenets.

The goodness of fit of a linear model is measured by the adjusted R^2 , which is also interpreted as the proportion of the variation in the dependent variable explained by the model. To test lack of linear fit, the F statistic associated with the analysis of variance for the ordinary least squares (OLS) model, for which an observed significance level is less than 0.05, will be recorded. For the time-series data of this study, the Durbin-Watson statistic is employed as a test for sequential correlation of adjacent error terms, using a 0.05 level of significance. When a regression result is presented along with its Durbin-Watson statistic in each regression table in later chapters, it is assumed that autocorrelation is not a problem unless otherwise noted.

1.3.3 Multivariate Analysis

Certain previous approaches may be elaborated by combining variables embedded at different levels of analysis within a coherent ideological framework. Or, we may combine different variables across different ideological columns under the condition that the theoretical grounds are modified. Because the ideological and system-state-society discussions in the existing literature overlap, this study specifies a set of decision rules such that the observer can interpret the relative importance of factors, their sequencing, and relationship with each other.

First, the present study hypothesizes a causal path model of Japanese ODA decisions, in which the forms and levels of Japanese ODA volume are first determined, followed by geographic and sectoral distributions, and finally the terms and conditions of that aid. Path analysis techniques will be used to test the causal relations among the ODA variables specified in Table 1.1. The rationale for this hypothesis is that each aspect of Japanese aid policy has been greatly constrained by the institutional framework since its launching time, and that the ODA variables appear to have their own internal dynamics.

In other words, under the fragmented decision-making mechanisms, the interaction inside of the bureaucracy culminates in a pattern of Japanese aid which does not correspond to an overall plan yet rather is decided by ODA politics within the various government institutions. The ordering of this causal nexus diagram can be justified by the power relations of the major ministries influencing these ODA aspects. The Ministry of Finance (MOF), the Ministry of Foreign Affairs (MFA), the Ministry of International Trade and Industry (MITI), and the Economic Planning Agency (EPA) are recognized as four major policy- and decision-making bureaucracies for the ODA, especially yen loans. The power resources of these bureaucracies include legal, financial and personnel bases. The legislations for establishing the respective ministries were enacted in 1949 (MOF), 1951 (MFA), 1952 (MITI), and 1957 (EPA). This ordering is the same as the ordering for the total net ODA-related budgets, which include both general and other accounts, by the ministries. In terms of the number of the internal bureaus and

personnel for the ODA-related affairs, the MFA, MITI, the MOF and the EPA appear powerful in this order.

Taken together, it is assumed that the ordering of foreign aid policy decisions are closely related to the power relations between the above four major institutions. Thus, first of all, the ODA volume is strongly modulated from macro-level to micro-level by the MOF through the budget-making system, in which every form of ODA is embedded. This leads to politics on geographic and sectoral allocations of ODA, which are mainly regulated by the MFA and MITI. Lastly, technical matters concerning financial terms and procurement conditions of ODA loans are determined by negotiation politics between the four main institutions.

Next, since the ODA aspects are affected by, and the institutional structures are also reproduced by the various social forces interacting with the bureaucratic forces, some explanatory variables can be added into the causal nexus model. By so doing, we can explain why that relationship is plausible and why a particular sequence may be likely. Those important variables are selected from the independent variables used in the bivariate analyses in the previous sections, in which the highest R^2 scores with significant and higher correlation coefficients are observed without undermining the theoretical grounds of the causal nexus model.

More specifically, we will follow the subsequent procedure. Firstly, all significant variables are selected within a coherent theoretical framework, but across different levels of analysis. If large coefficients of correlation between pairs of independent variables at the significance level of F are less than 0.01, the variables with lower

R^2 s for the bivariate analysis are eliminated to avoid the multicollinearity problem. If large coefficients are not observed, more important variables are selected using the backward elimination method. If a statistically significant multiple regression model cannot be observed through multivariate analysis, we will retain a bivariate model with the highest value of R^2 . Secondly, the same decision rule will be applied across the different existing theoretical frameworks. Thirdly, this decision rule will also be applied within the causal path models.⁵² Finally, we will combine the selected variables of the causal path model and of existing theoretical frameworks employing the same decision rule. In so doing, weak path coefficients will be eliminated and the various estimates through multivariate analysis will be recalculated, and thus a more parsimonious path diagram will be obtained.

In addition to a multi-level and multi-variable analysis, the approach taken here differs crucially from those of previous studies in its emphasis on the transformation of political economy through time. Time is here regarded as another major variable in the analysis. In general, it will be important to identify sources of change in Japanese ODA behavior in terms of duration: long-term, medium-

⁵²Self-correlation functions can be calculated for each causal path of the ODA aspects. However, the present study does not adopt this method because the inclusion of a lagged endogenous variable in the linear regression prevents the Durbin-Watson statistic from being useful. This study also eliminates unlagged causal paths that predict something from one of its direct definitional components or that seek to predict a definitional component that is something of which it is itself a part. This is because this study avoids the possibility of a correlation between an independent variable and an error term, which produces biases in coefficient estimates and unreliable significant tests.

term, and short-term. Historical changes in reality can be combination of these patterns, although there are some variations in level (high or low), in direction (positive or negative), and in speed (abrupt or gradual).

A long-term trend is commonly found in time-series data. Since most of the variables used in this study are the first-order differences of the original series, it is expected that the long-term trend is removed from the OLS models. Nevertheless, if the profound change in Japanese ODA is accelerating, a higher or lower speed of change is expected in more recent years. One way of examining this trend effect is to add the year (YR) variable to the regression model.⁵³ The YR variable is the last two digits of a calendar or fiscal year, which is not always consistent in the data sets for the independent and dependent variables. When it is the case, this study will use the year for the dependent variables as the YR variable.

When a time-series pattern changes due to a change in some historical event which occurs at a known time, a medium-term intervention will be analyzed in such an interrupted time-series data. In accordance with the result of cluster analysis in Chapter Two, the threshold years are incorporated into the model as the dummy variables for step functions. Thus, it can be evaluate the extent of the medium-term effect of historical event that changes the relatively stable behavior of aid-giving.

According to the residual analysis, the equality of variance assumption for the OLS models may be violated in some cases. The

⁵³Marion R. Rivers, "The Relationship between Canada's Foreign Aid Contributions and the State of the Canadian Economy: A Quantitative Analysis," MA thesis, Carleton University, Canada, 1991.

scattering of points for the residuals from these models plotted against YR suggests that a year can be a source of contamination. One treatment of heteroscedasticity to improve the estimation in a pool is that the contaminant effects are regarded as unit effects for each year. Statistically, these unique effects are included in the regression model as short-term pulses, using each of the yearly dummy variables compared to a base year.

In summary, a synthetic causal nexus model in the time domain seeks to formulate a theory of change through the interactions of a variety of trichotomous factors. As presented in Figure 1.1, these include, among others, agency-institutional process-structure; system-state-society; and long-, medium- and short-term change.

Figure 1.1: Hypothetical Model of Japanese ODA Decisions

CHAPTER TWO: The Evolution of Japan's ODA Paradoxes

This chapter depicts when and how the major paradoxes of the Japanese ODA policies and programs emerged and evolved in the changing international political economy. First, the debate over periodization will be briefly reviewed, and then the postwar history of Japan's ODA-giving will be rebuilt into periods by cluster analysis. The following sections outline the salient features of these periods to show the detailed contexts of why major changes could, or could not, take place, while referring to the dominant ideas in the respective periods.

2.1 The Periodization Debate

2.1.1 Historical Changes

Different observers identified different turning points in Japan's aid-giving history. Some focus on the launching-points of new forms of development cooperation.¹ Others emphasize the role of decision-makers in the political process, such as policy statements and international conferences.² Periodization as such is rather

¹Saburo Okita, "Japan's Economic Cooperation in Asia in the 1970s," in Gerald Curtis (ed.), Japanese-American Relations in the 1970s (Washington, D.C.: Columbia Books, 1970). Harrell agreed with Okita's periodization. Edgar Carson Harrell, "Japan's Postwar Aid Policies," PhD dissertation, Columbia University, 1973, 36.

²For example, Sukehiro Hasegawa's periodization depends on terms of premiership (Hasegawa, Japan's Foreign Aid: Policy and Practice). Inada's periodization is based on his content analysis of MITI's white papers on economic cooperation and MFA's diplomatic bluebooks (Juichi Inada, "Kokusai sisutemu ni okeru Nihon no ODA no ichizuke").

superficial, and therefore does not reflect the real dynamics of Japanese aid in two senses. First, agency-oriented observers tend to overemphasize the ability of human agents. They assume that there exists a point at which a significant change takes place as a result of intentional operations. However, changes arise consciously or unconsciously. Intentional changes happen easily only when an articulated motive and structural power are present, or skillful management is effectively employed to eliminate structural barriers. Equally important, altering courses is not always achieved within a short period. It usually takes a longer time to achieve intended effects, because such an exercise can also change the existing social and political relations at home and abroad. Most changes are gradual and are not always pinpointed. Therefore, it is important to take account of time lags in the study of historical dynamics. The present study describes the early paradoxes that were formed, and their recent rapid deepening.

A second premise of periodization is related to the conception of history. Japan transformed itself from an aid recipient to an aid donor. Though it is a great power in nominal terms, no major changes have taken place over the last four decades in other aspects. One may conclude that there was the single period characterized by the limited proportion of ODA to national income, by the concentration of bilateral ODA in Asia, by the persistence of harder financial terms, or by disintegrated aid administration. The persistent contrast between the rapid growth of volume and the stagnant ODA/GNP ratio, or between the widened scope of aid business and the lack of a central aid agency, should be understood as simultaneous phenomena.

In short, many of the previous studies on the evolution of Japan's ODA behavior are based on a deduction of specific ideological grounds. By contrast, periods in the present study are induced from the empirical data to understand both change and stability, and the contradictions that ensue using a balanced ideological framework.

2.1.2 Cluster Analysis

Cluster analysis is used to classify inductively the substantive aspects of the annual amounts of Japan's ODA. The nature of cluster analysis is numerical taxonomy by calculating distances and similarities between the heights of the waves.³ This study uses the so-called complete linkage method, by which the distance between two clusters is calculated as the distance between their furthestmost points.⁴

The decision for the proper number of clusters made here is based on the visual inspection of displays of the dendrograms that show the clusters being combined and the value of the squared Euclidean distance coefficients at each step. Appendix C contains the dendrograms produced by the SPSS program for the time-series cases of Japan's ODA.⁵ Looking at these dendrograms, it appears that different cluster solutions are appropriate in the different aspects. However, it should be noted that in general the distances between

³Mark S. Aldenderfer and Roger K. Blashfield, Cluster Analysis (Beverly Hills: Sage Publication, 1984).

⁴Marija J. Norusis, SPSS Base System User's Guide (Chicago: SPSS Inc., 1990), 361.

⁵These plots are rescaled. However, the ratios of the original distances are preserved.

the clusters in recent years tend to be wider than those in the early years. In other words, the changes in recent years are faster and deeper than those in the early years.

Various combinations of variables can be chosen as the statistical criteria for cluster analysis. Table 2.1 shows the selected combinations of clustering variables and their respective cluster solutions. Most of the ODA variables are expressed in an unstandardized form, and yet the standardized values (Z scores) are used to weight them equally when two or more variables are expressed in different units in the same analysis. When the values of ODA and ODA/GNP are standardized, two clusters were observed with the year 1983 as the threshold. In a similar manner, five clusters are identified as turning points within the years 1961, 1971, 1980 and 1987 when the standardized scores for all the variables on the volume and form of ODA served as the basis for cluster solution. As for the geographical distribution, four clusters are distinguished within the years 1971, 1980 and 1988, using the data of annual net disbursements to Asia, Africa, Latin America, the Middle East, Oceania Europe and others. The sectoral allocation of the ODA loans also shows the four-cluster solution as turning points within the years 1974, 1982 and 1988 when the data on annual commitments of the OECF loans for the sectors of economic infrastructure, production, social services, non-project assistance and others are employed as clustering variables. The three-cluster solution, with the years 1968 and 1976 as the thresholds, is identified when the three variables on the financial terms of the OECF loans are standardized and used. As for the procurement conditions of the OECF loans, the

four-cluster solution with the threshold years of 1971, 1976 and 1981 was obtained using a set of unstandardized variables of the fully tied, and partially and generally untied loans. These clustering solutions will be used later in analyses in Chapters Three through Six.

Table 2.1: Periodization by Cluster Analysis

Vars.	Z Scores for ODAY and ODA/GNP	MULTI and BIY	GRANTY and LOANY	Z Scores for All the Variables on Volume and Form	ASIA, AFR, LATIN, MID, OCEAN, EURO and UNCL.	ECONOMY, PRODUC, SOCIAL, NONPRO and OTHER	Z Scores for INT, MAT and GP	HEED, LDC and UN	Z Scores for All the Variables on Terms and Cond.
CY/FY	-	-	-	-	-	-	-	-	-
1954	-	-	-	-	-	-	-	-	-
1955	-	-	-	-	-	-	-	-	-
1956	-	-	-	-	-	-	-	-	-
1957	-	-	-	-	-	-	-	-	-
1958	*	-	-	Period 1	-	-	-	-	-
1959	-	-	-	-	-	-	-	-	-
1960	-	-	-	-	-	-	-	-	-
1961	-	-	-	-	-	-	-	-	-
1962	-	-	-	-	-	-	-	-	-
1963	-	-	-	-	-	-	-	-	-
1964	-	-	-	-	-	-	-	-	-
1965	-	-	-	-	-	-	-	-	-
1966	-	-	-	-	-	-	-	-	-
1967	-	-	-	-	-	-	-	-	-
1968	-	-	-	-	-	-	-	-	-
1969	-	-	-	-	-	-	-	-	-
1970	-	-	-	-	-	-	-	-	-
1971	-	-	-	-	-	-	-	-	-
1972	-	-	-	-	-	-	-	-	-
1973	-	-	-	-	-	-	-	-	-
1974	-	-	-	-	-	-	-	-	-
1975	-	-	-	-	-	-	-	-	-
1976	-	-	-	-	-	-	-	-	-
1977	-	-	-	-	-	-	-	-	-
1978	-	-	-	-	-	-	-	-	-
1979	-	-	-	-	-	-	-	-	-
1980	-	-	-	-	-	-	-	-	-
1981	-	-	-	-	-	-	-	-	-
1982	-	-	-	-	-	-	-	-	-
1983	-	-	-	-	-	-	-	-	-
1984	-	-	-	-	-	-	-	-	-
1985	-	-	-	-	-	-	-	-	-
1986	-	-	-	-	-	-	-	-	-
1987	-	-	-	-	-	-	-	-	-
1988	-	-	-	-	-	-	-	-	-
1989	-	-	-	-	-	-	-	-	-
1990	-	-	-	-	-	-	-	-	-

Notes: - This mark stands for a missing value.

* The ODA/GNP ratio in CY 1958 is exceptionally high, and forms an independent cluster.

** The cases of FY 1977 and 1980 are classified into the cluster for Period 3, rather than Period 2.

*** The FY 1974 case is originally classified into the cluster for Period 3.

**** The FY 1986 case is originally classified into the cluster for Period 3.

Various currents of aid performance, processes and ideas rushed, or stood, to keep the undercurrents unchanged. Ripples in a certain period can become breakers in another period, while keeping the same tidal level. At a specific point of time we can observe two or more contending waves, which form a tide in a certain period.

The symbiosis of these waves was also found in Japanese aid philosophies. At the abstract level, Japan has consistently maintained the concept of "economic cooperation." This term, however, denoted many things across time and space. In the immediate postwar years, "economic cooperation" meant a substitute for war reparations and a manifestation of postwar management at home and abroad. In the era of high economic growth, "economic cooperation" was a synonym of "export promotion" and "resource security." In recent years, the term also implies "comprehensive security" and "global contribution." In retrospect, the conceptual framework of "economic cooperation" in the Japanese context should be understood as being partially, not totally, overlapped with that of "Official Development Assistance."

2.2 "Economic Cooperation" as Postwar Reconstruction

2.2.1 Reparations and the Colombo Plan

Financial resources from the Japanese government to developing countries were prepared to flow regularly in 1954 by concluding a reparation agreement with Burma, and by joining the meeting of the Consultative Committee of the Colombo Plan held in Ottawa, Canada. Both of these arrangements were initially demanded from the international system in the immediate postwar years, and interpreted by the agents of the Japanese state and society in their

own ways.⁶ Although war reparations were not aid in terms of the claimant countries, the United States identified them with foreign aid under the cold war system. Indeed, reparations were accepted as part of the grants issued by the DAC. Similarly, the Colombo Plan aid was sometimes regarded as compensation from the former suzerain state, but the United Kingdom defined this as assistance to the British Commonwealth and other countries in South and Southeast Asia.

The prevailing view among the Allies, at least until 1946, was that the amount of Japanese reparations should be large enough to eliminate or drastically reduce Japanese war-making potential.⁷ However, the American leaders significantly changed their thinking of the future role of Japan in East Asia when the Korean War broke out. John Foster Dulles drafted a peace treaty pending a settlement of reparations claims at the 1952 San Francisco peace conference.⁸

The volume of technical cooperation was much less than that of the reparations. Japan became a member of the United Nations in 1956 and a contributor to international financial institutions, even though Japan was still the second largest recipient nation of World Bank loans behind India. The Japanese had an ardent desire to

⁶Before 1954 Japan made a limited amount of interim reparations payments as well as contributions to the United Nations Expanded Program of Technical Assistance and the United States International Cooperation Agency program. These are not regarded as starting-points because the Japanese agents' intentions could not be reflected in them in terms of both quantity and quality.

⁷"Japan's International Economic Position: A Note on Some Aspects of U.S. Policy on Japanese Reparations and the Revival of Japanese Industry and Foreign Trade," (New York: Institute of Pacific Relations, 1947).

⁸Ministry of Foreign Affairs (ed.), Nihon Gaiko 30-nen (Tokyo: Sekai-no-ugoki, 1982), 39.

reenter the international community and to reconstruct its postwar economy, and yet they had neither enough financial resources nor mature donor-consciousness.

Despite the limited volume of reparations and technical assistance, the scheme of these payments meant many things for today's Japanese ODA program. First, bilateralism became dominant through reparations negotiations. Ironically, it was the multilateral peace treaty that led Japan to enter into negotiations with the claimant countries of reparations.⁹ This, ever since, has been one of the salient features of Japanese foreign aid negotiations.

Second, reparations generally took the form of Japanese goods and services, rather than cash. A main reason for this originated from the historical lesson of the Versailles Treaty, which demanded heavy indemnity from Germany and helped the rise of Nazism. The 1945 Potsdam Declaration had already proposed "reparations in kind."¹⁰ This arrangement produced an unexpected relationship between the donor state, the recipient state, and the private sector in Japan. In theory, cash was transferred between the donor state and the recipient states. In practice, however, necessary contracts for procurement were concluded directly between recipient governments and Japanese nationals or firms. Since then, Japanese

⁹"Treaty of Peace with Japan," 8 September 1951, United States Treaties and Other International Agreements vol. 3, part 3, (Washington, D.C.: GPO, 1952), 3180.

¹⁰"Proclamation," 26 July 1945, Foreign Relations of the United States: Diplomatic Papers 1945 vol. 2, (Washington, D.C.: GPO, 1960), 1476.

foreign aid has assumed the intermediate form between cash aid and the "turn-key" basis aid.¹¹

Third, the Japanese state learned how to formalize the "request basis" principle through the reparations scheme and the Colombo Plan Technical Cooperation Scheme. Unlike the active approach exemplified by the United States, the Japanese state waited for the recipient governments to formally request assistance. Japan adopted a series of application forms of the Colombo Plan for technical assistance.¹² This rationale served for expanding the liberal ideology of self-help, while mystifying the interest of the donor side.

2.2.2 Reparations-Like Grants and Yen Loans

Net disbursement of official flows from Japan, most of which were bilateral grants, totaled less than \$100 million annually until 1958. The years of 1958 and 1961 saw large disbursements; in particular the disbursements in 1958 were exceptionally high compared to Japan's GNP at that time. Most of them were an increased amount in the scheduled reparations as shown in Figure 2.1. In addition, reparation-like grants and government loans introduced during this period contributed to these increases and opened a new period in volume and form. The important point here

¹¹In contrast to cash grants, the full responsibility is vested in the donor; whereas in the latter form the recipient enters the scene only on completion of the project. Sadao Higuchi, Seifu Kaihatsu Enjo (Tokyo: Keiso Shobo, 1986), 123.

¹²Later, this scheme was also applied to other countries outside Asia, and it has been employed to date. Higuchi, Seifu Kaihatsu Enjo, 124-126.

Figure 2.1: Schedule of Reparation Payments

is that the scheme for them followed that of reparations, including the transnational contract tied to Japanese goods and services.

Reparation-like payments from Japan were made to the countries which did not submit claims, or for those who could not be formally admitted under its terms. To avoid using the term reparations, the Japanese government adopted the ambiguous concept of "economic cooperation," which was coined by a business leader, Shigeo Nagano, then president of Fuji Iron and Steel Company.¹³ The category of "trade promotion and economic cooperation" in the General Account was first presented to the National Diet for the 1958 budget.

The first government loans agreement was disbursed from the Japan Ex-Im Bank to India in 1958, a year after Indian Prime Minister Nehru visited Tokyo. The financial terms of this loan were "soft" at that time, but it did not meet the grant element criteria for today's ODA. The Indian government had been optimistic of its economic development plan until the bad weather conditions of 1958. This required a large amount of food, and caused a crisis of foreign currency reserves in India. As a result, India shifted its policy to receive foreign aid positively.¹⁴ This event coincided with the escalation of the cold war. The United States government, which had kept its distance from the neutralist countries at the 1955

¹³J. Alexander Caldwell, "The Evolution of Japanese Economic Cooperation, 1950-1970," in Harald B. Malmgren (ed.), Pacific Basin Development: The American Interests (Toronto: Lexington Books, 1972), 25.

¹⁴Reparations Problems Study Group, Nihon no Bajisho (Tokyo: Sekai Journal, 1963), 42.

Bandung conference, began competing with the Soviet Union for influence in India and other neutralist countries.

2.2.3 Asian-Centrism

Reparations payments were made to Asian countries for damage and suffering caused by Japan during the war. These countries included Burma, the Philippines, Indonesia and South Vietnam. Only the Philippines and Vietnam signed and ratified the San Francisco peace treaty, and formally claimed reparations on the basis of this treaty. Because of dissatisfaction with the American proposal of lightening the burden of Japanese reparations, Burma refused to attend the San Francisco conference. Indonesia signed, but did not ratify the treaty for the same reason. Japan, therefore, initiated negotiations with these countries separately on the volume and content of the reparations payments. The initial demands from these countries were much higher than what Japan thought to be reasonable. Following difficult negotiations, Japan agreed with Burma for reparations of \$200 million in 1954, with the Philippines for \$550 million in 1956, with Indonesia for \$223.08 million in 1958, and with Vietnam for \$39 million in 1959.¹⁵ The relatively large amount to the Philippines reflects the extent of damage as well as Japan's response to the United States' preference to its former Commonwealth.¹⁶

North Vietnam, North Korea, and the People's Republic of China were excluded from reparations, since these communist regimes

¹⁵Reparations Problems Study Group, Nihon no Baisho, 13-15.

¹⁶F. C. Langdon, Japan's Foreign Policy (Vancouver: UBC Press, 1973), 78.

were unrecognized by the then Japanese government. Japan entered into negotiations with South Korea, and yet because of the antipathy of the Korean people against the Japanese, stemming from the colonization of over thirty-six years, it took many years to reach an agreement. Taiwan did not claim reparations, and instead requested the recognition of the Nationalist regime.

The target area of the Colombo Plan was South and Southeast Asia, which contained a quarter of the then world's population with lower living standards. Particular emphasis was placed on development in India, Pakistan, Ceylon and Malaya of those days, although non-member countries of the British Commonwealth were also covered to a lesser extent.¹⁷

Recipients of reparation-like grants included Laos, Cambodia, Thailand, South Korea, Burma, South Vietnam, Singapore, Malaysia and the Pacific Islands.¹⁸ The Shinsuke Kishi government concluded an administrative agreement of "economic and technical cooperation" with Laos for \$2.8 million in 1958, and with Cambodia for \$4.2 million in 1959. In 1955 and 1962 a special yen agreement for \$26.8 million was concluded with Thailand, which kept its independence with wartime co-belligerent status and provided goods and local currency for Japan during the war. With South Korea, after prolonged negotiations of thirteen years, Japan finally settled the question of

¹⁷U.K. Treasury, Progress in Asia: The Colombo Plan in Action (London: Her Majesty's Stationery Office, 1953), 21.

¹⁸Reparation-like payments to the areas where political independence had not yet been attained were delayed. With Singapore and Malaysia, both of which had been colonies of the United Kingdom, Japan reached reparations-like agreements in 1967. With Micronesia, or the United Nations trust territory, a similar agreement was concluded with the United States in 1969.

property claims politically. Responding to United States pressure for normalizing the Japanese-Korean relationship for security reasons, the Hayato Ikeda government and Korean President Park Chung Hee agreed that Japan would provide Korea with a grant of \$300 million over a ten-year period beginning in 1965, loans of \$200 million, and over \$100 million in the form of private credits. Burma claimed further reparations to keep the balance in the amount of reparations with the Philippines and Indonesia on the basis of the review clause of the 1954 agreement. Japan responded to this request by concluding another agreement of "economic and technical cooperation" in 1963.

While reparations-like grants were concentrated in East Asia, yen loans tide went to Southwest Asia, especially India and Pakistan. India was the top recipient of Japan's aid during the period 1963-1965. The share of official flows to Southwest Asia peaked in 1964 at 44.6 percent of all Asian grants.

A main reason for the increased disbursements was Japan's affiliation with the donor country meetings. The first consultative meeting among the lending countries was the India Consortium established by the U.S.-led World Bank in August 1958. The World Bank also formed the Pakistan Consortium in October 1960. In these meetings, development plans and major projects of the borrower countries were examined and the lending countries pledged the amount of loans every year. For a minor lender, such as Japan, inter-donor coordination was especially useful to minimize the project-finding cost. Instead, the volume of aid commitments inflated

annually.¹⁹ The Japanese government usually pledged the amount of yen credits, but not grant aid due to Japanese budgetary constraints.²⁰

2.2.4 Capital Goods and Services

Article 14 of the San Francisco peace treaty stipulated that Japanese reparations should be paid "by making available the services of the Japanese people in production, salvaging and other work for the Allied Powers in question."²¹ However, the greater part of the actual reparations was paid in the form of capital goods, such as electric power plants, transportation and telecommunications infrastructures. The share of services, such as the salvaging of sunken ships, was very limited. It should be noted that this shift was made by the demands from the claimant side. Being dissatisfied with the San Francisco formula, the reparations missions of the claimant nations argued that Japan's capital goods could be included in the category of "services of the Japanese people."²² The early Shigeru Yoshida government opposed this idea, arguing that Japan's goods and industries were indispensable to its own economic recovery, and that infrastructure projects were beyond the range of Japanese

¹⁹Rix, Japan's Economic Aid, 228.

²⁰Higuchi, Seifu kaihatsu enjo, 132-133.

²¹"Treaty of Peace with Japan," 3181.

²²Masashi Nishihara, The Japanese and Sukarno's Indonesia (Honolulu: The University Press of Hawaii, 1976), 40.

resources.²³ The discrepancy between the two parties led to a stalemate in the negotiations. To break this, Japan finally reinterpreted Article 14 flexibly for the inclusion of capital goods.

Capital goods as a reparations item could have both advantages and disadvantages for the Japanese political economy. While Japanese services did not require foreign currency, production of capital goods in the resource-poor country would decrease to a certain extent the then limited foreign currency reserves needed to import raw materials. Therefore, the Japanese government included capital goods but restricted an item for reparations which required a higher foreign currency component. Moreover, the transfer of capital goods to developing areas would also have a boomerang effect on the Japanese economy. However, this demerit was overcome because Japanese industries were restructured dynamically, and the positive impact of the emphasis on capital goods was greater than Japanese leaders, at that time, had expected. Indeed, capital goods of the steel and machinery industry played a trigger role for specific heavy industries, such as automobile and electric machinery. As well, spare parts and technologies as related to capital goods stimulated the further expansion of Japanese exports in the future. Thus, forward-linkage of industries led Japan to an advanced stage of economy and minimized the pains of the boomerang effect from late comers.

Politically, the concentration on capital goods produced a policy network at home and abroad. Business leaders of those sectors

²³White noted that infrastructure projects were not welcomed by the Japanese government partly because of the lack of an immediate return to the donor side. White, Japanese Aid, 13.

occupied the positions of the economic cooperation committees of the Federation of Economic Organization (Keidanren). In the claimant countries, a big project as a redemptive monument of the Japanese was welcome by the rulers of the developing countries to show their prestige.

In some cases, not only capital goods but various consumer goods were selected. For example, more agricultural machinery and consumer goods were requested on a non-project basis from Burma, which shifted its strategy from industrialization to agriculture-oriented development. Selecting the items of consumer goods overproduced at the time of recession could protect those sectors in Japan. Indeed, reparations contributed to the congestion of pottery, artificial silk, and canned fish.²⁴ Thus, a variety of reparations items influenced both big business and small- and medium-scaled enterprises, to a lesser extent, in Japan.

2.2.5 Economic Bureaucracy for Postwar Reconstruction

The transnational nature of the reparation program did not require a heavy aid bureaucracy. The role of the donor state is just to attest to the contracts between the claimant government and the Japanese contractors. The administrative units for reparations payments were set up within the preserved wartime economic bureaucracy. This is because the Supreme Commander for the Allied Powers purged the prewar politicians, and instead gave the legitimacy of policy-making for economic reconstruction to the economic bureaucracy. A major device of economic control was the

²⁴Reparations Problems Study Group, Nihon no Baisho, 36.

Foreign Exchange and Foreign Trade Control Law, over which the MOF and the Ministry of Commerce and Industry, a precedent organization of MITI, had jurisdiction. Reparation was regarded as a transfer of goods and services stipulated in this law. When the MFA set up its Reparations Department, the Ministry of Commerce and Industry established the Reparations Implementation Bureau in September 1946.

In February 1948 the Reparations Agency was built, and yet the reparation-related units within the three ministries remained or were reorganized accordingly. When MITI was created in May 1949, the Procurement of Reparations Department was built in the Trade Enterprise Bureau, which was in charge of industrial policy. In 1951 the MOF created the Export Bank of Japan, which was renamed as the Export-Import Bank of Japan (the Ex-Im Bank) in 1952, and started to control foreign investments and export credits. After the reparation agreement with Burma, the MFA set up a reparations liaison office in February 1955, and the Reparations Department in July of the same year within the Asian Affairs Bureau. These were institutional reflections of MITI's industrial policy and MFA's Asian-centered foreign policy.

In contrast, the Society for Economic Cooperation in Asia (Asia Kyokai), which organized all matters relating to technical cooperation in this area, was established in 1954 as a private organization. The government entrusted this organization with the receiving of trainees from developing countries, and yet the purposes of this organization were rather vague and wide-ranging, including research

and education for economic cooperation.²⁵ Compared to the speedy establishment of reparations administration, the delivery mechanism for technical assistance was delayed and peripheral. In all probability this institutional limitation was related to the choice by the Japanese state to be a passive player in project-finding activities.

2.3 "Economic Cooperation" as Export Promotion

2.3.1 Loan Predominance

The ratio of Japan's official flows to its GNP decreased quickly from 0.34 in 1960 to 0.20 in 1961 primarily due to the rapid GNP growth. Japanese net official disbursements were relatively constant during the early 1960s, but underwent a two-fold increase from \$115.9 million in 1964 to \$243.8 million in 1965. However, this was a minor change that was not reflected in the cluster analysis. It should also be noted that the ratio of loans to total ODA superseded that of grants in 1965, and since that time loans have represented the bulk of the Japan's ODA program. The increasing rate of ODA loans was much faster than that of grants, especially in the late 1960s and the early 1970s. As for total official and private flows, in 1970 Tokyo decided to attain the target of 1 percent of GNP by 1975. The increased amount of official funds included a variety of loans, many of which were introduced in this period.

A major contributor for increasing the volume was debt relief, which accounted for \$60.9 million, or 25.0 percent, of the net official flows in 1965. Debt relief measures can take the form of refinancing,

²⁵Junpei Kato, "Nihon no Kaihatsu Enjo," Kokusai Seiji, 64 (1980), 42.

rescheduling, suspension or cancellation, the first two of which were adopted by Tokyo. Refinancing payments covered uncollectable export credits of Japanese exporters with a government guarantee. The Ex-Im Bank first refinanced Brazil, Chile and Argentina in 1965.²⁶ Rescheduling is another measure of debt relief, by which the due date for the repayment of debts is extended. In the case of Japan, rescheduling was applied only to the principal of government loans, whereas it was applied to both the principal and interest of private debts. Tokyo first rescheduled its loans to India in 1966.

A second contributor for increasing the volume was the commodity loan, which was first requested by Indonesia with its balance-of-payments problem in 1968. In the same year the OECF Law was amended to enable it to extend such a loan to a developing country for importing necessary goods and services immediately. For the donor side, this was useful for reducing the growing lag between commitments and disbursements. The share of commodity loans in total OECF direct loans accounted for 69.3 percent in 1968, although it decreased in subsequent years.

Both debt relief and commodity loans are emergency measures, not project loans for a specified site. Various forms of project loans were also introduced in this period: local cost financing; two-step loans; and co-financing with international financial institutions. Local cost financing was an innovative measure somehow contradictory to the self-help principle, because items to be paid in the local currency,

²⁶Only the Ex-Im Bank is authorized to offer refinancing, because the OECF Law does not stipulate refinancing. Association for Promotion of International Cooperation (ed.), A Guide to Japan's Aid (Tokyo: APIC, 1990), 81.

such as facilities and labor costs necessary for the project, were also provided in yen loans in addition to other foreign currency components. The normal upper limit for local cost was 30 percent of the amount of the loan. The first case of local cost financing was for the water supply projects in Afghanistan in 1969.²⁷

In the case of a financial-intermediary loan, it was initially directed to a financial institution of the recipient country. In the second step, this institution lends money to individual farmers or agricultural cooperatives, or small- and medium-scale firms which implemented small-scale projects. The first agreement of such a two-step loan was concluded for a South Korean project for its export industry promotion in 1966. The two-step loan could promote institutional development in the private enterprises as well as local financial systems.

In some cases, the project was too large in scale to be financed by Japan alone, and co-financing was organized in collaboration with other donors, including international financial institutions. The first co-financing was arranged with the World Bank, the Asian Development Bank (ADB) and the United States Agency for International Development (USAID) for the Pusri fertilizer plant expansion project in Indonesia in 1971. Most of the co-financing projects joined by Japan took the form of the split financing system.²⁸

²⁷OECD, Kaigai Keizai Kyoryoku Kikin 20-nenshi, (Tokyo: OECD, 1982), 82.

²⁸There exist two systems for co-financing: joint financing and parallel financing. In the former case, the share of each participant in the co-financing is determined, whereas the collaborate financiers are responsible for divided component parts of the project in the latter case.

Reparations and reparations-like grants were replaced mainly by yen loans, and yet new types of grant aid were also developed. In 1966 the first general grant aid was provided to Laos, to help the socio-economic development of the lower-income country. General grant aid has been forming the core of the Japanese ODA grant program. Another form of grant aid introduced during this period was "KR food aid" (named after the Kennedy Round negotiations of GATT completed in 1967) on the basis of the Food Aid Convention. In this case, the minimum annual contribution to be offered by Japan was made at the level of the international system.

2.3.2 East Asian Emphasis

The relative importance of Southwest Asia decreased by 1969. A major target for bilateral ODA was again East Asia, especially Indonesia and South Korea. Some observers recognized that the Indonesian and Korean aid relationships with Japan were exceptionally political in the sense that economic feasibility was subordinated to political interest.²⁹ In particular, a series of Japanese political initiatives in Asian diplomacy were taken in 1966. All these events ran parallel to the escalation of the Vietnam War, after the 1965 bombing in North Vietnam.

In April 1966 Tokyo sponsored the first Ministerial Conference on the Economic Development of Southeast Asia (MEDSEA). This was the first international conference proposed and sponsored by the Japanese government in the postwar period. There Japan expressed

²⁹Rix, *Japan's Economic Aid*, 235, and Hosup Kim, "Policy-Making of Japanese Official Development Assistance to the Republic of Korea, 1965-1983," PhD dissertation, University of Michigan, 1987.

that the 1 percent of GNP target for total flows would soon be realized. A variety of regional development and cooperation projects were also initiated. The MEDSEA meetings were held every year until 1974, that is until a year after the United States' withdrawal from Vietnam.

In September 1966 Japan proposed an international consortium for Indonesia, which was later called the Inter-Governmental Group on Indonesia (IGGI). Japan was the largest creditor to Indonesia by providing emergency yen credit in March 1966, immediately after General Suharto took over power from President Sukarno (the March 11 affair). The United States, wanting an anti-communist regime, encouraged Japan to take a lead in forming this consortium.³⁰ After subsequent discussions at the IGGI meetings, Japan committed to refinancing and long-term soft loans over an extended period. This made Indonesia the largest recipient country for Japanese ODA in 1966-68, and 1970.

The largest recipient country in 1969, and 1971-73, was South Korea. Korea received reparations-like payments of \$500 million based on the 1965 agreement, and new general grant aid and project loans started in 1971. In June 1966, Japan attended and contributed positively to the Asian and Pacific Council (ASPAC), which was initially proposed by Korean President Park. This was regarded as an anti-Chinese forum after PRC's development of nuclear weapons in 1964. ASPAC meetings were held regularly until 1972, just after Nixon's surprise visit to Peking in 1971.

³⁰Harrell, "Japan's Postwar Aid Policies," 124.

Another important event in 1966 was the establishment of the ADB's promotion of regional cooperation for private investment and technical assistance. The multilateral component of Prime Minister Shinsuke Kishi's 1957 plan was finally explored in March 1965 at the United Nations Economic Commission for Asia and the Far East (ECAFE). The Japanese government, especially the MOF officials, hoped to have a headquarters established in Tokyo with the Japanese presidency of the Bank. The maneuvering of the Philippines' President-elect Ferdinand Marcos, who took office in 1966, led to Manila's victory in acquiring the headquarters at a vote at the ECAFE's second Ministerial Conference on Asian Economic Cooperation in November 1965.³¹ However, Japan did win the position of the ADB presidency.³² The ADB started its operations in December 1966 with an authorized capital stock of \$1.1 billion, most of which was contributed by Japan and the United States. The ADB funds were allocated to a variety of projects in this area, including budgeting for the Association of Southeast Asian Nations (ASEAN) which was formed in 1967.

2.3.3 Arbitrary Sectoral Selection

Sectoral distribution of OECF loans during the period from fiscal 1966 to 1973 was rather irregular. Before 1968 the economic infrastructure and production sectors were dominant. Suddenly, commodity loans accounted for 69.3 percent, the largest sectoral

³¹Dennis Yasutomo, Japan and the Asian Development Bank (New York: Praeger, 1983), 66-83.

³²Takeshi Watanabe was elected unanimously as the first ADB president at the Inaugural Meeting of the Board of Governors in November 1966.

percentage, when first adopted in fiscal 1968. The share of commodity loans shrank in subsequent years to 11.1 percent in 1974. In contrast, production and economic infrastructure revived. The most important part of the economic infrastructure was the energy-related projects, mainly the construction of hydroelectric power stations.

A quick shift in sectoral distribution in this period was a reflection of trial and error, or indifference on this aspect, of the Japanese government. Because of the "request basis" principle, the selection of projects by the Japanese government was constrained by the requests from the recipient countries from the beginning. When the recipient government did not have sufficient project-formation ability, sectoral distribution was greatly influenced by project-finding businesses of Japanese contractors. Moreover, Japanese contractors could compete with other donor countries. In short, the sectoral distribution of Japan's ODA was determined by the interaction between the international system and the private sector in Japanese society.

2.3.4 Export Promotion and the Creation of the OECF

The major economic ministries consolidated the respective aid implementation agencies in the early 1960s: the Institute for Developing Economies (IDE) under MITI in 1960, the Overseas Economic Cooperation Fund (OECF) to implement soft loans under the Economic Planning Agency (EPA) in 1961, and the Overseas Technical Cooperation Agency (OTCA) to implement technical assistance under the MFA in 1962. Among these agencies, IDE was least important for aid delivery and was excluded from the "big three families,"

referring to the Ex-Im Bank, the OECF and the OTCA at that time. At the level of policy-making, however, the big three meant Finance, MITI, and Foreign Affairs. In 1958 MITI published the first White Paper on Economic Cooperation, which became a substantial instrument of inter-ministerial politics with IDE's research assistance.³³ The real strength of MITI's position lay in state-society relations, especially its contact with Japanese exporters and consultants. MITI established the Japan External Trade Organization (JETRO) in 1958 to consolidate its export promotion efforts, and the Engineering Consulting Firms Association (ECFA) in 1964 to strengthen the project-finding ability for securing contracts of Japan's overseas consulting firms.

These ministries also modified their own bureaucracies. On concluding the first yen loan agreement with India in 1958, MITI created the Economic Cooperation Division in the Promotion Department of the Trade Bureau. In 1959 the MFA set up the Economic Cooperation Department, which was upgraded to the Economic Cooperation Bureau in 1962. In 1964 the MFA's Reparations Department was dissolved for a better union with the Economic Cooperation Bureau.

The MITI's leading role in trade promotion peaked at the establishment of the OECF. The impetus for this event stems first from Prime Minister Kishi's proposal in 1957 for an Asian Development Fund, combining American capital, Japanese goods and

³³White, Japanese Aid, 32.

skills, and Southeast Asian labor and resources.³⁴ The Diet appropriated 5 billion yen for this fund in the Ex-Im Bank budget. However, Kishi's proposal of a regional bank was rejected by skeptical Asian nations and a reluctant United States in favor of global institutions such as the International Development Association (IDA) established in 1960. Rather than the pressure from the international system, the business circles and the LDP factions aligned with Kishi were urging a closer relationship with Asia, especially after the end of the boom phase in 1957.³⁵ In October 1959 the Keidanren set up the Economic Cooperation Committee, which was led by Shinichi Takasugi and lobbied for acquiring the Kishi fund. In July 1959 the LDP set up the Special Committee for Economic Cooperation in the Policy Affairs Research Council (PARC), which made a similar proposal in August 1959, calling for a soft loan agency. The government bill was passed in December 1960, and the OECF was established on the basis of the Kishi fund.

In this process, there were bureaucratic struggles among the ministries of Finance, Foreign Affairs, and MITI for jurisdiction over the OECF operations. The compromise was the EPA for the managing agency, and yet the EPA was regarded as MITI's "colonial" agency. MITI's intention to promote exports by creating a bridge between private and public funds was reflected in the OECF personnel and operations. The first two presidents of the OECF were selected from

³⁴Alan Rix, "Japan's Foreign Aid Policy: A Capacity for Leadership," Pacific Affairs 62, 4 (Winter 1989-1990), 466-67.

³⁵Harrell, "Japan's Postwar Aid Policies," 80.

the business circles.³⁶ The OECF began providing both direct loans to foreign governments and loans to and equity investment in corporations.

The four-ministry system became the engine for the expanded volume of ODA loans in the late 1960s. This was a result of competition, rather than coordination, among these ministries. The need for administrative reforms repeatedly came from the business organizations in Japan, and from the DAC annual examinations.³⁷ As well, jurisdictional problems of the four-ministry system were formally criticized by the government's Commission on Administrative Reform.

The 1964 report by the Commission pointed out the inactive OECF operations and the dual jurisdiction over technical cooperation, calling for a central policy-making agency coordinating domestic and international changing demands.³⁸ After a comparison between a centralized system and strengthening coordination under the existing dispersed system, the report chose the latter option. As a central coordinating agency, the MFA was selected as a suitable candidate. It also recommended that a Ministerial Committee on Economic Cooperation be established, and that the Council of Foreign Economic Cooperation (CFEC) be restructured to increase its membership from

³⁶Harrell, "Japan's Postwar Aid Policies," 152.

³⁷Rix, Japan's Economic Aid, 51.

³⁸Gyosei Kanri Kenkyu Center, Gyosei Kaikaku no Vision no. 1, (Tokyo: Gyosei Kanri Kenkyu Center, 1981), 157-177.

the private sector. In concrete, it suggested a line of demarcation of OECF and Ex-Im Bank financing and effective operations of the CTCA.

Both the MOF and MITI opposed the idea of a strong MFA, and defended their position through an intra-ministry reorganization. The MOF created the International Finance Bureau in 1964, and MITI established the Economic Cooperation Department within the Trade Promotion Bureau in 1965. As a result, the coordinating role was expected to be played by experts or politicians. In 1969 the CFCE was reorganized under the Prime Minister's Office, and chaired by Shigeo Nagano, then chairman of the Japan Chamber of Commerce and Industry. In the same year the ad hoc Ministerial Committee was also created to supplement the Council. However, these two organs could not play the expected role, mainly because there was little support from the bureaucracy with policy-making expertise on aid.

2.4 "Economic Cooperation" as Import Promotion

2.4.1 Rise of Multilateralism and Diversification of Grant Aid

A gradual increase in Japanese ODA volume accelerated and reached \$1 billion in 1973, when the 1 percent of the GNP target for total flows was met. The annual ODA disbursements varied between \$1 billion and about \$2 billion from 1973 to 1978. As compared with the previous years, the volume of disbursements to multilateral agencies expanded at a rapid rate. A large amount of payments was made to the ADB, especially in 1973. Japan also joined the African Development Fund in 1973 and the Inter-American Development Bank in 1976. The shift in the mid-1970s towards funding regional groupings and institutions was not limited to Japan, other OECD

donors also contributed. Thus, the ratio of Japan's multilateral ODA in relation to total multilateral ODA in the world did not exceed 15 percent in this period, as shown in Figure 2.2.

Figure 2.2: Share of Japan's Bilateral and Multilateral ODA in the World

As for bilateral ODA, yen loans grew and constantly maintained a level of over \$500 million, whereas grants increased moderately during this period.

Reparations and reparation-like payments were finally terminated in 1976 and 1977, respectively. Instead, various forms of grant aid were developed in this period. This was also a reflection of challenges by the ministries excluded from the four-ministry system on loans under fiscal difficulties due to lower economic growth. Grant aid for fisheries was first extended in 1974 for the construction of cold storage and fishery training centers, or for acquisition of fishery training ships and research facilities. Fishing interests became critical to Japan, especially after the introduction of the exclusive 200-mile economic zone. This was a result of the third United Nations Conference on the Law of the Sea starting in December 1973. Although the Fisheries Agency never regarded ODA as part of the fishing fees to be paid by the private sector, fishing firms tended to do so. In 1975 the Ministry of Education took the lead of grant aid for cultural activities. In 1976 the grant aid for disaster relief was also introduced. In 1977 the Agricultural Ministry gained another share of the pie, grant aid for increased food production, or "2KR aid," for the purchase of fertilizers, agricultural chemicals or agricultural machinery.

2.4.2 Latin America, Africa and the Middle East

The major part of Japan's bilateral ODA continued to be allocated to Asia, the main recipient country being Indonesia. In relative terms, however, Japan diversified its geographic attention quickly during the period 1971-1979, especially to Latin America,

Africa and the Middle East. There are two main explanations for these phenomena. According to the first one, these areas emerged as equally important areas for Japan's overseas investments.³⁹ In this view, the state followed the private flows to Latin America and the Middle East, and the public and private flows became more concurrent than before. Another view is the strategic aid theory, in which political factors are stressed rather than economic ones.⁴⁰

Net ODA disbursements from Japan to Latin America turned positive in 1973. Japan traditionally regarded Latin America as a reserve for the United States, and provided little official funds to this area, except for some South American countries where Japanese immigrants lived. This international environment significantly changed in the late 1960s, when the war in Vietnam and the dollar crisis led to the Nixon doctrine critically reviewing America's over-commitments to overseas affairs. In this process, the United States expected Japan to share the costs in sustaining international "public goods," in particular security and aid. Japan responded to this pressure gradually by extending aid to this area, such as Peru and Paraguay, although Latin America's share was very limited until 1973. The oil crisis caused a sharp increase in its share to diversify resources suppliers. Before the 1982 debt crisis in Mexico, most of the Japanese ODA was in yen loans, rather than grants, because Latin America was categorized as consisting of middle-income countries.

³⁹Terutomo Ozawa, Multilateralism, Japanese Style: The Political Economy of Outward Dependency, (Princeton: Princeton University Press, 34-45.

⁴⁰Yasutomo, The Manner of Giving.

Those loans were extended to mainly natural resources development projects, such as copper mining in Peru.

Africa's share in Japanese bilateral ODA increased sharply after the first oil crisis, from 1.1 percent in 1972 to 6.9 percent in 1975. Although the following two years saw a slight decrease, Africa's share increased again after the second oil crisis, reaching 11.9 percent in 1980. The MFA recognized the international political significance of African countries, which occupied one-third of the UN votes, even before the oil crises, and yet Africa was less important than Western trade partners. Indeed, Japan was reluctant to vote for the anti-apartheid resolution proposed by the Organization for African Unity (OAU). Instead, Japan provided a limited amount of technical assistance and yen loans to some African countries. The change happened in 1974, when Japan formally expressed support for anti-apartheid and suspended its cultural and educational exchanges with South Africa. In the same year, Toshio Kimura visited Africa as a Japanese foreign minister. The next formal trip was made in 1979, immediately after the second oil shock, by Foreign Minister Sunao Sonoda. Both ODA loans and grants increased, especially after 1978. Most of them went to East Africa, including Kenya, Zaire and Zambia, which were regarded as important exporters of rare metals to Japan.⁴¹

While Japanese Foreign Ministers made formal trips to Africa in the years after the oil crises, the Prime Minister or Vice-Prime Minister visited the Middle East in the very years of the crises. In

⁴¹Khalil T. Darwish, "Keizai Enjo to Nihon no Africa Seisaku," Kokusai Mondai, no. 326, (May 1987), 70-86.

October 1973, when the fourth Middle East War broke out, OPEC countries decreased their oil supply to Japan which was viewed as an unfriendly nation. In December of the same year Prime Minister Kakuei Tanaka sent Vice Prime Minister Takeo Miki and OECF President Saburo Okita to eight Arab nations. They expressed their pro-Arab stance, and pledged a huge amount of ODA.⁴² Similarly, Prime Minister Takeo Fukuda visited Iran, Qatar, the United Arab Emirates and Saudi Arabia with gifts of ODA in September 1978.

Diplomatically, Japan's position on the Middle East had changed little since the 1967 Arab-Israeli conflict. Japan chaired the United Nations Security Council and backed Resolution 242, calling on Israel to withdraw from areas captured during the 1967 war. For Japan, dependent on Persian Gulf petroleum through major American oil companies, not directly from the Arab states, this was a minimum commitment balancing Palestinian rights and Israeli-American interests.

The oil embargo made the Japanese business circles call for an abrogation of ties with Israel, but the MFA preserved ties with Israel as an ally. Since Resolution 242 was not enough to satisfy the OPEC nations, the MFA used official and private aid as a more tangible tool of persuasion.⁴³ In 1975 an economic and technical cooperation agreement was concluded for big projects in Saudi Arabia with OECF and private funds. Japan provided Egypt with ODA loans for

⁴²Saburo Okita, "Chuto Sekiyukoku 25000-kiro no Tabi," Chuo Koron (March 1974), 54-65.

⁴³Michael M. Yoshitsu, Caught in the Middle East: Japan's Diplomacy in Transition (Toronto: Lexington Books, 1984), 1-11.

expanding and modernizing the Suez Canal in 1975. Because the aid diplomacy worked, the MFA continued to apply it to this area during the Camp David Accords in 1978. During the 1979 Iranian hostage crisis and the Soviet invasion of Afghanistan, Japan allocated further aid to this area. The Iran-Iraq War also spurred this tendency. This orientation facilitated a departure from liberal diplomacy, that is the separation of politics from economics, to realist diplomacy stressing politico-strategic goals.

Diversification of geographic focus also happened within Asia, especially with the communist countries. More non-military aid was required, because the cold war system was weakened by Nixon's visit to Peking in 1972 and the U.S. withdrawal from Indochina in 1973. After the fall of Saigon in 1975, Japan concluded a grant agreement with North Vietnam. By 1978 the credits of the former South Vietnam were ceded by the united Vietnam, to which Japan provided further grant aid and commodity loans. However, aid to Vietnam was soon frozen because of the invasion of Cambodia in January 1979. In 1977 a grant aid agreement with Mongolia was also concluded. For the Japanese government, these became preliminary cases of aid for other communist regimes in Cambodia, Laos and China. The new direction of aiding communist Asia, except North Korea, was confirmed by Prime Minister Fukuda's speech in Manila in August 1977 (the Fukuda doctrine).

2.4.3 Economic Infrastructure

It is often said that Western donors tended to emphasize the redistribution principle in the short run, whereas Japan stressed the efficiency principle in the long run. Government documents in Japan

favorably argued that this difference led to the success of Asian NIEs.⁴⁴ Indeed, economic infrastructure continued to be the largest sector for Japan's ODA program after 1974. The proportion of economic infrastructure in bilateral ODA commitments superseded that of the production sectors in 1975, especially in the form of project loans. The breakdown of the OECF loans for economic infrastructure shows the rapid expansion of the transportation sector in this period. The main targets in this sector were railroads, roads, seaports and airports.

2.4.4 Manipulating Terms and Conditions

The grant element of overall ODA commitments has been linked with the share of grants in total ODA. The terms of overall ODA were greatly influenced by the amount of grants, rather than the financial terms of ODA loans. However, the loan terms that had hardened in 1970-1972 improved gradually. The grant element of OECF direct loans rose from 45.69 percent to 52.62 percent over the period 1972-1975. Over the same period both maturity and interest rates softened, although these improvements were not sufficient to meet with the DAC 1965 Recommendation on Financial Terms and Conditions. The average interest rate increased again in 1975-1978. Yet, the maturity and grace periods were longer and the level of the grant element of ODA loans was not that deteriorated.

⁴⁴For this issue, see Saburo Okita, "Japan's Role in Asia-Pacific Cooperation," The Annals of the American Academy of Political and Social Science 513 (January 1991), 25-37, and Yutaka Kosai and Kenji Matuyama, "Japanese Economic Cooperation," The Annals of the American Academy of Political and Social Science 513 (January 1991), 62-75.

These changes took place during the period of geographic diversification, and yet a main reason for these changes lay in an Asian affair. In addition to the oil shock, another event attacked the Japanese ODA community in 1974. When Prime Minister Tanaka visited Bangkok and Jakarta in January, he faced violent demonstrations against Japan's overpresence in Asian economies. The Tanaka government responded to ASEAN complaints by increasing the absolute volume of ODA with improved terms and conditions.⁴⁵

As for procurement conditions, the Japanese government had justified the source-tying in terms of the balance-of-payments weakness since the reparations payments.⁴⁶ This rationale lost ground in the mid-1960s, when the Japanese trade surplus became recurrent. Procurement-tying of aid became a controversial issue in 1969 and 1970, when the Pearson Commission and the Tinbergen Commission devoted much attention to this issue. The 1965 DAC Recommendation had already made a proposal for joint and individual efforts to untie bilateral ODA. However, there was little policy change among the donor countries, mainly because the United States was suffering from a persistent balance-of-payments deficit and maintained its aid-tying practice.⁴⁷ At the 1970 OECD ministerial meeting, Nixon's America took the lead in promoting aid-untying, especially with respect to Latin America. At the DAC High-Level

⁴⁵Dennis Yasutomo, "Why Aid?: Japan as an 'Aid Great Power,'" Pacific Affairs 62, 4 (Winter 1989-90), 492.

⁴⁶ Loutfi, The Net Cost of Japanese Foreign Aid, 67.

⁴⁷OECD, Development Assistance: 1970 Review (Paris: OECD, 1970), 52.

Meeting held in Tokyo in September 1970, a majority agreed that their multilateral contributions as well as bilateral loans should be untied. With this as a start, Japan took a forward-looking attitude on relaxation of procurement restrictions of yen loans.

A year later, in 1971, Japan committed its first provision of a general untied loan for a Burma project of prospecting submarine oil fields.⁴⁸ In 1972 Tokyo adopted a policy of aid-untying as part of emergency measures for alleviating trade and foreign reserve imbalances. Then Japan took a positive attitude for aid-untying at the third UNCTAD conference and the seventh Asian ministerial conference on development. However, no untied OECF loan was provided in the same year. In November 1972 the OECF Law was revised to enable it to extend untied ODA loans, not only project loans but also commodity loans.⁴⁹ As a result, the tying ratio of Japanese ODA loans dropped markedly in 1973. Japan also announced its intention to untie multilateral contributions in principle at the DAC high-level meeting in October 1973. The tying status of the DAC countries as a whole improved in the mid-1970s due to the increased share of multilateral ODA.

In June 1974, ten DAC members, including Japan, agreed upon the Memorandum of Understanding on Untying of Bilateral Development Loans in favor of procurement in LDCs. Following this agreement, the Japanese government began a shift to LDC-untied loans in fiscal 1975. In the period from 1975 to 1977, Japan sharply

⁴⁸This instance was made for a technical, rather than policy, reason. Bad weather conditions of the project site required a large excavator vessel made in the United States. Kaigai Keizai Kyoryoku Kikin 20-nenshi, 238.

⁴⁹Kaigai Keizai Kyoryoku Kikin 20-nenshi, 117.

increased LDC-untied loans, rather than general untied loans, while decreasing formal tied loans.⁵⁰ Although the bidding was open to developing countries in the case of LDC-untied loans, few companies in developing countries were able to offer the sophisticated facilities and technologies required for the development projects. The goods and services were procured from Japanese companies in many cases. Thus, LDC-untying became de facto tying. To increase LDC-untied loans was, for the Japanese government, the best balance between international pressure for aid-untying and domestic demands in hard times caused by the first oil crisis.

2.4.5 Resource Security and the Creation of JICA

Criticisms of the inefficiency of the fragmented aid administration still existed at home and abroad. In 1971 the government's Council of Foreign Economic Cooperation (CFEC) reported the need for a central agency. In addition, LDP's Special Committee sought a merger of the OECF and the OTCA, and the DAC often mentioned the need for administrative reform. The calls for a unified aid administration did not take a crucial turn until 1972, when the Ministry of Agriculture, Forestry and Fisheries (MAFF) challenged the four-ministry system.⁵¹ In the summer of 1972, the MAFF proposed the establishment of a new agency for agricultural aid for the fiscal 1973 budget. This proposal arose from the MAFF's complaint about the ill-equipped OTCA administration for

⁵¹Rix, Japan's Economic Aid, Chapter 2, and Mitsuya Araki, "Kasumigaseki wa Moeta," Kokusai Kaihatsu Journal (August 1984).

agricultural grant aid as well as the MAFF's exclusion from the four-ministry group on loan aid.

The changing international and domestic environments gave the MAFF bargaining power in bureaucratic politics. When the Soviet Union bought a massive volume of grain stocks from the United States in 1972, support for food security gathered added momentum from politicians and the public. Although the oil shock of 1973, of course, made the Japanese recognize the instability of resource imports, the reorganization of aid administration was started by the initiative of the LDP members elected from rural constituencies. Prime Minister Tanaka himself was from the rural Niigata constituency. The November 1973 reshuffle of his cabinet produced three LDP ministers from rural areas. Finance Minister Takeo Fukuda, Agricultural Minister Tadao Kuraishi, and Director for the Administrative Management Agency Shigeru Hori took portfolios directly related to the new agency issue. All of them were from the Fukuda faction. In drafting the 1974 budget, Tetsuo Minato, another Diet member from the rural Fukushima constituency, played an active role in drafting the LDP proposal at the PARC. With his advice, Prime Minister Tanaka preferred a new aid agency with a portfolio, but this was not realized because of strong opposition from the MFA and the MOF. At a cabinet meeting in December 1973 it was decided to establish a new agency without a portfolio.⁵²

⁵²Five points were agreed upon: (1) MFA's OTCA and the Japan Emigration Services (JEMIS) would be the foundation of a new agency; (2) the Foreign Minister would supervise the agency, and the MAFF and MITI would have joint responsibility; (3) MITI's aid implementation agency and parts of the MAFF agency would be included; (4) the existing operations of the OTCA would be retained, but new business for agriculture, mining and industry, and emigration would be added; and (5) a law, like the OTCA Law, would be enacted.

The Japan International Cooperation Agency (JICA) was established in August 1974. The term "international cooperation," rather than "economic cooperation," was named by Finance Minister Fukuda.⁵³ Its institutional structure was sectionally divided as colonies of the respective ministries. The MAFF won some benefits because the establishment of JICA brought it even closer to the center of Japanese aid administration. The MFA also kept its influence by securing predominant control of JICA. Sinsaku Hogen, former Administrative Vice-Minister of Foreign Affairs with an expertise in security, became the first JICA president. MITI lost one of its subsidiary agencies, the Japan Overseas Development Corporation, and won less influence over JICA than it had had over the OTCA.⁵⁴ In short, the birth of JICA was a result of bureaucratic politics under the dominant idea of resource security.

2.5 "Economic Cooperation" as Comprehensive Security

2.5.1 First and Second Medium-Term Targets

Japan's ODA volume has increased rapidly since 1977, when the Fukuda government adopted the first Medium-Term Target calling for the doubling of the ODA volume over the coming five years. This added a great momentum to increase the ODA budget at the state level, and yet the appreciation of the yen was a much bigger momentum to do so. One year later, in May 1978, the target date was brought forward. Fukuda pledged to double the volume

⁵³Mitsuya Araki, "Kasumigaseki wa Moeta," 155.

⁵⁴Rix, Japan's Economic Aid, 75.

within three years, at his meeting with then U.S. President Jimmy Carter at the Bonn Summit in July. However, there was no bureaucratic consensus on the base year and currency. While the MFA and MITI preferred a yen-denominated target based on fiscal 1977, the MOF and the EPA chose instead the dollar denomination based on fiscal 1976.⁵⁵ There was a difference of \$319.52 million between the two. The compromise made between Prime Minister Fukuda and EPA Chief Kiichi Miyazawa was the expression in U.S. dollars on a 1977 base. Net disbursements of multilateral and bilateral ODA, and both bilateral loans and grants, expanded at a rapid rate in these years, and the 1980 target was exceeded by 16 percent.

The second Medium-Term Target of ODA was introduced by the Zenko Suzuki government in January 1981. This Target aimed at improving Japan's ODA/GNP ratio and for the doubling of the cumulative ODA disbursements, in U.S. dollars, in five years over the previous five years. This plan spelled out three sub-goals: (1) more than doubling the aggregate amount of ODA budgets in the General Account during the period from fiscal 1981 to 1985; (2) positively expanding ODA loans; and (3) positively responding to the demands from international financial institutions. The ODA budgets in the target period totaled 2,430.7 billion yen, that is 98 percent of the doubling originally targeted on a yen basis. In dollar terms, however, Japan's total ODA disbursements over these years amounted to \$18.07 billion, or just 84.6 percent of the original target. Although

⁵⁵Rix, Japan's Economic Aid, 43.

this achievement rate was considerably lower than that of the first doubling target, the average achievement rate of these two targets, in dollar terms, was 100.3 percent. Figure 2.3 shows that the ratio of ODA to GNP of Japan peaked in 1984, and yet declined again in 1985.

Figure 2.3: The Ratio of ODA to GNP

Two waves can be seen about multilateral ODA from Japan during the period 1979-1986. The first peak was in 1980, and the second one was in 1984, when the ratio of multilateral to bilateral ODA recorded 0.78, the highest level throughout the postwar period. Compared to the moderate increase of bilateral ODA, multilateral ODA increased positively, as declared in the second mid-term target. In this process, Japan became a full member of the African Development Bank in 1983, and the second largest supplier of funds to the World Bank in 1984.⁵⁶ Concerning bilateral ODA, the cumulative volume of ODA loans during the period 1981-1985 grew to be 1.42 times as large as that in the period 1976-1980. The volume of ODA grants over the same period rose more than two-fold. Although neither first nor second volume targets mentioned the increase in grants, the expansion of grants was sharp in the late 1970s.

2.5.2 The 7:1:1:1 Formula

Aid to Oceania accounted for a three-fold increase from \$4.64 million in 1978 to \$13.6 million in 1979. There were at least two motives for this increase. First, there was an increased threat of Soviet military forces in the Asian and Pacific area. The Soviet invasion of Afghanistan in December 1979 prompted the United States to expand its military forces and to ask Japan, as well as other major allies, to do the same. Indeed, in 1980 the Japanese Maritime Self-Defense Force first participated in the Pacific Rim Exercise led by the United States navy. As part of compensation, or substitute, for

⁵⁶Yasutomo, The Manner of Giving, 3.

this military expansion, Japan also increased ODA to this area under the names of "comprehensive security policy" and "Pacific Basin cooperation." This was reaffirmed by Foreign Minister Tadashi Kuranari's statement (the Kuranari doctrine) in January 1987. Another motive was Japan's fishing interest since the third UN Conference on the Law of the Sea. Grant aid for fisheries to this area increased markedly.

Despite a sharp rise of ODA to Oceania, its absolute amount accounted for at best a 1.4 percent share in 1986. The greater geographic dispersion initiated in the early 1970s was arrested by 1979. There was little change in the regional distribution of Japan's ODA during the 1980-1987 period. Its pattern was characterized as the 7:1:1:1 formula: 70 percent of ODA was allocated for Asia and 10 percent each for Latin America, Africa and the Middle East. The proportion of Asia fell to 59.3 percent in 1977, but it did not decline further. Asia's share remained about 65-70 percent during the period from 1980 to 1987. Japan, as the first donor country in the Western bloc, extended ODA to the People's Republic of China in 1979. Although the Japanese government never admitted the existence of such a formula, this pattern was maintained by "the unwritten rule that new loan recipients receive no further government loans for at least five years," except for several Asian countries receiving yen loans every year.⁵⁷ However, different aid philosophies were applied to different geographic areas. A former MFA Vice-Minister noted that the idea of interdependence was

⁵⁷Rix, "The Future of Japanese Foreign Aid," 430.

applied for Asia, humanitarianism for Africa, and international security for Latin America.⁵⁸

2.5.3 Growth of the Basic Human Need Sectors

The development and transmission of energy continued to be a major sector for Japan's ODA program. However, the sectors related to basic human needs (BHN) has grown steadily since the oil crises, which seriously affected the economy of non-oil-producing developing countries. In June 1977, the OECD ministerial conference announced a shift from the growth-oriented strategy with trickle down to the basic human needs-oriented approach within the context of achieving self-sustaining growth.⁵⁹ U.S. President Carter advocated human rights diplomacy. The concept of basic human needs was explored, and became the central idea for the international development strategy for the third United Nations Development Decade in the 1980s.

Parallel to this, the share of grants for BHN increased in this period. Even in ODA loans, the share of social infrastructure projects tended to increase after 1978. As a result, the share of the BHN sectors in total bilateral ODA commitments increased from 13.1 percent in 1977 to 23.2 percent in 1978, and peaked at 33.3 percent in 1985.⁶⁰

⁵⁸Takujiro Hamada, "Taikenteki Enjo-ron," in Takeshi Igarashi (ed.) Nihon no ODA to Kokusai Chitsujo (Tokyo: JIIA, 1990), 161.

⁵⁹OECD, Development Cooperation, 1977 Review (Paris: OECD, 1977), 149.

⁶⁰The BHN sector here refers to the sum of the DAC-classified sectors of agriculture, education, health, social infrastructure and welfare, food aid and emergency aid.

2.5.4 Ambivalence in Terms and Conditions

The grant element of total Japan's ODA was 70.2 percent in 1977, one of the lowest among the DAC countries.⁶¹ This reflected primarily the high share of loans as well as the still harder loan terms, the grant element being 52 percent in 1977. The financial terms of ODA loans extended to the least-developed countries (LLDCs) were also harder than those of the majority of DAC members, although Japan extended a larger amount of untied grant aid to those countries in 1978. The grant element of ODA loans decreased from 56.1 percent in 1980 to 49.8 percent in 1985. However, the grant element of overall ODA was maintained at the same level of the previous period, reflecting an increase in the share of grants in total commitments.

Regarding procurement conditions, following the June 1974 DAC agreement, Japan increased LDC-untied loans, and yet decreased general untied loans at the same time. This practice received international criticisms, especially from the United States with its trade deficit with Japan having reached \$8.1 billion in 1977. In January 1978 the Japanese government decided to pursue its basic policy of general untying of its financial assistance as part of the package stated in a joint communique issued by the Japanese Minister for External Economic Affairs, Nobuhiko Ushiba, and Carter's Special Trade Representative, Robert Strauss.⁶² Thus, Japan began to

⁶¹OECD, Development Cooperation: 1978 Report (Paris: OECD, 1978), 142.

⁶²New York Times, 14 January 1978.

regard untied-ODA as a diplomatic tool to mitigate the friction with its trade partners, although it did not play the expected role.

In fiscal 1978 the share of general untied loans rapidly increased and superseded that of LDC-untied loans. This tendency continued in the subsequent years. During the period 1978-1986, the former fluctuated between 49 percent and 68 percent, and the latter between 27 percent and 51 percent. By 1980 formal tied loans had almost disappeared, and there were no tied loans at all in fiscal year 1981. However, the proportion of general untied loans temporarily declined and that of LDC-untied loans rose in the same year. This shows that the decreased portion of tied loans was replaced by LDC-untied, rather than general untied, loans.

While the Japanese government made some concessions for general untying, it also started subsidies for preliminary study of large-scale projects and increased subsidies for project formation to the ECFA in 1977.⁶³ By 1978 the tax privileges for consulting firms were also regularized. "Compound untying," in which consulting services were LDC-untied and constructing goods and services were generally untied, was also arranged to promote Japanese consulting firms.⁶⁴

2.5.5 Brain-Trust Politics for Comprehensive Security

Most aid policy-making initiatives still rested with the disintegrated bureaucracy. Despite opposition from the bureaucrats,

⁶³Engineering Consulting Firms Association, Aru Dantai no Kiroku (Tokyo: ECFA, 1984), 95.

⁶⁴Tetsuma Fujikawa, "Yo no Tame, Hito no Tame, Nan no Tame," in Igarashi (ed.), Nihon no ODA to Kokusai Chitsujo, 151.

Prime Minister Masayoshi Ohira initiated aid to "countries bordering areas of conflict," including Turkey.⁶⁵ Ohira regarded aid as an important tool for achieving "comprehensive national security." He needed some organizational innovation to make this an over-arching jurisdictional strategy. The ex-bureaucrat prime minister did not choose administrative reorganization. The LDP could be a source of political leadership, but his position in the party was extremely difficult due to his defeat in the 1979 election. To legitimate his new idea, Ohira opted for a brain-trust technocracy, consisting of many aides such as expert academics, industrialists and business leaders. He created several policy-making study groups, including ones on "comprehensive national security" and "Pacific Basin cooperation."

After the sudden death of Ohira, his successor, Prime Minister Zenko Suzuki, did not resort to consultation with academics, and yet did follow through on Ohira's idea, continuing aid to the "areas that are important to the maintenance of peace and stability of the world." Prime Minister Yasuhiro Nakasone, who was from a right wing faction, added a more hawkish element to this idea, following Ohira's style of brain-trust policy-making. Nakasone settled a controversial aid agreement with South Korea in 1983, using his trust-aide Ryuzo Sejima. Nakasone also organized the Advisory Group on Structural Economic Adjustment for International Harmony to overcome shortcomings of the trading nation. The Nakasone government also promoted some of the recommendations made by the second Ad Hoc Commission on Administrative Reform. However,

⁶⁵Yasutomo, The Manner of Giving, 69.

the neo-conservative ideology of Nakasone and his aide did not lead to reform, rather it led to an appreciation of the competitive nature of the disintegrated aid administration.

2.6 "Economic Cooperation" and Global Contribution

2.6.1 Third and Fourth Medium-Term Targets

In September 1985, the Nakasone cabinet adopted the third Medium-Term Target of ODA, which was announced at the United Nations General Assembly. This target again aimed at improving the ODA/GNP ratio as part of "international responsibilities," and called for an increase in cumulative ODA disbursements to more than \$40 billion by 1992. The Japanese government now tried to expand all forms of ODA to reach a 1992 ODA disbursement level of \$7.594 billion, which would be double that of the 1985 record.

On September 22, 1985, the finance ministers of the Group of Five announced their intervention in the foreign exchange market to alleviate the huge trade imbalance between the United States, Japan and Europe (the Plaza Accords). As a result, the yen was revaluated and Japan's ODA, in dollar terms, scored a sharp increase in 1986. The Japanese government reviewed the ODA target as part of the long-term policy measures dealing with Japanese economic and social bases. The Emergency Economic Measures of May 1987 included the advanced implementation of the seven-year ODA doubling target in five years, recycling over \$20 billion of completely untied official and private funds to developing countries over the next three years, and

expanding grant aid, including \$500 million in non-project-type grants for African and other LLDCs over the following three years.⁶⁶

The revised third target required Japan's ODA in 1990 to be over \$7.6 billion. Since this goal was easily met in 1987, the Noboru Takeshita government hurried to approve the fourth Medium-term Target, in June 1988, and announced this plan at the Toronto Summit. This was aimed at doubling the aggregate volume of ODA disbursements during the 1988-1992 period to over \$50 billion. This meant more than doubling that of the 1983-1987 period. Japan disbursed \$8.965 billion of ODA in 1989, and the ratio of Japan's ODA to the world's total ODA reached 20 percent. At the Paris Summit Japan announced another capital recycling measure, a \$65 billion package over five years of official and private funds directed to international financial institutions and developing countries. Thus, Japan overtook, for the first time, the United States as the world's largest donor in 1989. However, Figure 2.4 shows that this achievement was accompanied by the development of the predominance of ODA loans. In 1989 the share of Japan's ODA loans in total ODA loans from the DAC countries reached 49 percent, while that of Japan's ODA grants recorded only 11 percent. The recent appreciation of yen has made it difficult for recipient countries to repay principal and interest to the donor country and an increase in yen loans could unexpectedly worsen the debt situation of the developing countries.

⁶⁶Ministry of Foreign Affairs, Diplomatic Bluebook, (Tokyo: MOF Printing Bureau, 1987), 28.

Figure 2.4: Share of Japan's Bilateral ODA Loans and Grants in the DAC Countries

2.6.2 Africa, the Persian Gulf and Eastern Europe

The relative importance of ASEAN support gradually decreased to 59.3 percent in 1990. Instead, Africa's share in Japan's bilateral ODA rose to a record 15.3 percent in 1989. Figure 2.5 shows that the ratio of Japan's bilateral ODA towards Africa in relation to ODA from all other donors combined, suddenly increased to 43 percent in 1986. The DAC countries urged Japan to extend more ODA to sub-Saharan Africa where, they argued, structural adjustment support was urgently needed for democratization. Procurement for the Japanese grant aid program of \$500 million for sub-Saharan Africa was untied, and was entrusted to the United Kingdom's Crown Agency and the United Nations Development Program (UNDP).⁶⁷

Nevertheless, the geographic distribution continued to concentrate on Asia. MITI's New Asian Industrial Development (AID) Plan and the ASEAN-Japan Development Fund supported this tendency. The ODA Charter adopted by the Kiichi Miyazawa government in June 1992 stated that East Asia and ASEAN would be targeted because higher economic growths in these areas would contribute to development of not only Asian but also the world's economy.

⁶⁷OECD, Development Cooperation: 1988 Report (Paris: OECD, 1988), 76.

Figure 2.5: Share of Japan's Bilateral ODA
in Total ODA in the World

The Gulf War and the upheaval of Eastern Europe stopped further increases in Africa's share, which was 11.4 percent in 1990. Whereas, the Middle East rose to 10.2 percent and Europe to 2.3 percent in the same year. Because increased Iraqi power was a result of aid from the Western bloc, Japan reviewed the political use of ODA. In April 1991, the Toshiaki Kaifu government declared a four-point guideline for aid distribution. They would take account of the recipient country's: (1) military expenditure, (2) weaponry development and production, (3) weaponry exports and imports, and (4) democratization, market mechanism, and basic human rights. The Kiichi Miyazawa government modified these ODA guidelines into the four-point principle of the ODA Charter: (1) coexistence of environment and development, (2) avoidance of any use of ODA for military purpose or for aggravation of international conflicts, (3) attention to trends in recipient countries' military expenditure, their development and production of mass destruction weapons and missiles, and their exports and import of weapons, and (4) their situations in democratization, market-oriented economic policies, and human rights.⁶⁸ While the resumption of aid to China after the Tiananmen Square incident undermined the credibility of these ODA principles, the first disciplinary use was applied to the freezing of aid to Haiti after the September 1991 coup. Japan also rewarded Mongolia's shift to a market-oriented economy and democratization with ODA.

⁶⁸Takao Kawakami (Director-General, Economic Cooperation Bureau, Ministry of Foreign Affairs), "Japan's ODA Policies for a Peace Initiative," paper presented at the Tokyo Conference on Arms Reduction and Economic Development in the Post-Cold War Era, November 5, 1992.

2.6.3 Policy-Based Lending and Non-Project Assistance

In the early 1980s the World Bank started policy-based lending, such as structural adjustment (SAL) and sectoral adjustment (SECAL). Like traditional commodity loans, SAL and SECAL were the provisions of quickly disbursable non-project loans supporting the fast improvement of an international balance-of-payment problem. Unlike commodity loans, however, this lending required the conditionality for a "structural adjustment" policy based on the new orthodox ideology, which regarded the balance-of-payment problem as the result of the state-led development strategy promoted in the 1970s. The neo-conservative solution to this problem is to limit state intervention, to maximize the role of the market mechanism, and to promote the export-oriented sector. SAL and SECAL were provided, in principle, only when these policy arrangements were accepted by the recipient government.

In fiscal 1986 the OECF first provided SAL in conjunction with the World Bank's African Special Fund. This special joint financing was made again in 1987, and the joint financing with SAL by the World Bank was also extended as the ODA component of the capital recycling program.

Policy-based loans again expanded non-project program aid. Figure 2.6 shows that Japan's ODA for economic infrastructure is decreasing, although it is still higher than the world's average, and that, instead, Japan's program assistance recorded over 1.5 times as much as the share of the world's total official development flows in 1989. A higher proportion of project-type ODA, especially for large-scale economic infrastructure, would push Japanese disbursements to

enormous levels, maybe beyond the levels of recipient absorptive capacity and other donors' tolerance. This is also difficult in terms of state capability with limited aid personnel and budget deficits. A rapid increase in non-project assistance is perhaps the only way to attain the fourth volume target under the present domestic and international conditions.

Figure 2.6: Japan's ODA and the World's ODF Commitments by Purpose

2.6.4 Justifying Loan Terms and Conditions

As shown in Figure 2.7, the financial terms of Japan's total ODA improved slowly over the period 1985-1990, although it still failed to meet the 86 percent norm set by the DAC in 1978. The improved terms performance reflected the improved loan terms, rather than the growth of grant. Since 1986 the interest rates have declined, in conjunction with the ASEAN-Japan Development Fund.

General untied loans expanded after 1987. In 1986 two corruption scandals shook the Japanese aid community: Marcos and JICA. On the flight of Ferdinand Marcos in February, confidential documents were seized by U.S. customs in Hawaii, and part of them were disclosed in March. Allegations surfaced in the Diet that 10-15 percent rebate for yen loans projects in the Philippines had lined Marcos' pockets from Japanese companies. And in August, two officers of JICA were arrested on bribery charges. They were charged with accepting bribes from contracting companies on tied grant projects in Pakistan, Morocco, and the Philippines. These scandals revealed that aid-tying created opportunities for corruption on both sides of the tied transaction. A series of criticisms arose at home and abroad. The ratio of general untied loans soared in 1987 and in subsequent years. In April 1988 the MFA adopted a policy that ODA loans should be gradually provided on a general untied basis, including consulting services.⁶⁹ About 80.5 percent of ODA loans

⁶⁹Mainichi Shimbun, Kokusai Enjo Business (Tokyo: Aki Shobo, 1990), 54.

were committed to be provided on a general untied basis for fiscal 1989 and 1990.

Even if general untying was committed, the Japanese companies could win in effect due to the competitive ability of Japanese firms and for other reasons. In fact, even if ODA projects are generally untied at the consulting stage, the project specifications can be met only by Japanese companies.⁷⁰ For example, Ensign concludes that the considerable relaxation of official untying provisions are superficial, and that informal restrictions exist against American firms.⁷¹ Prasert points out that Japanese-Thai joint ventures are treated as native Thai firms by Thai law, and that the bulk of profits generated by Japanese ODA projects simply return to the donor country through these "pseudo-native" firms.⁷²

Contract approval statistics for fiscal 1990 indicate that Japanese companies won contracts for 27 percent of all ODA loans and won only 20 percent of the contracts for general untied ODA loans. This does not always mean that companies from other OECD countries won. The increased share of companies from the United States and other OECD countries were relatively marginal. Rather, a larger share of procurement was made by contractors in developing

⁷⁰Orr pointed out that this was the case of the German aid. Orr, The Emergence of Japan's Foreign Aid Power, 68.

⁷¹Margee M. Ensign, Doing Good or Doing Well?: Japan's Foreign Aid Program, (New York: Columbia University Press, 1992), 61.

⁷²Prasert Chittiwatanapong, "Japanese Official Development Assistance to Thailand: A Study of the Construction Industry," paper presented at the IUJ Symposium on Japan's Global Interactions, International University of Japan, May 1993, 5.

countries. However, it is difficult to probe empirically exactly where the main profits have gone, partly because of the limited information released by the Japanese government and because of the existence of multinational corporations and their sub-contracting activities. A Japanese aid official rebuts the criticism by saying that Japanese contractors who have won Japanese ODA projects often procure goods and services locally or in conjunction with other OECD countries.⁷³

It is also important to note that untied loans were promoted in the process of transforming from export-led economic growth to growth driven by domestic demand. It was in 1986 when the Maekawa Report proposed the restructuring of the Japanese economy. Efforts for expanding domestic demand with the drastic decline in oil prices in late 1985 led to a long boom from December 1986. Japanese consulting firms, with limited capacities, were busy in public and private works at home.

As for the grant aid program, most of the grants were still contract-tied, except for the small-scale and non-project grants and grant assistance for debt and disaster relief. Procurement-tying also remains, although partial or general untying is possible in some cases. Thus, an increase of grant aid could also be related to a decrease of tied loans to some extent.

⁷³Interview with an MFA official, 25 May 1993.

Figure 2.7: Slowly Improved Grant Element of Japan's ODA

2.6.5 Reviewing the ODA Administration

The fact that Japan became the largest donor triggered a wide-range review of the ODA administration within the state and society. A fundamental review was initiated by the Diet, the bureaucracy, the private business and voluntary groups involved in aid activities.

The Diet has been increasingly involved in the ODA issue since the Marcos scandal. The historic defeat of the LDP in the 1989 upper House election gave the opposition parties a chance to take the lead in restructuring the aid system. Indeed, the House of Councilors adopted a resolution for strengthening the parliamentary control of aid administration in a plenary session in June 1989.⁷⁴ Nevertheless, a concerted action did not take place in either House. The obstacles for legislative control of aid included the ideological discrepancy among the opposition parties and the fusion between the LDP and bureaucracy.⁷⁵

Within the bureaucracy, the Board of Audit (BOA) and the Management and Coordination Agency (MCA) initiated the wholesale reassessment of the ODA administration. The BOA established a new division to audit ODA business in 1987, although auditing in the recipient countries was not realized because of the principle of non-interference.⁷⁶ The Administrative Management Bureau of the MCA

⁷⁴Shigeyuki Iwaki, "Seifu Kaihatsu Enjo to Kokkai," Reference (November 1990), 98-120.

⁷⁵The Democratic Socialist Party (DSP) emphasized the national interest in aid, which was far from the altruistic ideas of the Japan Socialist Democratic Party (formerly, the Japan Socialist Party) and others. Toshiaki Takatsuka, "Kokkai kara Mita Seifu Kaihatsu Enjo," Gaiko Jiho (March 1990), 31-50.

⁷⁶Junji Nakagawa, "Seifu Kaihatsu Enjo no Kaikei Kensa," Kaikei Kensa Kenkyu 3 (March 1991), 11-23.

reviewed the ODA mechanisms on grant aid in 1988, and on loan aid in 1989. The recommendations included the transfer of grant aid budgets from the MFA to JICA, and the promotion of sectoral specialists for OECF missions.⁷⁷ Despite these, drastic changes did not take place. Rather, the existing mechanisms were strengthened. JICA created another subsidiary organization called the Japan International Cooperation System for the transferred business of grant aid. A bureaucratic battle occurred again over the promoting of education of aid specialists. The MFA established the Foundation for Advanced Studies on International Development (FASID) in 1990, whereas MITI created the Institute of Developing Economies Advanced School (IDEAS) in the same year. This structural problem posed a serious question as to whether Japan could take the leadership in global contributions without changing its internal system.⁷⁸

The business response to the fragmented aid administration resulted in the creation of the Japan International Development Organization (JAIDO). This is a private company for supporting private investment to export industries in LDCs to help solve the debt crisis. The initiative was taken by the Keidanren leaders, who

⁷⁷Management and Coordination Agency, Administrative Inspection Bureau (ed.), ODA (Seifu Kaihatsu Enjo) no Genjo to Kadai (Tokyo: MOF Printing Bureau, 1988), 14, and ODA no Genjo to Kadai vol. 2, (Tokyo: MOF Printing Bureau, 1989), 16.

⁷⁸Rosecrance seems optimistic about Japan's international leadership in aid on the basis of dynamic rational calculation, whereas Rix argues that Japan's hegemonic leadership is unlikely because of internal obstacles to that. Richard Rosecrance and Jennifer Taw, "Japan and the Theory of International Leadership," World Politics 52, 2, (January 1990), 184-209, and Rix, "Japan's Foreign Aid Policy," 461-475.

recognized that promoting yen loans would worsen the debt problems due to the appreciation of the yen.

The 1985 drought in Africa, which was emotionally reported by the mass media, aroused the public awareness of ODA rapidly and increased support for the Non-Governmental Organizations (NGOs). Partly because of a non-Christian tradition in Japan, the support for voluntary groups was a passing phenomenon. The MFA started two types of funding to the NGO sector in fiscal 1989 to strengthen the ODA-NGO relationship: a funding of subsidies for activities by Japanese NGOs; and a system of small-scale capital grants to various organizations, including international NGOs and local governments in LDCs.

CHAPTER THREE: **Sources of Change in the Volume and Form of Japan's ODA**

Beyond the univariate description in the preceding chapter, this chapter offers an empirical evaluation of the volume and form of Japanese foreign aid by employing bivariate and multivariate analyses. Sections 3.1 through 3.4 examine the existing explanations previously discussed in Chapter One, using bivariate linear regression methods, at the levels of the international system, the state and society. Section 3.5 examines causal nexus models, synthesizes them with the existing theories, and elaborates them by means of path analysis. By so doing, it is revealed that the form and volume of Japanese foreign aid are determined first within their own aspects in conjunction with systemic or domestic forces, and in consideration some of the other aspects of ODA to a lesser extent.

Figure 3.1 shows the long-term movements of Japan's ODA in yen terms (ODAY) and its relation to Japan's gross national product (ODA/GNP). It shows the steady increase, until the mid-1970s, and the rapid increase of ODAY after the mid-1970s. It also shows that the ODA/GNP ratio has remained around the 0.3 percent level over the past four decades, except in the late 1950s when the reparation payments were heavily concentrated. In terms of the ODA/GNP ratio, it seems that the Japanese government maintained the goal ratio while remaining reminiscent of the reparation period.

Figure 3.2 provides useful information on bilateral (BIY) and multilateral contributions (MULTIY) to the total volume of Japan's

ODA. The predominance of bilateral ODA became salient in the latter half of the 1960s, and has been strengthened during the 1980s, except for a few years. Once having joined the international financial regimes, the amount of Japan's contributions came to be determined more multilaterally. Thus, for Japan there were seemingly unintentional increases in its multilateral contributions in recent years. On the other hand, within the category of bilateral ODA, the predominance of yen loans (LOANY) has been shrinking rapidly due to the increase of bilateral ODA grants (GRANTY), as shown in Figure 3.3. In short, Japan has attempted to strengthen its bilateral and grant ODA more and more in recent years.

Figure 3.1: Absolute and Relative Volume of Japan's ODA

Figure 3.2: Japan's ODA by Form (Bilateral/Multilateral)

Figure 3.3: Japan's Bilateral ODA by Form (Grants/Loans)

3.1 Economics of Foreign Assistance

3.1.1 North-South Gaps in Economic Growth

According to development economics theory, there should be a strong causal relationship between economic needs in developing countries and the volume of foreign assistance. Assuming that the donor economy has full affordability and the recipient economies have full absorbability of aid, those economic needs can be perceived, in a simple form, as the gaps in national incomes between developed and developing economies. Here we examine three independent variables measuring the North-South gaps from 1968 to 1989. The variable of NEED1 is the difference in GNP per capita between high-income OECD members and low- and middle-income economies as a whole. Similarly, NEED2 measures the gap in per capita GNP between high- and low-income economies, and NEED3 refers to the gap between high- and middle-income economies.¹

To test these hypotheses, bivariate regressions are run with the dependent variables of aid in a broader sense (AID), that is a sum of official and private funds (ODA + OOF + PF + NGO) to developing countries, as well as official development assistance (ODA), bilateral (BI) and multilateral (MULTI) ODA, and bilateral ODA grants (GRANT) and loans (LOAN), all of which are expressed in dollar terms.

Table 3.1 records the results of standardized regression coefficients (beta) for the first-order differences of the variables and

¹Data on GNP per capita in current U.S. dollars for the period 1968-1989 is taken from World Tables from the Data Files of the World Bank, 1989-90 ed., (Baltimore: The Johns Hopkins University Press, 1990), 2-5, and the 1991, ed., (Baltimore: The Johns Hopkins University Press, 1991), 2-5.

the related statistics, for which the observed significance level is less than 0.05; the numbers in parentheses are "t" statistics. As shown in Table 3.1, significant correlation is observed between the variables representing the North-South gaps and ΔODA , or $\Delta LOAN$. The other dependent variables are not significantly correlated with these explanatory variables. Among these independent variables, $\Delta NEED3$ is more correlated than $\Delta NEED1$ or $\Delta NEED2$. In this sense, it may be said that Japan's ODA is more responsive to the needs of middle-income economies than those of low-income economies, or middle- and low-income economies as a whole. This table also shows that the goodness of fit, or the adjusted R^2 , of the regression model for $\Delta LOAN$ is relatively higher, and it seems that the "economics of aid" model is more appropriate for Japanese ODA loans. However, it cannot be concluded that the liberal economics of development is completely applicable to Japan's multilateral ODA contributions and bilateral ODA grants.

Table 3.1: North-South Gaps in Economic Growth

Volume & Form	$\Delta NEED1$	$\Delta NEED2$	$\Delta NEED3$	$\bar{R}^2$	F	Sig. F	DW
ΔODA	.580 (3.106)			.302	9.645	.006	1.705
ΔODA		.573 (3.049)		.293	9.297	.007	1.693
ΔODA			.602 (3.288)	.329	10.812	.004	1.732
$\Delta LOAN$	.611 (3.364)			.340	11.316	.003	1.499
$\Delta LOAN$		.608 (3.336)		.336	11.127	.004	1.482
$\Delta LOAN$			.620 (3.449)	.353	11.895	.003	1.544

3.1.2 Capital Affordability in the Donor Society

The concept of ODA/GNP for international responsibility stems from the analogy of micro-economics theory in the domestic sphere. When we take account of the donor's affordability in international economics, the dependent variable should be Japanese ODA/GNP per capita, rather than ODA/GNP itself, because the Japanese economy also has to satisfy the needs for the increased Japanese population. Therefore, we can examine the volume and form of ODA by employing the Japanese economic growth, that is measured by Japan's GNP (JGNPY) or GNP per capita (JPCGNPY) in yen terms, as an independent variable.² It is hypothesized that the volume of ODA grows when the Japanese economy grows enough to afford foreign aid without worrying about capital investment at home. This specification represents a ratio goal model, which posits that the ODA expenditure levels are based on the MOF's policy intention to maintain a certain ratio of spending in relation to GNP or GNP per capita.

The regression result, based on the original series of ODAY and JGNPY, presents a higher adjusted R^2 , but its DW value is quite low and it is hard to statistically prove the existence of the ratio goal. As shown in Table 3.2, however, significant relationships are observed when the first-order differences of the ODA variables expressed in

²The figures on JGNPY for CY 1956-1960 are taken from Japan Statistical Yearbook (Tokyo: Office of Prime Minister, 1966), 468, and the data for subsequent years is taken from OECD Economic Surveys (Paris: OECD, various years). These figures are expressed in billions of yen at current prices. The figures on JPCGNPY are calculated using this data; and population estimates at mid-years in the millions are from The United Nations Demographic Yearbook 1970, 1980 and 1990.

yen terms are used. For example, about 21 percent variation in ΔBIY is explained by $\Delta JGNPY$ at lag 0 or $\Delta JPCGNPY$ at lag 1. It may be argued that the Japanese government possesses ratio goals for the level of Japanese ODA in relation to its GNP, but the relatively lower R^2 s indicate that the ratio goals were not always constant throughout the observed period.

Table 3.2: Affordability of the Donor's Society

Volume & Form	$\Delta JGNPY$	$\Delta JGNPY$ (lead2)	ΔJPC GNPY	ΔJPC GNPY (lead1)	ΔJPC GNPY (lead3)	$\bar{R}^2$	F	Sig. F	DW
$\Delta ODAY$	.355 (2.111)					.098	4.458	.043	2.179
$\Delta ODAY$		.446 (2.682)				.171	7.192	.012	2.074
$\Delta ODAY$					.437 (2.572)	.162	6.617	.016	2.170
ΔBIY	.486 (3.099)					.212	9.606	.004	1.838
ΔBIY			.454 (2.839)			.181	8.059	.008	1.789
ΔBIY				.490 (3.080)		.215	9.488	.004	1.538
$\Delta GRANT$ Y	.370 (2.216)					.109	4.910	.034	1.892
$\Delta GRANT$ Y				.353 (2.069)		.096	4.281	.047	1.707
$\Delta LOANY$	.380 (2.287)					.117	5.231	.029	2.055
$\Delta LOANY$			.379 (2.278)			.116	5.191	.030	2.063

3.1.3 The Role of the State

Partly because the Japanese economy has been guided by government-led economic planning and the single-year budgeting formula, the prospect of real GNP growth rate (PRORR), or the

prospect of nominal GNP growth rate (PRONR) for each year, may be more important than actual GNP figures in determining the level of Japan's ODA volume.³ The GNP prospect is originally forecasted by the Economic Planning Agency, and usually modified by other ministries' interests.

The empirical result in Table 3.3 shows that ΔGRANTY has an unexpected negative relationship with ΔPRONR , although the explanatory power of ΔPRONR is not so high. A negative sign can mean that as growth becomes greater, grants become lower. However, in the recent context of Japan's lower economic growth, the negative sign indicates that Japan has provided its ODA grants despite the decreased rate of nominal GNP growth prospects.

Table 3.3: Prospects of GNP Growth Rates

Volume & form	ΔPRONR	$\bar{R}^2$	F	Sig. F	DW
ΔGRANTY	-.405 (-2.465)	.137	6.078	.019	1.601

3.2 Politics of Foreign Assistance

3.2.1 Budget-Making Contingencies

Assuming that the MOF has standard operational procedures concerning balanced budget-making, and that its budgeting process is neutral as Allison's organizational process model suggests, it is

³Economic prospects of GNP growth rates for the respective fiscal years are based on an unpublished document by the Economic Planning Agency.

expected to observe some fixed patterns in determining the level of foreign aid in relation to the levels of revenues and expenditures.

In terms of revenue, Japan's ODA disbursements greatly depend on the General Account (GA), most of which relies on tax revenue, and the Fiscal Investment and Loan Program (FILP), most of which is financed by the Trust Fund and others, including postal savings and postal life insurance. Table 3.4 presents the results for the hypothesis that the MOF makes up the ODA budget in parallel to the change in the levels of these sources of revenue. Since part of Japan's contributions for multilateral ODA stem from national bonds in the National Debt Consolidation Account, the R^2 for $\Delta ODAY$ is lower than that for ΔBIY or $\Delta LOANY$. It should also be noted that a relatively higher percentage of the variation in ΔBIY or $\Delta LOANY$ is explained by $\Delta FILP$.

Table 3.4: General Account and FILP

Volume & Form	ΔGA	ΔGA (lead1)	$\Delta FILP$	$\Delta FILP$ (lead1)	$\bar{R}^2$	F	Sig. F	DW
$\Delta ODAY$	.482 (3.065)				.208	9.396	.005	2.445
$\Delta ODAY$				.409 (2.498)	.141	6.242	.018	2.211
ΔBIY	.485 (3.088)				.211	9.539	.004	1.985
ΔBIY			.634 (4.563)		.383	20.825	.000	2.032
$\Delta GRANTY$	.404 (2.461)				.137	6.059	.020	1.841
$\Delta LOANY$		.387 (2.337)			.122	5.462	.026	2.020
$\Delta LOANY$			.595 (4.122)		.333	16.995	.000	2.351

In terms of expenditure, there was, and is, no independent category for ODA in Japan's central public finance. The ODA budget in Japan refers to the sum of a variety of sub-budgets for the implementation of a variety of ODA programs. In the early years, the items counted as ODA in the General Account included all or parts of "reparations" and "trade promotion and economic cooperation." It was in fiscal year 1973 that the "economic cooperation" budget was first fixed as an independent category in the General Account.⁴

The budget for economic cooperation, or ODA, will be expected to correlate with, at least, three other main budgetary items in the General Account. These being the social security budget (SSB), the national defense budget (NDB), and the public works budget (PWB).⁵ All of these categories can be regarded as domestic equivalents of, or functional alternatives to, foreign aid. For bureaucratic players with social security interests at home, they can agree with increasing the aid volume for the improvement of social welfare in developing countries, too. For those who are involved in foreign and defense affairs, both aid and defense can be important matters worth securing for their interests. For those who promote public works at home, the overseas aid projects can be viewed as an extension of domestic public works.

⁴Available data shows that the original ODA budget exceeded the economic cooperation budget from FY 1986. Although the ODA budget is not exactly the same as the economic cooperation budget even within the General Account, there is, of course, a strong correlation between the two. The correlation coefficient using the present set of data is calculated at .992.

⁵Data on these items is taken from the Ministry of Finance, Zaisei Tokei (Tokyo: MOF, 1990), 188-217.

Table 3.5 records the regression results supposing that the ODA budgets changed in parallel to some of these budgetary items. Among these budgetary categories, the category of national defense shows relatively higher, significant relationships with $\Delta ODAY$ and ΔBIY , respectively. In this sense, Japanese aid may be regarded as part of international security measures. A higher coefficient for ΔPWB on $\Delta ODAY$ or $\Delta LOANY$ suggests that these forms of Japanese aid may be regarded as an extension of public works, rather than part of social services.

Table 3.5: Major Budgetary Items

Volume & Form	ΔNDB	ΔNDB (Lead2)	ΔPWB	ΔPWB (Lead1)	$\bar{R}^2$	F	Sig. F	DW
$\Delta ODAY$		.459 (2.827)			.184	7.991	.008	2.178
$\Delta ODAY$				.415 (2.543)	.146	6.467	.016	1.812
ΔBIY	.468 (2.945)				.193	8.673	.006	1.720
$\Delta LOANY$			.360 (2.151)		.102	4.625	.039	1.861

3.2.2 Public Opinions In Japan

From a liberal perspective on domestic "politics of aid," the Japanese government should provide its ODA in response to public opinion in Japanese society. Rix noted in the 1970s that there was little public awareness of foreign aid.⁶ On the other hand, Orr recently observed that the MFA's aid policies were, in principle,

⁶Rix, "The Future of Japanese Foreign Aid," 423.

complemented by the passive but positive support of the public to increase the aid level.⁷ Both views are correct because the general public was not informed in detail of Japan's ODA policies in the early years, but the public increasingly considered the aid problem important, as is shown in the polls conducted by the Prime Minister's Office. According to these polls, the percentage of the people who answered "do not know" to the question of the future of economic cooperation decreased from 19.0 percent in 1977 to 7.8 percent in 1991.⁸

Although the majority of the public took a positive attitude towards the expansion of the Japanese "economic cooperation" program, the ratio of negative opinions also increased.⁹ The combined share (PRO) of those who supported "expanding" or "maintaining the present level" of Japanese economic cooperation increased from 76.5 percent in 1977 to 81.8 percent in 1991. The percentage (CON) of those who thought that Japanese foreign aid should be "reduced" or "stopped," also increased from 4.5 percent to 9.4 percent during the same period, although the questionnaire in

⁷Orr, The Emergence of Japan's Foreign Aid Power, 26.

⁸Prime Minister's Office, Gaiko ni Kansuru Yoron Chosa (Tokyo: PMO, 1991), 21. The level of public understanding was not high before 1977, mainly due to the limited information released from the government. It is not a coincidence that the poll by the PMO started in 1977. It was this year when the MFA started to release information related to ODA in order to obtain consensus for the diplomatic use of aid. See Yamamoto, Nihon no Keizai Enjo, 61.

⁹The polls conducted by the Prime Minister's Office never specified whether the term "economic cooperation" referred to ODA, or private funds, in nominal or relative terms.

these polls never specified whether economic cooperation referred to ODA, or AID, in nominal or relative terms.¹⁰

The empirical results in Table 3.6 show that the Δ PRO variables have a positive relationship with Δ MULTIY, whereas the Δ CON variables have positive relationships with Δ ODAY, Δ MULTIY and Δ LOANY, respectively. Thus, it can be said that the Japanese government may respond to the public support for the expansion of multilateral ODA, whereas the government neglects the opinion of the minority against the ODA expansion, in particular on multilateral ODA and bilateral yen loans.

Table 3.6: Public Opinions on the Level of ODA

Volume & Form	Δ PRO	Δ CON	Δ CON (lead1)	$\bar{R}^2$	F	Sig. F	DW
Δ ODAY			.833 (4.511)	.659	20.353	.002	1.915
Δ MULTIY	.667 (2.833)			.390	8.028	.018	2.225
Δ MULTIY			.757 (3.478)	.526	12.100	.007	2.129
Δ LOANY		.591 (2.316)		.284	5.366	.043	1.968

3.3 Politics of Foreign Economic Aid

3.3.1 International ODA Regime

According to the neorealist theory of international cooperation, a variety of foreign aid can be seen as public goods provided by a hegemon. If the United States is a declining hegemon and Japan is a

¹⁰This does not include the percentage of those who had no opinion.

would-be hegemon, there will be a negative relationship between Japan's ODA volume and that of the United States. If U.S.-led regimes continue to work and Japan is a supporter, there will be a positive relationship between Japan's ODA volume and that of other DAC members as a whole, rather than the American one alone.

Table 3.7 shows that the first-order differences of American multilateral ODA ($\Delta USMULTI$) have a positive relationship to those of Japanese contributions to multilateral institutions.¹¹ In this sense, it may be said that the United States prefers complementary behavior and Japan followed America's behavior in the form of multilateral ODA.

Table 3.7: Hegemonic Regime of the United States

Volume & Form	$\Delta USMULTI$	$\bar{R}^2$	F	Sig. F	DW
$\Delta MULTI$	.475 (2.804)	.197	7.860	.009	2.188

Table 3.8 indicates that total ODA, multilateral ODA and bilateral ODA grants from Japan are highly correlated with the equivalents of total DAC members excluding Japan ($\Delta OTHODA$, $\Delta OTHMULTI$, $\Delta OTHGRANT$). The behavior of other DAC members as a whole is also more important than only the U.S. behavior in predicting $\Delta MULTI$ and $\Delta GRANT$. It should be noted that both bilateral ODA and loans of other DAC members are not significantly

¹¹The Data on the United States and total DAC members, for the period 1960-1990, is taken from the OECD publication, Development Cooperation, various years.

correlated with their Japanese equivalents. In other words, the level of Japanese bilateral ODA loans was determined independently by the behavior of Japan. It may be argued that Japan was a reasonable supporter of the DAC's ODA regime, but Japan contributed to the regime in a way different from the United States and other major DAC members.

Table 3.8: The DAC Regime on the ODA Volume

Volume & Form	Δ OTH ODA	Δ OTH MULTI	Δ OTH GRANT (lead1)	$\bar{R}^2$	F	Sig. F	DW
Δ ODA	.705 (5.164)			.478	26.671	.000	1.940
Δ MULTI		.489 (2.914)		.211	8.493	.007	2.245
Δ GRANT			.640 (4.244)	.387	18.013	.000	1.579

3.3.2 Aid Diplomacy of the Trading State

If foreign aid is viewed as a means to manage the balance of payments for Japan, rather than the recipient states, there will be a strong relationship between Japan's trade balance with respect to the world (TBY) and the volume of aid.¹² More specifically, if aid was regarded as a burden for Japan's trade balance, the less trade surplus Japan had, the less aid was provided by the trading state to protect its balance of payments. On the contrary, if aid was viewed as an

¹²According to the IMF, ODA itself is counted as part of the balance of payments. ODA grants, both bilateral and multilateral, are included in the category of "unrequited transfers." Bilateral loans and multilateral subscriptions, as well as OOF and PF, are recorded as part of "long-term capital assets." Morinosuke Kajima, *Taigai Keizai Kyoryoku Taikei* vol. 3, (Tokyo: Kajima Heiwa Kenkyusho, 1973), 150.

accelerator for improving Japan's trade balance, the more trade surplus Japan recorded, the less aid was offered so as to ease the criticisms by its trading partners. We will also examine Japan's trade balance against the United States (TBUSY), because America was the most important trading partner of post-war Japan.¹³

As is shown in Table 3.9, ΔTBY or $\Delta TBUSY$ has negative relationships with the forms of Japanese ODA, except $\Delta MULTIY$ and $\Delta GRANTY$. From the perspective of national interest, it is likely that these forms of ODA are conceptualized not only as the aid for the recipient countries but also as the means for balancing Japan's trade surplus, and that Japan came to provide these forms of aid, especially yen loans, at a slower rate of increase as increases in the trade surplus were recorded.

Table 3.9: Japan's Trade Balances

Volume & form	ΔTBY	$\Delta TBUSY$	$\Delta TBUSY$ (lead1)	$\bar{R}^2$	F	Sig. F	DW
$\Delta ODA Y$			-.456 (-2.293)	.169	5.258	.033	1.736
ΔBIY		-.488 (-2.562)		.202	6.562	.018	1.515
$\Delta LOANY$	-.574 (-3.211)			.297	10.309	.004	2.118
$\Delta LOANY$		-.539 (-2.930)		.257	8.584	.008	2.475

¹³The balance-of-payment data is taken, and transformed into yen terms, from the publication of the Ministry of Finance, Gaikoku Boeki Gaikyo which records FOB prices for exports and CIF prices for imports (in U.S. dollars) on the basis of customs clearance.

3.3.3 LDP Crisis and ODA Compensation

It is often pointed out that aid gains no votes for politicians during election years.¹⁴ However, for the LDP diet members, foreign aid can enhance an international career and gain money for electoral campaigns. According to Calder, when the LDP politicians perceived a political crisis, they distributed benefits with which to compensate key supporting groups in their constituencies.¹⁵ In view of "politics of economic aid," aid as well as public works at home can be used as a means for LDP politicians to maintain political support from business interests.

Although Calder identified both external and internal crises, the present study focuses on the LDP crisis in relation to political support at the level of domestic society. To measure the political crisis recognized by LDP leaders, we have established a scale by combining five indicators: the seat rates of the LDP, and of the governing party in the House of Representatives, the relative and absolute rates of LDP votes in the House of Representatives elections, and public support of LDP which was investigated by the mass media at the time of budget-making.¹⁶ The seat rates are of major concern

¹⁴Rix, "The Future of Japanese Foreign Aid," 423.

¹⁵Kent E. Calder, Crisis and Compensation (Princeton: Princeton University Press, 1988), 37.

¹⁶The governing party includes the former independent diet members who joined the LDP after elections, and the New Liberal Club members who formed a coalition with the LDP during 1983 and 1986. The absolute rate of LDP votes refers to the ratio of LDP seats in relation to the numbers of eligible voters. Polls by the mass media are taken from the Asahi Shimbun, ed., Min'i no Nagare vol. 1, (Tokyo: Asahi Shimbun, 1986) and statistical data from the Asahi Shimbun Yoron Chōsa-shitsu. The alpha statistic, or reliability, of this scale during the period from 1958 to 1990 is .8344.

for the LDP leaders, and yet to a large extent these rates reflect election skills. The rates of the LDP votes and public opinion polls are more sensitive to public support. The established scale gradually falls in points from the early 1960s to hit bottom in 1976 and 1977, when Prime Minister Tanaka was arrested in the Lockheed scandal. Yet, the LDP resurgence after 1977 was remarkable. The starting-point of new support for the LDP coincided with the adoption of the first ODA volume target.

According to Table 3.10, the expected negative relationship was observed concerning ΔMULTIY . However, the "political crisis" hypothesis is not so convincing for this form of aid, because the R^2 of this model is not so high.

Table 3.10: LDP Crisis and Compensation by Aid

Volume & Form	ΔLDP	$\bar{R}^2$	F	Sig. F	DW
ΔMULTIY	-.390 (-2.320)	.124	5.382	.027	2.182

3.4 Economics of Political Decisions on ODA

3.4.1 Dominant Capital in the World Economy

From a radical perspective, there will be a strong relationship between economic interests of the dominant classes and the aid volume, and little relationship between the latter and economic demands in developing countries. The latter part of this proposition cannot be rejected concerning Japanese ODA loans completely, as far as is examined in Section 3.1.1. This section will examine the first

part of the proportion claimed by the "economics of political aid" theorists.

Japanese private interests, which are structured in the world system, are roughly operationalized by Japan's exports to (EXLDCY), imports from (IMLDCY) and investments in developing countries.¹⁷ We use the DAC-defined private flows (PFY) that count direct and portfolio investments by private firms and private export credits, and a governmental subsidy for Japanese firms making investments in developing areas, that is called the general projects of OECF's loans and equity investment (GEN).¹⁸

Table 3.11 shows that both Δ EXLDCY and Δ IMLDCY present positive relationships with Δ MULTIY. The positive direction of these variables may suggest that the increased exports of Japanese industrial goods to, or the increased imports of primary goods from, developing countries spurred the increased multilateral ODA. This could be expected to make Japanese trade interests more advantageous. However, Δ BIY is not significantly linked to Japanese trade activities with underdeveloped areas.

¹⁷Data on exports and imports are based on annual totals of trade between Japan and "Developing Areas." The Bank of Japan, ed., Balance of Payments of Japan (Tokyo: The Bank of Japan, various years).

¹⁸Sources of data since 1961 are taken from OECF, Annual Reports, various years.

Table 3.11: Trade with the Underdeveloped Areas

Volume & Form	ΔEX LDCY (lead3)	ΔIM LDCY (lead4)	$\bar{R}^2$	F	Sig. F	DW
$\Delta MULTIY$	.513 (2.538)		.223	6.441	.021	2.536
$\Delta MULTIY$		.594 (3.047)	.315	9.287	.007	2.412

Table 3.12 shows that there is a strong, positive relationship between $\Delta AIDY$ and ΔPFY . It is clear that overall financial flows from Japan to developing countries were greatly influenced by private flow, rather than official funds. However, ΔPFY is not a good predictor in explaining the change in the ODA variables. Similarly, the non-ODA portion of the OECF loans, ΔGEN , also has positive relationships with $\Delta AIDY$ and $\Delta ODAY$. By contrast, the negative relationship is observed between ΔPFY and $\Delta MULTIY$. It appears that the decreased amounts in private investments in developing countries were supplemented by Japanese multilateral ODA.

Table 3.12: Investments in the Underdeveloped Areas

Volume & Form	ΔPFY (lead1)	ΔGEN	$\bar{R}^2$	F	Sig. F	DW
$\Delta AIDY$		.516 (2.552)	.225	6.515	.020	2.419
$\Delta ODAY$		.454 (2.333)	.168	5.441	.030	1.998
$\Delta MULTIY$	-.382 (-2.067)		.112	4.272	.049	2.344

3.4.2 Oligopoly in the Donor Economy

From a Marxian perspective on "economics of political aid," the ODA allocation is closely related to the dominant capitalist, rather than the general public in the Japanese society. It is said that there are three major industries that gain profits directly from the Japanese ODA programs: trading companies, the construction industry and consulting firms.

The hypothesis derived from this argument is that there is a relationship between profits of these oligopolistic industries and the volume of foreign aid. The oligopolistic profit is operationalized here by the combined amount of net sales (SALE1), the operating profit (OPE1), and the current profit (CUR1) of leading trading companies in Japan.¹⁹ For individual corporations, sales reflect their primary concerns for profit maximization. The operational profit is defined as the difference between net sales and some of the cost of sales and selling and administrative expenses related to normal business operations. The amount of current profit reveals the profitability under the recent "bubble economy," such as foreign exchange gains and interest income on investment unrelated to regular operations of the business. Similarly, the commercial interests of selected construction companies (SALE2, OPE2, CUR2) and those of the Nippon

¹⁹Japan's Big Nine general trading companies, and, in fact, the world's largest trading companies, are C. Ito & Co., Ltd.; Marubeni Corporation; Tomen Corporation; Nichimen Corporation; Kanematsu Corporation; Mitsui & Co., Ltd.; Sumitomo Corporation; Mitsubishi Corporation; and Nissho Iwai Corporation. The data expressed in millions of yen is taken from MITI's Waga Kuni Kigyo no Keiei Bunseki since FY 1960. Nissho and Iwai were separate corporations before 1968. Ataka was also included until 1976.

Koei, the largest and oldest consulting firm (SALE3, OPE3, CUR3) that dominates Japan's ODA market, are also used respectively.²⁰

The regression result shown in Table 3.13 indicates that the $\Delta OPE1$ variable has a positive relationship with $\Delta MULTIY$. In other words, the more operating profits of the Big Nine that were identified, the more multilateral ODA was provided by Japan. Although it is difficult to assess the extent to which the Japanese Big Nine gained from the untied aid of these contributions, a UN officer observed that there was a positive correlation between the amount of Japanese multilateral contributions and the volume of procurements from the donor country.²¹ It may be concluded that the Big Nine is competitive enough to gain profits even in the competitions for formally untied aid. Thus, the operational profits of the world's largest trading companies can explain 23 percent of the variation in the volume of Japan's multilateral ODA. A similar relationship is also found between ΔBIY and $\Delta OPE1$, or $\Delta CUR1$, although the explanatory power of these models is not so high.

²⁰The Big Six leading general contractors are Taisei Corporation; Obayashi Corporation; Shimizu Corporation; Kajima Corporation; Kumagai Gumi Co., Ltd.; and Takenaka Corporation. The set of data for this study includes these companies as well as other companies, which have been recognized by the Bank of Japan's Shuyo Kigyo Keiei Bunseki since FY 1958. These contractors also do consulting operations at home, and therefore consulting firms are not yet mature in Japan. Nihon Koei is the only international consulting firm whose stocks have been traded in the first section of the Tokyo Stock Exchange since 1978. The data on Nippon Koei is taken from MOF's Yuka Shoken Hokokusho Soran since 1968, which also covered the period when its stocks were traded in the second section.

²¹Interview with an officer at the Department of Technical Cooperation for Development of the United Nations, December 20, 1990.

Table 3.13: Oligopolistic Interests of Japanese Trading Companies

Volume & Form	$\Delta OPEI$	$\Delta OPEI$ (lead1)	$\Delta CUR1$	$\bar{R}^2$	F	Sig. F	DW
$\Delta MULTY$		.511 (2.910)		.230	8.468	.008	2.064
$\Delta LOANY$	.370 (2.106)			.106	4.433	.044	1.841
$\Delta LOANY$			.393 (2.261)	.124	5.113	.032	1.719

Table 3.14 shows that the variables of sales and profits for Japanese construction companies also have positive relationships with ΔBIY and $\Delta LOANY$, respectively. About 36 percent of the variation in ΔBIY can be explained by $\Delta SALE2$. More or less 33 percent of the variation in $\Delta LOANY$ is fairly explained by $\Delta OPEI2$ or $\Delta CUR2$. Unlike Japanese trading companies, Japanese construction interests can be a positive factor in predicting the levels of Japanese bilateral ODA. It can be interpreted that the capitalist state increased its bilateral ODA, so that the dominant capitalist in the Japanese construction industry can gain more profits at the international system level. The negative sign of $\Delta SALE2$ at lag 3 can imply that the decreased $\Delta SALE2$ of Japanese general contractors led to increased multilateral contributions.

Table 3.14: Oligopolistic Interests of Japanese Construction Companies

Volume & Form	ΔSALE2	ΔSALE2 (Lead1)	ΔSALE2 (Lead3)	ΔOPE2	ΔCUR2	$\bar{R}^2$	F	Sig. F	DW
ΔODAY		.366 (2.084)				.103	4.342	.046	2.163
ΔBIDY	.613 (4.217)					.359	17.783	.000	1.613
ΔMULTY			-.393 (-2.179)			.122	4.749	.039	2.032
ΔLOANY	.521 (3.290)					.247	10.824	.003	1.903
ΔLOANY				.590 (3.939)		.326	15.513	.001	2.040
ΔLOANY					.600 (4.043)	.338	16.348	.000	1.938

Table 3.15 shows that there is a negative relationship between ΔAIDY and ΔSALE3 or ΔCUR3 . It may be interpreted that the Japanese capitalist state attempted to promote economic cooperation in the broader sense, so that the weak consulting firm could be more profitable through the aid program. However, the positive sign of ΔSALE3 for ΔLOANY may indicate that the consulting firm is not so weak in the field of yen loan projects. Rather, it implies that the increased sales of this company coincided with the expansion of the yen loan program.

Table 3.15: Monopolistic Interests of the Consulting Firm

Volume & Form	ΔSALE3	ΔSALE3 (Lead1)	ΔCUR3 (Lead1)	$\bar{R}^2$	F	Sig. F	DW
ΔAIDY		-.535 (-2.534)		.242	6.421	.022	2.194
ΔAIDY			-.572 (-2.792)	.286	7.794	.013	2.133
ΔLOANY	.565 (2.825)			.279	7.982	.012	1.821

3.5 Multivariate Analysis

3.5.1 Causal Nexus Models

So far, this study has examined linear regression models with one independent variable. This section attempts to synthesize the competing approaches by extending bivariate regression, and also examines the hypothesis that the causal chain of Japanese ODA decisions starts with the volumes and forms of ODA.

Table 3.16 records more parsimonious models of causal nexus for the forms of Japanese foreign aid. As for $\Delta AIDY$, significant paths from ΔBIY at lag 1 and $\Delta LOANY$ at lag 1 were observed. However, these two variables are highly correlated to each other, and therefore the path from the latter with a higher path coefficient is retained as a more significant one. As for $\Delta ODAY$, a path from ΔAFR (net disbursements of total bilateral ODA from Japan to Africa) at lag 2 was identified.

As for ΔBIY , no significant causal path was identified. With regard to $\Delta MULTY$, there exist three significant paths from $\Delta ASIA$ at lag 3, ΔAFR at lag 2, and ΔLDC at lag 3. High correlations were observed between $\Delta ASIA$ at lag 3 and ΔAFR at lag 2, and between $\Delta ASIA$ at lag 3 and ΔLDC at lag 3. Therefore, we retain ΔLDC at lag 3, which has a higher path coefficient than the other two. The model in Table 3.16 is recalculated by combining these two paths.

No significant causal path was observed with regard to $\Delta GRANTY$, whereas two causal paths were identified for $\Delta LOANY$. The significant two paths from $\Delta ASIA$ at lag 2 and ΔAFR at lag 1 to

Δ LOANY are highly correlated. Therefore, the path from Δ AFR at lag 1 with a higher coefficient remains. Another significant path from Δ MID at lag 3 is not highly correlated with Δ AFR at lag 1. Thus, a combination of Δ AFR at lag 1 and Δ MID at lag 3 is retained.

Table 3.16: Causal Nexus Models

Volume & Form	Δ LOANY (lead1)	Δ AFR (lead1)	Δ AFR (lead2)	Δ MID (lead3)	Δ IXC (lead3)	$\bar{R}^2$	F	Sig. F	DW
Δ AIDY	-.655 (-3.673)					.397	13.490	.002	2.498
Δ ODAY			.565 (3.358)			.291	11.277	.003	2.255
Δ MULTY					.675 (4.384)	.432	19.217	.000	2.340
Δ LOANY		.490 (2.778)		-.250 (-1.417)		.322	6.694	.005	2.331

3.5.2 Synthetic Models

This section combines within and between the existing bivariate models, and then compares and further combines them with the causal nexus models obtained in the previous section.

As for Δ AIDY, the "economics of political aid" approach has identified three significant candidate variables: Δ GEN, Δ SALE3 at lag 1 and Δ CUR3 at lag 1. Since Δ SALE3 at lag 1 and Δ CUR3 at lag 1 were highly correlated, it can be judged that Δ CUR3 at lag 1, which had a higher R^2 value, was more important than Δ SALE3 at lag 1. When Δ GEN and Δ CUR3 at lag 1 were compared, the variable of Δ GEN was highly correlated with Δ CUR3 at lag 1, which had a higher beta coefficient. Therefore, the bivariate model of Δ CUR3 at lag 1 for Δ AIDY was regarded as most parsimonious within the "economics of

political aid" framework. We also attempted to include the causal path from $\Delta LOANY$ at lag 1 into this equation. Since the correlation matrix for the pair of $\Delta CUR3$ at lag 1 and $\Delta LOANY$ at lag 1 presented a lower correlation coefficient, at the 0.01 significance level, a multiple regression analysis was conducted with these variables. Thus, as shown in Table 3.17, it can be reached that a combination of $\Delta CUR3$ at lag 1 and $\Delta LOANY$ at lag 1 is regarded as more important in predicting the change in $\Delta AIDY$.

Table 3.17: Synthetic Model for Japan's Aid

Volume & Form	$\Delta CUR3$ (Lead1)	$\Delta LOANY$ (Lead1)	$\bar{R}^2$	F	Sig. F	DW
$\Delta AIDY$	-.411 (-2.221)	-.491 (-2.655)	.482	8.894	.003	1.753

Table 3.18 shows the results of multiple regression for a synthesis within, or across, the existing frameworks for ΔODA and $\Delta ODAY$. In the case of $\Delta ODAY$, a further synthesis was also possible in conjunction with the causal nexus model. As for ΔODA in dollar terms, the multiple regression model using $\Delta NEED3$ and $\Delta OTHODA$ is statistically significant and can explain about 52 percent of the variation in ΔODA . It can be inferred that the Japanese government determined its ODA level by paying more political attention to the conformity with other DAC members than the economic needs in middle-income countries. It is natural that the level of Japan's ODA is also greatly constrained by financial constraints at home. Within the liberal framework, the multiple regression model with a combination of ΔNDB at lag 2 and ΔPWB at lag 1 has the most explanatory power

with regard to $\Delta ODAY$. When this model was combined with $\Delta TBUSY$ at lag 1 and ΔGEN , both of which had highest R^2 s in the realist and Marxian frameworks, the backward elimination method resulted in the model with ΔNDB at lag 2 and $\Delta TBUSY$ at lag 1. We can have a synthetic causal nexus model with a higher R^2 value by adding ΔAFR at lag 2 to this model, as shown in Table 3.18. On balance, it seems that the variables at the international system are comparably important for both ΔODA and $\Delta ODAY$.

Table 3.18: Synthetic Models for Japan's ODA

Volume & Form	$\Delta NEEED3$	ΔNDB (Lead2)	ΔOTH ODA	$\Delta TBUSY$ (Lead1)	ΔAFR (Lead2)	$\bar{R}^2$	F	Sig. F	DW
ΔODA	.369 (2.115)		.510 (2.925)			.520	11.834	.001	2.000
$\Delta ODAY$		.340 (1.995)		-.326 (-1.777)	.389 (2.099)	.414	5.935	.005	2.332

As for ΔBIY , a synthetic model of $\Delta FILP$ and $\Delta SALE2$ presents 58 percent of adjusted R^2 , as shown in Table 3.19. It can be interpreted that the volume of yen loans was greatly determined by the availability of the FILP fund and, to a lesser extent, the oligopolistic interest of Japanese construction companies.

As for $\Delta MULTI$ in dollar terms, the bivariate model with $\Delta OTHMULTI$ is taken as a more explanatory model than $\Delta USMULTI$, because both of these independent variables are highly correlated. With regard to $\Delta MULTIY$, the synthesis obtained within the "economics of political aid" model was a combination of $\Delta EXLDCY$ at lag 3 and $\Delta SALE2$ at lag 3. The synthesis across the different existing approaches was a combination of ΔPRO , $\Delta EXLDCY$ at lag 3 and

Δ SALE2 at lag 3. The R^2 value of the latter model was higher than that of the former, and yet its DW test was inconclusive. Therefore, we retained the former model. The inclusion of the causal path from Δ LDC at lag 3 into the former resulted in the model shown in Table 3.19.

Table 3.19: Synthetic Models for Bilateral and Multilateral ODA

Volume & Form	Δ FILP	Δ EXLDCY (lead3)	Δ SALE2	Δ SALE2 (lead3)	Δ LDC (lead3)	$\bar{R}^2$	F	Sig. F	DW
Δ PTF	.512 (4.037)		.433 (3.416)			.580	21.728	.000	1.808
Δ MULTY		.331 (1.974)		-.433 (-2.964)	.468 (2.795)	.614	11.075	.000	1.884

For Δ LOAN in dollar terms, the most important variable examined is Δ NEED3. The picture is, however, quite different in Δ LOANY in yen terms. A combination of Δ FILP and Δ PWB was most explanatory within the liberal framework, while Δ TBY was most important in the realist framework. However, their R^2 s are lower than that of a combination of Δ CUR2 and Δ SALE3, which presents the highest explanatory power within the "economics of political aid" framework. When these five important variables are combined across the different approaches using the backward elimination method, a combination of Δ CUR2 and Δ SALE3 remains in the synthetic model. The causal path from Δ AFR at lag 1 is highly correlated with Δ CUR2, and the synthetic causal nexus model obtained is a combination of Δ CUR2 and Δ MID at lag 3.

Table 3.20: Synthetic Models for Yen Loans

Volume & Form	$\Delta CUR2$	ΔMID (lead3)	$\bar{R}^2$	F	Sig. F	DW
$\Delta LOANY$	.664 (4.343)	-.420 (-2.748)	.579	13.385	.000	1.755

3.5.3. Models in the Time Domain

By conducting analyses of long-term trends, medium-term interventions and short-time effects, two incremental models and five step-function models are obtained. The latter five models appear more robust and parsimonious than the causal nexus and synthetic models in Sections 3.5.1 and 3.5.2. None of the pulse-function models obtained are recorded here, because their Durbin-Watson tests are inconclusive or problematic.

Table 3.21 records a refined causal nexus model for $\Delta MULTY$ and an incremental model for $\Delta GRANTY$ by including the year (YR) variable. In the latter case, the backward elimination method deleted the ΔGA variable from the model. It can be said that the more recent the year is, a higher rate of change in $\Delta MULTY$ or $\Delta GRANTY$ is expected, although the relative importance of YR is less than the other variables in the model for $\Delta MULTY$.

Table 3.21: Long-Term Trend

Volume & Form	YR	$\Delta EXIDCY$ (lead3)	$\Delta SALE2$ (lead3)	ΔIDC (lead3)	$\bar{R}^2$	F	Sig. F	DW
$\Delta MULTY$	.311 (2.101)	.463 (2.810)	-.553 (-3.832)	-.420 (-2.737)	.682	11.183	.000	2.095
$\Delta GRANTY$	.490 (3.126)				.215	9.773	.004	2.086

To evaluate the medium-term effects of some intervening events, threshold years can be incorporated into the model as the dummy variables for step functions. As described in Chapter Two, two clusters were identified with the year 1983 (STEP83) as the threshold when the standardized values of ODA and ODA/GNP served as the basis for cluster formation. In a similar manner, five clusters were observed within the years 1961 (STEP61), 1973 (STEP73), 1980 (STEP80) and 1987 (STEP87) as turning points when the scores were standardized for all the variables on the volume and form of ODA.

The explanatory power of the ratio goal model for the original series of ODAY and JGNPY improved slightly when STEP83 was employed, but the positive autocorrelation problem still exists. The model can be further refined when STEP80 and STEP87 are included. It may be argued that the MOF's ratio goal was slightly amended before and after two significant events: the UN adoption of the 0.7 percent of the GNP target for ODA in 1980 and the 1987 Emergency Economic Measures that included the advanced implementation of the Third Medium-Term Target of ODA. However, strictly speaking, this argument cannot be proven statistically, because the DW statistic of this model falls in the inconclusive area.

Likewise, we conducted similar intervention analyses to the causal nexus and synthetic models by the backward elimination method. Tables 3.22 and 3.23 include the obtained results of the improved step-function models for ODAY, Δ ODA, Δ MULTIY, Δ GRANT and Δ GRANTY. It can be concluded that the year 1987 was very significant for Δ ODA and Δ GRANT at the level of the international

system, and that the year 1980 was an important threshold for not only ODAY but also Δ MULTIY, Δ GRANT and Δ GRANTY.

Table 3.22: Medium-Term Impacts on Japan's ODA

Volume & Form	STEP80	STEP87	JGNPY	Δ OTH ODA	$\bar{R}^2$	F	Sig. F	DW
ODAY	.234 (5.958)	.088 (3.715)	.732 (17.515)		.987	867.212	.000	1.547*
Δ ODA		.347 (2.240)		.625 (4.034)	.531	12.337	.000	2.327

Table 3.23: Medium-Term Impacts on the Form of ODA

Volume & Form	STEP80	STEP87	Δ GA	Δ OTH GRA	Δ EXLDCY (Lead3)	Δ SALE2 (Lead3)	Δ 1DC (Lead3)	$\bar{R}^2$	F	Sig. F	DW
Δ MULTIY	.327 (2.408)				.426 (2.797)	-.537 (-3.974)	.455 (3.095)	.703	12.248	.000	1.962
Δ GRANT	.261 (1.738)	.392 (2.631)		.324 (2.142)				.580	13.418	.000	2.049
Δ GRANTY	.429 (2.747)		.277 (1.772)					.287	7.443	.002	2.399

Table 3.24 summarizes the causal path models for the volume and form of Japan's ODA that are finally obtained by this study. As far as the ordinary least squares method is used, the competing theories are defensible, to a different extent, and it appears that a modified international regime theory of "politics of economic aid" can fairly well explain Japan's ODA, especially multilateral ODA and bilateral ODA grants. The "economics of aid" model on Japan's ODA/GNP ratio also shows a certain extent of strength in explaining Japan's ODA volume, although the relevance of this model is statistically inconclusive. The "economics of political aid" and capitalist profit-maximization behavior reflected in many of the

causal nexus or synthetic models can be seen in Japan's aid in general, especially in multilateral ODA and bilateral ODA loans in yen terms.

Table 3.24: Summary of Chapter Three

Theories	Variables	$\Delta AIDY$	ΔODA	$\Delta ODAY$	ODAY	ΔBIY
Liberalism	JGNPY				.732 (17.515)	
	ΔNDB (Lead2)			.340 (1.995)		
	ΔGA					
	$\Delta FILP$					.512 (4.037)
Realism	$\Delta OTHODA$		.625 (4.034)			
	$\Delta OTHMUL$					
	$\Delta OTHGRA$					
	$\Delta TBUSY$ (Lead1)			-.326 (-1.777)		
Marxism	$\Delta EXLDCY$ (Lead3)					
	$\Delta SALE2$					.433 (3.416)
	$\Delta CUR2$					
	$\Delta CUR3$ (Lead1)	-.411 (-2.221)				
Causal Nexus	$\Delta LOANY$ (Lead1)	-.491 (-2.655)				
	ΔAFR (Lead2)			.389 (2.099)		
	ΔMID (Lead3)					
	ΔLDC (Lead3)					
Time Domain	STEP80				.234 (5.958)	
	STEP87		.347 (2.240)		.088 (3.715)	
Adjusted R^2		.482	.531	.414	.987	.580
DW		1.753	2.327	2.332	1.547*	1.808

Note: *This figure indicates that the Durbin-Watson test is inconclusive.

Table 3.24 (Continued)

Theories	Variables	Δ MULTI	Δ MULTIY	Δ GRANT	Δ GRANTY	Δ LOANY
Liberalism	JGNPY					
	Δ NDB (Lead2)				.277 (1.772)	
	Δ GA					
	Δ FILP					
Realism	Δ OTHODA					
	Δ OTHMUL	.489 (2.914)				
	Δ OTHGRA			.324 (2.142)		
	Δ TBUSY (Lead1)					
Marxism	Δ EXLDCY (Lead3)		.426 (2.797)			
	Δ SALE2		-.537 (-3.974)			
	Δ CUR2					.664 (4.343)
	Δ CUR3 (Lead1)					
Causal Nexus	Δ LOANY (Lead1)					
	Δ AFR (Lead2)					
	Δ MID (Lead3)					-.420 (-2.748)
	Δ LDC (Lead3)		.455 (3.095)			
Time Domain	STEP80		.327 (2.408)	.261 (1.738)		
	STEP87			.392 (2.631)		
Adjusted R ²		.211	.703	.580	.287	.579
DW		2.245	1.962	2.049	2.399	1.755

CHAPTER FOUR: Sources of Change in the Geographical Distribution of Japan's Bilateral ODA

This chapter examines major sources of change in the geographical distribution of Japanese bilateral ODA, using two sets of data. The first one is a macro-level set of data, which chronicles net disbursements of total bilateral ODA from Japan to Asia (ASIA), the Middle East (MID), Africa (AFR) and Latin America (LATIN). Partly because some possible explanatory variables are recorded by individual countries, we will also employ another set of data, the cases of which are pooled by the geographical areas of Asia (Asia), the Middle East (Mid), Africa (Afr) and Latin America (Latin). The sub-regions of Asia are also pooled into Northeast Asia (NEA), ASEAN (ASEAN), non-ASEAN Southeast Asia (SEA) and Southwest Asia (SWA).

In Sections 4.1 through 4.4, the micro-level analysis reveals that the existing explanations as well as the causal nexus models hold little explanatory power. The analysis of the macro-level data in Section 4.5 shows that causal paths from some of the aspects of ODA can give a more robust explanation of the geographical distribution of Japan's bilateral ODA. However, the significant causal paths identified come from the sectoral allocation and/or the procurement conditions and/or within the geographical allocation of Japan's bilateral ODA. This is different from the original hypothesis of the causal nexus model that the geographical distribution is determined by the volume and form of ODA.

Figure 4.1 shows how Japan's bilateral ODA by areas has been changing throughout time. As described in Chapter Two, the bulk of Japan's bilateral ODA was allocated to Asia in Period 1 (1957 - 1970). It was concentrated in Southwest Asia in the early years, until a massive shift to ASEAN countries occurred in the mid-1960s. Aid to Northeast Asia was principally directed to South Korea in this period.

Diversification of recipient countries started in Period 2 (1971 - 1979), and was especially noted in fiscal years 1974 and 1975. The geographical extension began from Latin America, Africa, the Middle East, and Oceania and proceeded in this order. In this process, there was a sharp increase in annual disbursements to Asia in 1971, and yet a rapid increase in the Middle East, during the period of the first oil crisis, was produced at the expense of Asian recipient countries. By contrast, diversification during Period 3 (1980 - 1987) was not accompanied by a large decrease in Asian-targeted ODA.

Figure 4.2 illustrates the trend of Japan's ODA allocation within Asia. Japan's bilateral ODA was concentrated to Southwest Asia in the early years, and then a massive shift to ASEAN countries happened after the mid-1960s. A significant increase in the late 1970s and the early 1980s in the Asian region was due to a huge amount of ODA being distributed to Northeast Asia. Aid to Northeast Asia was principally directed to South Korea in the early years, and a significant increase in the late 1970s and the early 1980s in this region was due to a huge amount of ODA going to China. Japan's ODA allocated to non-ASEAN Southeast Asian countries, most of them maintained by communist regimes, showed a small upward trend in the 1980s, and yet did not increase rapidly.

In Period 4 (1988 - present), an increase to Europe has also started due to the recent Eastern European upheaval.

Figure 4.1: Japan's Bilateral ODA by Areas

Figure 4.2: Japan's Bilateral ODA to Asia

4.1 Economics of Foreign Assistance

4.1.1 Capital and Societal Needs in the Recipient Countries

From a liberal perspective on "economics of aid," it is argued that development cooperation aid should be allocated according to the recipients' needs. Recipients' needs may be conceptualized in many ways. In a simple way, it is hypothesized that there is a positive relationship between the geographical allocation of Japan's ODA and the recipient countries' GNP per capita (PCGNP), which constrains levels of savings and investment. That is, the lower the recipient countries' GNP per capita, the greater Japan's ODA contributions. Another constraint is the so-called foreign exchange gap, under which a lower balance of payments (BOP) hinders the level of income.¹

There is another tradition of liberalism, in which social indicators are taken into account. If the liberal concept of development refers to a Western type of industrialization, accompanied by mass-production and mass-consumption, the degree of industrialization may reflect the consumption of commercial energy as is seen in the technologically advanced nations.² Thus, it is

¹Data on GNP per capita (U.S. dollars) and current account balance before official transfers (percentage of GDP) since 1968 is taken from World Bank, World Tables 1989-90 and World Tables 1991.

²This refers to commercial forms of primary energy: coal and lignite, crude petroleum, natural gas liquid, and hydro and nuclear electricity, converted into coal equivalent. Thus the use of firewood and other traditional fuels, which are substantial in certain recipient countries, is not taken into account here. Data on per capita consumption of energy in kilograms of coal equivalent is taken from the United Nations' 1979 Yearbook of World Energy Statistics for 1970-1979, its 1981 edition for 1980-81, 1985 Energy Statistics Yearbook for 1982-85, and its 1989 edition for 1986-89.

expected that there is a negative relationship between the geographical allocation of Japan's ODA and the recipient countries' per capita consumption of energy (PCENE).

Another important aspect of recipients' needs is the basic energy requirement for labor force. One of these indicators is the daily per capita calorie supply. Again, there would be a negative relationship between the geographical allocation of Japan's ODA and the recipient countries' daily per capita calorie supply as the percentage of requirement (PCCAL).³

Using the first-order differences of ODA categorized by country and by year as the dependent variable, the regression results in Table 4.1 were obtained. No significant relationship is observed concerning the above explanatory variables, except Δ PCCAL for the geographical categories of Asia and non-ASEAN Southeast Asia (SEA). The adjusted R^2 of .258 indicates that about 26 percent of the variation in the ODA disbursed to the recipients in non-ASEAN Southeast Asia may be determined by the change in Δ PCCAL. However, in other regions, Japan's ODA-giving behavior cannot be explained by an orthodox liberal perspective on capital and societal needs of the recipient society.

³Data from 1974 is taken from FAO's Yearbook: Production (Rome: FAO of the United Nations, various years). Most of the data are provisional numbers of the average for the last three years, including the target years.

Table 4.1: Recipients' Socio-Economic Needs

Geographic Area	$\Delta PCCAL$	$\bar{R}^2$	F	Sig. F	DW
Asia	-.230 (-2.413)	.044	5.824	.018	2.238
(SEA)	-.547 (-2.697)	.258	7.273	.015	2.374

4.1.2 Capital Affordability in the Donor Society

In terms of social welfare, or human rights, the philanthropic motivation is the main reason to provide foreign aid. From such an altruistic perspective, the 1980 General Assembly of the United Nations adopted the ODA target of a 0.7 percent ratio of the respective donors' GNP. Japanese ODA/GNP ratio has been lower among the DAC members, although the MFA has been emphasizing humanitarianism and international interdependence as criteria for aid allocation.

If the MFA makes an effort to promote these ideas in allocation towards aid, it can be hypothesized that there is a positive relationship between the geographical distribution of Japan's ODA and Japan's economic growth. The Japanese economic growth here is measured by its GNP (JGNP) or GNP per capita (JPCGNP). However, neither $\Delta JGNP$ nor $\Delta JPCGNP$ can be the indicator to predict to which country, or area, the allocation and the geographical allocation of Japan's ODA will be issued.

4.1.3 The Role of the State

The two-gap model has been prevalent in development economics. It deals with the interactions between the savings

constraint at the level of the recipient society and the foreign exchange constraint at the international level. In addition, liberal economic revisionists have recently developed a three-gap model in which the financial restriction of government spending is considered to be an important constraint.⁴ Thus, there will be a positive relationship between the external public debt (DEBT) of the recipient states and Japan's ODA allocation.⁵

Similarly, the role of the donor state can also be taken into account. As is examined in the preceding chapter, the prospect of real GNP growth rate (PRORR), or the prospect of nominal GNP growth rate (PRONR), may be more important than actual GNP figures.

No statistically significant relationship is observed between the allocation to recipient countries and these variables related to the role of the state. At the macro-level, however, Table 4.2 shows that there is a positive relationship between Δ PRORR at lag 4 and Δ MID. It seems that the liberal interpretation of the role of the state in aid allocation is applicable only to the Middle East as a whole.

Table 4.2: The Role of the State

Geographic Area	Δ PRORR (Lead4)	$\bar{R}^2$	F	Sig. F	DW
Δ MID	.499 (2.993)	.221	8.958	.006	2.450

⁴Edmar L. Bacha, "A Three-Gap Model of Foreign Transfers and the GDP Growth Rate in Developing Countries," Journal of Development Economics 32 (1990), 279-296.

⁵Data on external public debt is taken from World Bank, World Development Report.

4.2 Politics of Foreign Assistance

4.2.1 Political Development in the Recipient States

Where the state's role in the recipient economic sphere is emphasized by liberal economic revisionists, institutional development is stressed by political developmentalists. From a Kantian perspective, the idea of institutional development is based on the premise that the problem for economic growth would be removed when the recipient states become internally more ideal.⁶ There would be many indicators for the internal improvement of the recipient state institutions, including pluralist party systems.⁷

For the trading state, international security is one of the most important concerns. Military expenditures of local currency in the recipient states (MIL) or their growth rates (MILR) can be the political indicator for ODA allocation.⁸ However, it was not until April 1991 that Tokyo explicitly declared a guideline of political use for aid allocation, including that arms exports and dictatorial governments suppressing human rights be taken into account for aid distribution.⁹ It should also be pointed out that Japan's foreign aid is less political,

⁶This is Waltz's second image argument. Kenneth N. Waltz, Man, the State and War (N.Y.: Columbia University Press, 1954).

⁷Yano's work examined the relationship between the seats of communist parties in recipient countries and ODA allocations. Yuzaburo Yano, "Seifu Kaihatsu Enjo ni Miru Hikaku Kettei Yoin Bunseki," (Tokyo: APIC, 1985).

⁸Figures of military expenditure in current costs are taken from SIPRI Yearbook 1990 World Armaments and Disarmaments (N.Y.: Oxford University Press, 1990), as well as the 1969/70 and 1981 editions.

⁹Following Tokyo's guideline, the DAC agreed in May 1992 that military expenditure be a criterion of ODA allocation by DAC members.

compared to America's security assistance.¹⁰ If the MFA has not used aid as a security measure in this aspect, there is no relationship between the geographic distribution of ODA and the military expenditures of the recipient countries. Actually, it is proven that there is no significant relationship between these variables in all cases and the respective geographical areas and sub-regions.

4.2.2 Public Opinion in Japan

To what extent and in which geographical areas does the public opinion coincide with the actual allocation for aid? Public opinion concerning the geographical allocation can be found in the polls conducted since 1980 by the Prime Minister's Office.

The polls indicate that the public also has a tendency towards Asian-centrism throughout time, although the second majority has had a preference of equal distribution of aid over space. However, the ODA allocation to the respective regions has little relationship with the movement of poll results.

The linear regression result in Table 4.3 shows that there is a significant, positive relationship between the percentage of those who favored aid to the Middle East (Δ MIDPO) at lag 1 and Δ MID. It is interpreted that there is a rough consensus between the government and the public on the aid allocation to this area. However, no statistically significant relationship is observed between any geographical pools of individual recipient countries and the public preference on the geographical distribution.

¹⁰Seigen Miyasato, "America no Taigai Enjo to Nippon no Taio," in Chihiro Hosoya, ed., America Gaiko (Tokyo: JIA, 1986), 141-170.

Table 4.3: Public Opinion

Geographic Area	Δ MIDPO (Lead1)	$\bar{R}^2$	F	Sig. F	DW
Δ MID	.793 (2.912)	.555	8.479	.033	2.009

4.3 Politics of Foreign Economic Aid

4.3.1 International ODA Regimes

From an international "politics of aid" perspective, Hasegawa argued that Japan used multilateral aid as a means to seek an establishment of its favorable place in the global community, and that such an attempt was successful in the Asian region, but only marginal in the global context.¹¹ If Japan's bilateral ODA was distributed similarly throughout time, there would be a positive relationship between the geographical distribution of bilateral ODA and the ODA which the recipient countries received from multilateral agencies (TOTMUL).¹²

Such a relationship would be more salient in the Asian region. The rationale for this hypothesis is that Japan's bilateral aid was provided with a stronger sense of associational obligation in this region. Related to this, an officer of a Japanese aid agency mentioned that inter-donor coordination of foreign aid, which includes joint

¹¹Hasegawa, Japanese Foreign Aid.

¹²Data on ODA by multilateral agencies by countries are available since 1976. OECD, Geographical Distribution of Financial Flows to Developing Countries (Paris: OECD, various years).

financing and rehabilitation of formerly financed projects by other donors, particularly multilateral agencies, was an important factor in funding projects in Japanese ODA programs.¹³

International regimes are conceptualized not only as explicit multilateral decision-making procedures, but also implicit patterns of behavior. Therefore, the DAC member donors may constitute an aid regime more tacitly in the aspect of the geographical allocation of ODA. Suppose there would emerge a geographic coordination in providing ODA, that is Japan's burden-sharing for Asia, Europe for Africa and the United States for Latin America; there would then be a negative relationship between Japan's ODA and the bilateral ODA by DAC countries combined (TOTBI) in these areas respectively.¹⁴

On the other hand, the globalization of Japan's aid power is also pointed out increasingly. Japan is becoming the largest donor for many recipient countries. In 1970 Japan was the top donor for only six countries (three Asian and three Middle East countries); the number of these countries increased to fifteen in 1980 and to thirty in 1989.¹⁵ Those recipient countries included not only Asian, but also Middle Eastern, African and Latin American countries. The hypothesis derived from this phenomenon states that Japan's hegemonic power on aid has been emerging on a global scale.

¹³Interview with an officer at the JICA Indonesia Office, 6 May 1991.

¹⁴Data since 1976 is available in OECD, Geographical Distribution, various years.

¹⁵Ministry of Foreign Affairs, Keizai Kyoryoku ni kansuru Kihon Shiryo, October 1991, 46.

Regarding this hypothesis, Inada's work revealed that Japan's ODA to Asian countries surpassed the United States in 1977 and, after that, Japan provided considerably more aid to this region than did the United States.¹⁶

The regression result in Table 4.4 shows that there is a comparatively strong relationship between the allocation of Japan's bilateral ODA and the multilateral ODA received by Northeast Asian recipient countries (NEA). It seems that the Japanese government followed the activities of the World Bank and the regional bank, or that Japan took the lead in providing its ODA in this area. This may be regarded as a reflection of Japan's passive diplomacy or the positive recognition of the international regime, and yet the role of Japan's hegemonic aid power is still limited.

Table 4.4: International ODA Regime

Geographic Area	Δ TOTMUL	$\bar{R}^2$	F	Sig. F	DW
(NEA)	.678 (3.693)	.426	13.641	.002	2.408

4.3.2 ODA Diplomacy

A classical realist argues that diplomatic leaders should skillfully determine, and intervene in, the allocations for ODA. If such a successful statecraft exists, then there can be a positive relationship between the geographical allocation of Japan's ODA and diplomatic exchanges with recipient countries. Such a diplomatic

¹⁶Inada, "Japan's Aid Diplomacy," 399-414.

pattern is often called the "Omiyage" diplomacy, or the "gift-accompanied" visit by Japanese leaders. In terms of diplomatic leaders of recipient states, official visits to Tokyo can be of a gift-seeking purpose. Therefore, more specifically, it is hypothesized that there is a positive relationship between the geographical distribution of Japan's ODA and diplomatic visits, and national guests from recipient countries. Therefore, the independent variable for testing this hypothesis is a combination of Japanese prime ministers' official visits to, and national guests from, recipient countries (DIP).¹⁷

However, no significant relationship is observed between the geographical allocation of aid and the original series, nor are there first-order differences among the variables of DIP.

4.3.3 LDP Crisis and ODA Compensation

It is often pointed out that aid gains no votes for politicians during election years.¹⁸ However, for LDP Diet members, foreign aid can project an international profile as well as money for electoral campaigns. In a view of "politics of economic aid," when LDP politicians perceive a political crisis, it is possible for them to attempt to distribute foreign aid to a certain country through activities of the parliamentary leagues on foreign affairs. Classic examples of this are the LDP politicians associated with the Asia Study Group and the Afro-Asia Study Group.¹⁹ Although these groupings have no legal

¹⁷This data covers the period through 1985. Naikaku Seido 100-nenshi vol. 2, (Tokyo: Government of Japan, 1985), 640-651.

¹⁸Rix, The Future of Japanese Foreign Aid, 423.

¹⁹Nathaniel B. Thayer, How the Conservatives Rule Japan (N.J.: Princeton University Press, 1966), 4^o Parliamentary friendship leagues have supra-factional and inter-party memberships.

power on the geographical allocation for aid, the MFA cannot neglect them because some of the chairpersons of these leagues have personal ties with political and business leaders in certain recipient countries.²⁰

According to Table 4.5, the first-order differences of the established scale of the LDP crisis (ΔLDP) has a negative relationship with total disbursements to Asia ($\Delta ASIA$) and Latin America ($\Delta LATIN$). However, it is hard to prove statistically the hypothesis of the LDP crisis and ODA compensation using the pooled data of individual recipient countries.

Table 4.5: Support and Crisis of LDP

Geographic Area	ΔLDP (Lead4)	ΔLDP (Lead6)	$\bar{R}^2$	F	Sig. F	DW
$\Delta ASIA$	-.428 (-2.464)		.153	6.070	.020	2.469
$\Delta LATIN$		-.679 (-4.710)	.440	22.183	.000	1.867

4.4 Economics of Political Decisions on ODA Allocation

4.4.1 Dominant Capitalists in the World Economy

From a Marxian perspective on "economics of political aid," there is a relationship between the geographic distribution of Japan's ODA and the private interest of dominant capitalists in international trade and foreign investment. The volume of imports from recipient

²⁰For instance, the role of wartime ties with Indonesia in aid allocation is described in Nishihara, The Japanese and Sukarno's Indonesia.

countries to Japan (JIM), most of which are natural resources and primary goods, are sometimes regarded as public interests of the nation, rather than private interests, and yet it is interpreted here that the integration of global markets serves the dominant capitalistic interests in the core countries. It is hypothesized that when Japan's imports are decreasing or unsecured, trade interests put pressure on the Japanese government to increase the aid to that country. Thus, there is a negative relationship between aid and imports.

By contrast, there is a positive relationship between the geographic allocation of Japan's ODA and exports from Japan to the recipient countries (JEX).²¹ This is because spare parts and maintenance services related to the ODA projects can greatly contribute to the exports of the donor's manufacturing products.

A similar relationship can be found with foreign investment. When the Japanese investors recognize the so-called "country risks" in recipient countries, it may be possible for them to make the donor state indebted to those risks instead of themselves by increasing the ODA. On the contrary, when it is felt that those risks are becoming lower, the dominant capitalists may no longer prefer state intervention, which can prevent a monopoly by the dominant fraction of the capital. Based on this premise, it is hypothesized that there is a negative relationship between the geographical allocation of Japan's ODA and private investment in recipient countries. Private

²¹Data on trade is taken from MOF's Japan Exports & Imports: Country by Commodity (Tokyo: Japan Tariff Association, various years). Another possible indicator for the export interest in the recipient countries is perhaps the size of their population, because the capitalist in the donor country focuses on population as a potential market size.

investment is operationalized here by OECF loans and equity investment in private corporations registered in Japan, what is called the "general projects" (GEN), on the premise that the dominant capitalist's interest is reflected in this non-ODA portion of the OECF operations.²²

These expected relationships are not confirmed statistically by a regression analysis. However, if the more recent and future cases are added to the data base, there may be a weak tendency that suggests that the amount of Japan's imports from the recipient countries is most important among these independent variables, and that the variables of GEN hold higher explanatory power in the areas of ASEAN.

4.4.2 Oligopolistic Interests in the Japanese Economy

According to a cross-correlation analysis, it seems that the first-order differences of the ODA amounts by geographical categories have a significant, negative relationship with the variables of sales and profits of leading trading companies, construction companies, and a consulting firm at lags 2, 4 and 5, respectively. The 4 to 5 lags coincide with cycles in the large-scale ODA projects.

Table 4.6 shows that the sales of the leading trading companies (ΔSALE1) have a relatively higher impact on the ODA allocation to Latin American recipients. As for the construction companies (Table 4.7), their sales (ΔSALE2) or current profits (ΔCUR2) may be a possible indicator of Japanese ODA allocation to Latin American

²²Sources of data since 1961 are taken from OECF, Annual Reports, various years.

countries. As shown in Table 4.8, the operational ($\Delta OPE3$) or current surpluses ($\Delta CUR3$) at lag 5 has a negative impact on the ODA disbursements to the pool of ASEAN members and Asian recipient countries as a whole. Because of a long and deep connection of Nippon Koei with Asian countries, it may be interpreted that the proximity and historical ties with Asian countries created a most useful tool in securing monopolistic profits in aid when a decrease in its operational profit was recorded. By contrast, a positive relationship is observed between $\Delta CUR3$ at lag 1 and ΔMID .

Table 4.6: Oligopolistic Interests of Japanese Trading Companies

Geographic Area	$\Delta SALE1$	$\bar{R}^2$	F	Sig. F	DW
$\Delta IATIN$	.608 (3.980)	.346	15.841	.001	2.208

Table 4.7: Oligopolistic Interests of Japanese General Contractors

Geographic Area	$\Delta SALE2$	$\Delta CUR2$	$\bar{R}^2$	F	Sig. F	DW
$\Delta IATIN$	.458 (2.676)		.180	7.162	.013	2.372
$\Delta IATIN$		.439 (2.541)	.163	6.459	.017	2.406

Table 4.8: Monopolistic Interests of the Japanese Consulting Firm

Geographic Area	$\Delta OPI3$ (Lead5)	$\Delta CUR3$ (Lead1)	$\Delta CUR3$ (Lead5)	$\bar{R}^2$	F	Sig. F	DW
(ASEAN)	-.325 (-2.638)			.090	6.959	.011	2.302
$\Delta ASIA$			-.719 (-3.728)	.480	13.899	.003	1.366
ΔMID		.470 (2.196)		.175	4.821	.042	2.323

4.5 Multivariate Analysis

4.5.1 Causal Nexus Models

Table 4.9 shows that statistically significant causal paths are observed only to Northeast Asia when the micro-level data are used. The path coefficients and their values of R^2 s for $\Delta ASIA$ and $\Delta NONPRO$ are exactly the same to each other, both of which are lower than their equivalents in the model of the international ODA regime previously shown in Table 4.4. Therefore, we retain the "politics of economic aid" hypothesis as more robust than the causal nexus models in this geographical region.

Table 4.9: Causal Nexus Models for Northeast Asia

Geographic Area	$\Delta ASIA$	$\Delta NONPRO$	$\bar{R}^2$	F	Sig. F	DW
(NEA)	.504 (3.084)		.227	9.511	.005	2.253
(NEA)		.504 (3.086)	.227	9.524	.005	2.282

Tables 4.10 through 4.13 present the causal nexus models using the macro-level data of the geographical distribution of Japanese bilateral ODA. Table 4.10 lists the results of bivariate and multivariate causal path analyses for Δ ASIA. There is a positive relationship between Δ ASIA and Δ ODAY, Δ SOCIAL, Δ LDC or Δ (TIED + LDC), while a negative relationship is observed concerning Δ MULTIY and Δ MID. Among these variables a strong correlation is observed between Δ LDC and Δ (TIED + LDC). Therefore, the latter variable with a higher coefficient was viewed as more important than the former. Using these path variables, the backward elimination method produced the model with Δ MULTIY, Δ SOCIAL and Δ (TIED + LDC), as listed in the last row of Table 4.10.

Table 4.10: Causal Nexus Models for Asia

Area	Δ ODAY (Lead1)	Δ MULTIY (Lead2)	Δ MID (Lead1)	Δ SOCIAL	Δ LDC	Δ (TIED + LDC)	$\bar{R}^2$	F	Sig. F	DW
Δ ASIA	.399 (2.261)						.128	5.114	.032	2.036
Δ ASIA		-.555 (-3.464)					.282	11.998	.002	2.341
Δ ASIA			-.453 (-2.594)				.175	6.731	.015	2.344
Δ ASIA				.466 (2.469)			.181	6.095	.022	2.371
Δ ASIA					.517 (3.139)		.240	9.851	.004	2.100
Δ ASIA						.611 (4.013)	.350	16.107	.000	2.036
Δ ASIA		-.406 (-2.939)		.321 (2.352)		.438 (3.124)	.594	12.202	.000	1.888

As for the Middle East, the aspects of ODA listed in Table 4.11 have a significant relationship with Δ MID. These variables are not

significantly related to one another, and yet the multiple regression analysis with these variables did not produce a significant result because of a complex colinearity problem. Therefore, the variable of ΔECOINF at lag 4 may be regarded as the most important path to ΔMID . However, in terms of value of R^2 , the this model is less explanatory than the model of public opinion in Section 4.2.2. Thus, it can be concluded that the liberal politics approach is most useful in explaining the allocation of Japanese bilateral ODA to this region in the 1980s.

Table 4.11: Causal Nexus Models for the Middle East

Area	ΔECOINF (lead4)	ΔPRODUC (lead1)	ΔGRACE (lead1)	ΔTIED (lead3)	$\Delta(\text{TIED} + \text{LDC})$	$\bar{R}^2$	F	Sig. F	DW
ΔMID	-.644 (-3.575)					.383	12.778	.002	2.179
ΔMID		.549 (3.012)				.268	9.071	.007	2.316
ΔMID			.466 (2.683)			.187	7.199	.013	2.493
ΔMID				.499 (2.817)		.217	7.937	.010	2.467
ΔMID					.395 (2.234)	.125	4.991	.034	2.105

Table 4.12 records the results of causal path analysis for ΔAFR . Among these paths, there is a strong correlation between ΔLATIN at lag 1 and ΔUN , and between ΔUN and $\Delta(\text{UN} + \text{LDC})$, respectively. Therefore, the ΔUN variable with the highest path coefficient among them was regarded as important. Using the variables of ΔUN and $\Delta(\text{TIED} + \text{LDC})$, the multiple regression model shown in the last row is obtained. According to this model, about 30 percent of the variation in the allocated ODA in this region is explained by a

combination of ΔUN and $\Delta(TIED + LDC)$. It can be interpreted that Japan's bilateral ODA for Africa increased in parallel to the increase in the untied loans as well as the increased amount of tied and LDC-untied loans. This explanation is a symbiosis of liberal and nationalist, or Marxist, interpretations. Yet, the liberal perspective may be relatively more applicable to Africa, because the path coefficient of ΔUN is higher than that of $\Delta(TIED + LDC)$.

Table 4.12: Causal Nexus Models for Africa

Area	$\Delta LATIN$ (Lead1)	ΔUN	$\Delta(UN +$ $LDC)$	$\Delta(TIED +$ $LDC)$	$\bar{R}^2$	F	Sig. F	DW
ΔAFR	-.464 (-2.668)				.185	7.116	.013	2.300
ΔAFR		.482 (2.859)			.204	8.176	.008	2.452
ΔAFR			.581 (2.140)		.113	4.580	.042	2.353
ΔAFR				.403 (2.242)	.130	5.027	.034	1.672
ΔAFR		.435 (2.666)		.343 (2.102)	.295	6.659	.005	2.331

As for Latin America, the causal paths listed in Table 4.13 were identified. Since all of these paths were not significantly correlated to one another, a multiple regression analysis was conducted using these variables. The backward elimination method produced the equation listed in the last row of Table 4.13, which accounts for about 85 percent of the variation in the dependent variable of $\Delta LATIN$. Among these paths $\Delta NONPRO$ is the most significant variable, which may indicate that the "left-overs" of Japan's bilateral ODA were distributed to Latin America as well as for the non-project

aid. The negative sign of $\Delta(\text{TIED} + \text{LDC})$ also indicates that the allocation for this area increased when there was enough capacity for the donor contractors and the amount of the tied and LDC-untied loans dropped. At the same time, the positive signs for ΔMID and ΔECOINF may indicate that Japan attempted to diversify its ODA recipients in Latin America as well as the Middle East to minimize the risk of embargo from the oil-producing countries in these areas.

Table 4.13: Causal Nexus Models for Latin America

Area	ΔHY	ΔMID	ΔECO (Lead2)	ΔNON PRO (Lead1)	ΔINT	$\Delta(\text{TIED}$ $+ \text{LDC})$ (Lead3)	$\bar{R}^2$	F	Sig. F	DW
ΔLATIN	.406 (2.265)						.133	5.129	.032	1.715
ΔLATIN		.426 (2.448)					.151	5.991	.021	2.295
ΔLATIN			.522 (2.736)				.236	7.485	.013	2.256
ΔLATIN				.762 (5.389)			.560	29.046	.000	2.220
ΔLATIN					.381 (2.140)		.113	4.581	.042	2.242
ΔLATIN						-.436 (-2.373)	.156	5.629	.026	2.294
ΔLATIN		.332 (3.346)	.384 (4.321)	.556 (5.259)		-.211 (-1.998)	.851	29.536	.000	1.895

4.5.2 Synthetic Models

When an attempt was made to synthesize the existing explanatory models, no statistically significant models developed, except for Latin America. Table 4.14 records that about 40 percent of the variation in ΔLATIN is explained by a combination of the sales of the leading Japanese trading companies and general contractors. Although the R^2 of the model is lower than that of the causal nexus

model for Latin America in the last row of Table 4.13, this provides a piece of evidence that the oligopolistic interests of the ODA-related industry also has explanatory power in this region.

Table 4.14: Synthetic Models for Latin America

Geographic Area	$\Delta SAIE1$	$\Delta SAIE2$	$\bar{R}^2$	F	Sig. F	DW
$\Delta LATIN$	.524 (3.531)	.321 (2.162)	.425	11.335	.000	2.079

We also attempted to synthesize the existing models and the causal nexus models obtained in the previous sections for the respective regional variables and pools, and yet the added variables were removed from the statistically significant equations by the backward elimination method. More specifically, no significant model is obtained by adding $\Delta CUR3$ at lag 5 to the causal nexus model for $\Delta ASIA$, by adding $\Delta GPOLL$ to the model of $\Delta ECOINF$ at lag 4 for ΔMID , and by adding ΔLDP to the causal nexus model for $\Delta LATIN$.

4.5.3 Models in the Time Domain

In refining the seemingly robust models obtained in the previous sections, this section attempts to include the time variables of long-term trends, medium-term interruptions, and short-term effects. The YR variable representing the long-term trend was not included in any of the regression equations examined.

The step function appears to be applicable to the sub-regional pool of Northeast Asia. Table 4.15 shows that the change in 1988 was so abrupt that it impacted on the first-order differences of the aid allocation to Northeast Asia. This reflects the increase of aid to China.

Rudner observed that the formally unrecognized and non-recipient country of war reparations "ironically" became one of the largest recipients of Japan's ODA by the 1980s.²³ From a Japanese perspective, it was a logical, rather than ironical, compensation by the Japanese state, as many Japanese aid officials identified that "the very generous aid levels that China has received in the 1980s are in part due to the lack of a postwar reparations accord between the two countries."²⁴ This implies that Japan would provide a similar provision for a generous level of aid to North Korea when a possible normalization with this country is realized.

Table 4.15: Medium-Term Impacts

Geographic Area	STEP88	Δ MUL	$\bar{R}^2$	F	Sig. F	DW
(NEA)	.296 (2.436)	.721 (5.936)	.702	26.858	.000	2.384

As for the short-term unit effect, a significant model is obtained for Δ ASIA only. When the dummy variables of years were included into the causal nexus model previously listed in the last row of Table 4.10, the backward elimination method resulted in a combination of the additive variable of Δ (TIED + LDC) and the pulse functions of YR87 and YR88 that provides higher explanatory power than other existing models with regard to Δ ASIA. If the variable of

²³Rudner, "Japanese Official Development Assistance to Southeast Asia," 73.

²⁴Orr, The Emergence of Japan's Foreign Aid Power, 53.

$\Delta(\text{TIED} + \text{LDC})$ reflects oligopolistic interests of Japanese industries, this may be evidence for the factors claimed by the Marxian explanation in this area. However, another factor appears to be more important than this factor after 1987.

Table 4.16: Short-Term Pulses

Geographic Area	YR87	YR88	$\Delta(\text{TIED} + \text{LDC})$	$\bar{R}^2$	F	Sig. F	DW
ΔASIA	.442 (3.514)	.363 (2.841)	.556 (4.361)	.637	14.442	.000	2.008

In summary, determinants of the geographical distribution of Japan's bilateral ODA have been changing, and diversifying over space and time. According to Table 4.17, the expected causal paths from the volume and form of ODA to ΔASIA , ΔMID , ΔAFR and ΔLATIN are not observed. Instead, the causal paths from other aspects of ODA are significant in explaining the change in ΔASIA , ΔAFR and ΔLATIN . As for ΔMID , the "politics of foreign assistance" perspective on public opinion is most robust.

However, the causal nexus model is not well applicable to the pooled geographical cases for Asia, the Middle East, Africa and Latin America. When the micro-level data set is used, no plausible model with a high explanatory power was established, except for the sub-region of Northeast Asia. The obtained model for Northeast Asia is a neo-realist model of international regime in conjunction with the step function for 1988. No significant model was established by this study with regard to the regional pools for Southwest Asia, the Middle East, Africa and Latin America.

Table 4.17: Summary of Chapter Four

Theories	Variables	Δ ASIA	Δ MID	Δ AFR	Δ LATIN
Liberalism	Δ PCCAL Δ GPOLL (Lead1)		.793 (2.912)		
Realism	Δ MUL				
Marxism	Δ OPE3 (Lead5)				
Causal Nexus	Δ MID				.332 (3.346)
	Δ ECOINF (Lead2)				.384 (4.321)
	Δ NONPRO (Lead1)				.556 (5.259)
	Δ UN			.435 (2.666)	
	Δ (TIED+LD C) Δ (TIED+LD C)(Lead1) Δ (TIED+LD C)(Lead2)	.556 (4.361)		.343 (2.102)	-.211 (-1.998)
Time Domain	STEP88				
	YR87	.442 (3.514)			
	YR88	.363 (2.841)			
Adjusted R^2		.637	.555	.295	.851
DW		2.008	2.009	2.331	1.895

Table 4.17 (Continued)

Theories	Variables	Asia	(NEA)	(ASEAN)	(SEA)	(SWA)
Liberalism	Δ PCCAL	-.230 (-2.413)			-.547 (-2.697)	
	Δ GPOLL (Lead1)					
Realism	Δ MUL		.721 (5.936)			
Marxism	Δ OPE3 (Lead5)			-.325 (-2.638)		
Causal Nexus	Δ MID					
	Δ ECOINF (Lead2)					
	Δ NONPRO (Lead1)					
	Δ UN					
	Δ (TIED+L DC)					
	Δ (TIED+L DC)(Lead1)					
	Δ (TIED+L DC)(Lead2)					
Time Domain	STEP88		.296 (2.436)			
	YR87					
	YR88					
Adjusted R ²		.044	.702	.090	.258	-
DW		2.238	2.384	2.302	2.374	-

CHAPTER FIVE: Sources of Change in the Sectoral Allocation of Japan's Bilateral ODA Loans

In this chapter, it is verified that the oligopolistic interests of Japanese businesses can fairly well explain the change in the sectoral allocation of Japan's ODA loans. Some of the sectors can be further elaborated by the causal nexus model taking into account the tying status, or the volume of the bilateral ODA commitments, or finally by being incorporated into the long-term trend effect. As for the sectors of economic infrastructure and production and social services, the explanatory variables representing capitalistic interests are observed at the international and domestic levels. The causal nexus model as well as the realist model at the state level also holds explanatory power, to a great extent, concerning the non-project loans. This means that the Japanese aid decision-makers responded to, or were not autonomous from, the forces at the international and domestic societal levels.

Figure 5.1 shows that, from a longer-term perspective, the economic infrastructure sector (ECOINF), which was already seeded in the reparation period, has moved upward since the early 1970s, when Japan rapidly expanded its ODA program. As for the production sector and non-project loans, Japan's ODA commitments in the yen term serve as an important predictor.¹ The production sector was minor throughout the period, whereas non-project loans rapidly

¹Data on the ODA variables as well as the sectoral allocation of yen loans used in this chapter is on the basis of commitments. See Appendix A.3.

inflated in the late 1980s. It seems that Japan was able to increase the production sector, and had to increase non-project loans, in accordance with increased ODA commitments.

Figure 5.2 breaks down the trend of the allocation of yen loans in the sector of economic infrastructure. This figure illustrates that the OECF loans for projects of electric power and gas (EPG) and transportation (TRA) have been two major contributors for the substantial increase in the economic infrastructure since the 1970s. It is not surprising that the allocation for large-scale projects of electric power and gas, which are more profit-making for not only the lender and borrower states but also business interests involved in these projects, has been increasing. However, this was not always the case during the 1980s. By contrast, the increase in the sector of transportation in the late 1980s is extreme. The increase in the sectors of telecommunications (TEL) and irrigation and flood control (IFC) has been relatively modest since the late 1970s.

Figure 5.1: Bilateral ODA Loans by Sector

Figure 5.2: Bilateral ODA Loans for Economic Infrastructure

5.1 Economics of Foreign Assistance

5.1.1 Sectoral Needs in the Recipient Economies

Hirschman defined social overhead capital as "comprising those basic services without which primary, secondary, and tertiary productive activities cannot function."² Minami, a leading Japanese economist, identified that the sectors of transportation, especially railroads, telecommunications and electric utilities, were social overhead capital that led to Japan's rapid industrialization during the late nineteenth century.³ From this perspective on Japan's economic growth, it is hypothesized that recipients' needs on social overhead capital accumulation is one of the most important determinants of sectoral allocation of Japan's ODA loans.⁴ Indicators for these needs used here are energy consumption per capita by area (AFENE, SAENE, ASENE) expressed in kilograms of coal equivalent, railway traffic by area (AFRAIL, SARAIL, ASRAIL) in thousand million net ton-kilometers, and the number of telephones in use by area (AFTEL, SATEL, ASTEL) in thousand units.⁵

²Albert O. Hirschman, The Strategy of Economic Development (Boulder: Westview Press, 1988), 83.

³Ryoshin Minami, The Economic Development of Japan (N.Y.: St. Martin's Press, 1986), 113-115.

⁴Similarly, social services may be regarded as part of social overhead capital, and yet those are more directly oriented to welfare for labor in the recipient countries.

⁵The prefixes of AF-, SA-, and AS- in the variable names stand for Africa, South America and Asia respectively. The definition of these geographical areas are based on The UN Statistical Yearbook, various years. The countries categorized by this classification are not exactly the same as those used in Chapter Four. It should be noted that these figures include those for the developed countries in the respective areas.

As shown in Table 5.1, there is a negative relationship between Japan's ODA loans for the energy-related projects (ΔEPG) and the energy consumption in Africa ($\Delta AFENE$) at lag 3. Since the energy consumption is a measure of development, it confirms that Japan gave the aid for this sector in Africa in accordance with the need. Yet, this liberal logic cannot be applied to other regions. Rather, unlike Africa, there is a positive relationship concerning the energy consumption in Asia ($\Delta ASENE$) at lag 4, although the significance level of F for this model is over 0.05. In other words, the more commercial energy is used in this area, the more Japan's ODA in this sector is provided.

Table 5.1: Sectoral Needs in the Recipient Economies

Sector	$\Delta AFENE$ (lead3)	$\Delta SATEL$ (lead6)	$\Delta ASTEL$ (lead6)	$\bar{R}^2$	F	Sig. F	DW
(ΔEPG)	-.396 (-1.780)			.108	3.170	.093	2.500
(ΔTEL)		-.600 (-2.902)		.317	8.420	.011	2.284
(ΔTEL)			-.589 (-2.824)	.304	7.977	.013	2.394

The regression results do not identify any significant relationship concerning the recipient needs for railway traffic, while showing that there is a negative relationship for telephones in use in South America ($\Delta SATEL$) or Asia ($\Delta ASTEL$) at lag 4, respectively. On balance, Japan provided the ODA loans in accordance with the need for energy consumption in Africa, or telecommunications in Latin America and Asia, and yet it is hard to apply this liberal logic to the sector of transportation.

5.1.2 Recipients' Balance of Payments Situation

It is said that non-project aid is provided to quickly improve the balance of payments in the recipient countries. In fact, the requests for non-project assistance are often made from those countries suffering from a balance-of-payments problem, such as Indonesia, and yet it is also true that those requests will be examined and selected by the Japanese government. From a liberal perspective, the more serious are the recipient's balance-of-payments problems, the more non-project assistance should be provided.

When the average balance of payments in Asia (ASBOP), the Middle East (MIBOP), Africa (AFBOP), and Latin America (LABOP) are used respectively,⁶ there is no significant correlation between the balance of payments and the non-project ODA loans. It should be noted, however, that the expected negative coefficients are observed in the Middle East, Africa and Latin America at insignificant levels. It seems that another factor, rather than the balance of payments, should be identified in order to explain the change in the non-project assistance, especially for Asia. Or, a further study should be done at a lower level of abstraction.

5.2 Politics of Foreign Assistance

5.2.1 The Lag between Commitments and Disbursements

In terms of the agency-structure problem, we have to distinguish low commitment from poor disbursements of ODA. While

⁶World Bank, World Table 1991.

the intention of policy-makers is reflected in the former, the unintended structural restrictions in implementation processes, especially in the recipient side, is exerted in the latter. According to a senior ODA practitioner, "a lower disbursement rate (of the OECF loans) urges us to increase the amount of non-project-type loan assistance for quicker disbursement."⁷

A disbursement gap as such in yen terms is especially crucial, in terms of bureaucratic politics, for the OECF and its major controlling ministries in relation to the MOF. A larger gap can be identified as poor administrative performance, in part, of these organizations, and results in a budget cut. To avoid this, the decision-makers, especially the MITI officials in charge of small business promotion, tend to increase quickly-disbursable commodity loans, which can also contribute to Japanese medium- and small-size businesses when these loans are tied to procurement. For the MOF officials, two-step loans belong to their field and can be used as a means to expand their bureaucratic jurisdiction in the ODA administration. Thus, it is hypothesized that a larger gap between commitments and disbursements is a significant determinant of increasing non-project ODA loans. Examined are three types of gaps in yen terms: in Japan's total ODA (OYGAP), in bilateral ODA (BYGAP), and in bilateral ODA loans (LYGAP).⁸

⁷Interview with an OECF official, 9 August 1991.

⁸These gaps in each calendar year were calculated from the data used in Chapter Three, using the DAC's official exchange rates for the respective years.

According to the regression results in Table 5.2, the gaps in bilateral ODA give the highest value of adjusted R^2 among the three types of gaps. About 53 percent of the variation in non-project ODA loans is explained by the model of the four-ministry officials, who attempted to minimize the disbursement gap in the Japanese budget-making process.

Table 5.2: Disbursement Gap in Yen Terms

Sector	$\Delta OYGAP$	$\Delta BYGAP$	$\Delta IYGAP$	$\bar{R}^2$	F	Sig. F	DW
$\Delta NONPRO$	.628 (3.514)			.362	12.346	.002	2.252
$\Delta NONPRO$		.781 (5.447)		.589	29.668	.000	1.625
$\Delta NONPRO$			.743 (4.846)	.529	23.482	.000	2.042

5.2.2 Political Responsiveness to Public Opinion In Japan

Data of public opinion on the sectoral preference is very limited. According to the results of the polls conducted by the Prime Minister's Office in recent years, the late 1980s saw a slight rise in public preference in the sectors of basic human needs, education and environmental protection. It is clear that the Japanese ODA loans did not respond to the majority's preference for an emphasis on basic human needs. It is not clear, however, that the public shared the government's priority on economic infrastructure. The sectoral categories of these polls are not exactly the same as the standard OECD categories, and yet it is possible to examine approximate tendencies by aggregating the categories.

No significant result is obtained by using the combined amount of EPG, TRA and TEL as the dependent variable (ΔECOINF^*), and the combined share of those who favored aid to Resource Development, TRA and TEL in the polls as the independent variable (ΔSECFO), for the period from 1983 to 1988.⁹ Although the period examined is very limited, it seems that the government did not respond to the demand by the public even on economic infrastructure.

5.3 Politics of Foreign Economic Aid

5.3.1 Sectoral Regimes of ODA

The emphasis on economic infrastructure in Japan's ODA loan projects has been discussed in many ways. Moralists have criticized it by arguing that Japan should allocate more aid for basic human needs. Some neo-classical economists defend this policy by evaluating the role of economic infrastructures as a basis of export-oriented open economies. This section examines the structural causes at the level of the international system, which are neglected by the existing arguments.

It is hypothesized that there exists an implicit division of labor in the sectoral allocation of ODA loans between Japan and the United States, or the other DAC members as a whole, excluding Japan. There are some difficulties to test this hypothesis, because, first, the detailed statistical data recorded in the DAC's annual reports is restricted to the participants. Furthermore, the DAC drastically changed the definition of sectoral categories in 1987. Therefore, the

⁹The missing value of public opinion for 1987 was replaced by the average value for the adjacent two years.

present study transformed the data for the period from 1973 to 1984, and from 1987 to 1989, in a comparable way.¹⁰

Table 5.3 presents the regression results using the limited cases available. Whereas Japan's ODA loans for economic infrastructure has a negative relationship with those of the United States for the same sector (Δ USECO) at lag 0, they have a positive relationship with the same variable at lag 1. The R^2 of the former is higher than the latter, and it seems that there exists a division of labor between the United States and Japan concerning the economic infrastructure sector at lag 0. This division of labor may be planned by Japan, but may be unintentional by the United States. Taken together, these phenomena may be regarded as skillful tactics of Japan for mercantilist interests, rather than for the benign division of labor.

Table 5.3: Sectoral Regimes of ODA

Sector	Δ US ECO	Δ US ECO (lead1)	$\bar{R}^2$	F	Sig. F	DW
Δ ECO INF	-.824 (-3.884)		.633	14.779	.006	1.501
Δ ECO INF		.688 (2.512)	.399	6.308	.040	2.427

¹⁰In the data before 1984, the category of "development of public utilities" is read as "economic infrastructure." The categories of "agriculture," "industry, mining, construction," and "trade, banking, tourism, services" are aggregated as "production." Similarly, the sectors of "education," "health," "social infrastructure and welfare" are added up as "social infrastructure." These figures, originally recorded in U.S. dollars, are transformed into Japanese yen for comparative reasons.

5.3.2 ODA Loan Diplomacy

National interest as conceived by Japanese diplomatic leaders may also have an influence on sectoral distribution. It is an important task for the MFA officials, who worry about diplomatic reputations in the international community, to minimize the gap between commitments and disbursements of ODA in dollar terms (Δ OGAP), which reflects changes in foreign exchange rate and, therefore, is more difficult to manage than a gap in yen terms.

As is shown in Table 5.4, the higher value of adjusted R^2 for Δ OGAP is obtained compared with the results of gaps in yen terms. However, no significant relationship is observed concerning the gap for bilateral ODA and yen loans. It seems that a gap in total ODA in dollar terms is the best determinant for consideration by the MFA diplomats in attempting to maintain a diplomatic reputation internationally and to sustain an increase in the volume of the ODA loans through bureaucratic politics at home.

Table 5.4: Disbursement Gap in Dollar Terms

Sector	Δ OGAP	$\bar{R}^2$	F	Sig. F	DW
Δ NONPRO	.789 (5.596)	.603	31.319	.000	2.031

5.3.3 LDP Crisis and Sectoral Compensation

LDP "zoku" members at PARC, who have some sectoral expertise, act as a bridge between the bureaucracy and their industrial supporters. It is hypothesized that sectoral "zoku" members attempt to increase ODA loans in the respective sectors

when they conceive of a more serious LDP crisis. Therefore, it will be a negative relationship between a change in the established LDP indicator and a change in ODA loans by sector.

The speed of responding to an LDP crisis may be different depending on the PARC committees. A variety of leading indicators of the LDP crisis are identified by different lags of cross correlation analysis. The "zoku" members of transportation and of social services tend to conceive an LDP crisis without a lag, and other "zoku" of the classified fields conceive their crisis with two to five lags.

The regression results in Table 5.5 indicate that expected negative relationships are found concerning ΔPRODUC . A negative relationship does not exist in the sector and sub-sectors of the economic infrastructure. Rather, they are positively correlated with some lags for ΔEPG and ΔIFC . It seems that LDP "zoku" members followed the bureaucracy or supported infrastructure-related industrial interests in parallel to the change in the LDP crisis. This may support the hypothesis of business links with political interests.

Table 5.5: LDP Crisis and Sectoral Compensation

Sector	ΔLDP (Lead2)	ΔLDP (Lead3)	ΔLDP (Lead5)	$\bar{R}^2$	F	Sig. F	DW
(ΔEPG)	.441 (2.143)			.152	4.592	.045	2.369
(ΔIFC)		.540 (2.724)		.253	7.421	.014	2.540
ΔPRODUC		-.540 (-2.723)		.252	7.414	.014	2.212
ΔNONPRO			-.561 (-2.712)	.272	7.354	.015	1.807

5.4 Economics of Political Decisions on ODA

5.4.1 Trade and Investment

If official development finance is influenced by the private interests of a dominant capitalist in a specific sector, there will be a relationship between sectoral allocation of ODA and international trade and foreign investment. The trade variables to be examined here are Japan's exports to developing areas (EXLDCY), Japan's imports from developing areas (IMLDCY), Japan's exports of capital goods to the world (CAGEXY), and Japan's imports of raw materials for industrial products (RAWIMY).¹¹ The investment variables are operationalized by the commitments of OECF's general projects for economic infrastructure (GENECO), production (GENPRO), and social services (GENSOC).¹²

Table 5.6 records the significant results of the regression analysis. Significant relationships are observed regarding the sector of social services only. Whereas negative relationships are found between the trade variables and the aid for social services, there is a positive relationship regarding OECF's general projects. It can be inferred that the decision-makers in a resource-scarce country increased the aid for this sector tactically when they recognized the decrease in Japan's imports of raw materials, especially from the

¹¹All of these variables are based on customs clearance in a calendar year and transformed into million yen using the DAC's exchange rates. The original data expressed in US\$ million is taken from the Ministry of Finance, Gaikoku Boeki Gaikyo, for various years. The variables of CAGEXY and RAWIMY are the figures vis-a-vis the world, rather than the developing areas.

¹²The data since 1966 is taken from OECF, Annual Report, various years. These figures are based on a fiscal year.

LDCs, and the export of capital goods. The positive relationship between ΔGENSOC at lag 1 and ΔSOCIAL indicates that the ODA loans in the sector of social services followed the same direction as the private investment in this sector.

Table 5.6: Interests of Trade and Investment

Sector	ΔIM IDCY (lead2)	ΔRAW IMY (lead2)	ΔCAG EXY (lead2)	ΔGEN SOC (lead1)	$\bar{R}^2$	F	Sig. F	DW
ΔSOCIAL	-.495 (-2.550)				.208	6.503	.019	1.741
ΔSOCIAL		-.510 (-2.294)			.210	5.262	.037	1.740
ΔSOCIAL			-.559 (-2.613)		.267	6.829	.020	1.501
ΔSOCIAL				.532 (2.809)	.247	7.890	.011	2.212

5.4.2 Oligopolistic Interests in the Japanese Economy

Some critical observers of the Japanese ODA programs argue that many of Japan's ODA projects and programs are initially formulated by Japanese developers, rather than by the leaders and people in the recipient countries. If this is true, there will be a relationship between sectoral allocation and the oligopolistic interests of the Japanese developers.

As shown in Table 5.7, there are significant and negative relationships between the sector of economic infrastructure and the oligopolistic interests of the Japanese companies with some lags. Both the operational profit of the leading trading companies and the sales of the consulting firm appear important in general; however, the most important interests of the three industries are varied in the

sub-sectors of economic infrastructure. The operational profit of the trading companies ($\Delta OPE1$) has a relatively higher explanatory power in ΔEPG and ΔIFC , while the sales of construction companies ($\Delta SALE2$) and the sales of the Nippon Koei ($\Delta SALE3$) can explain almost half of the variation of change in ΔTEL and ΔTRA , respectively.

Table 5.7: Oligopolistic Interests in Economic Infrastructure

Sector	$\Delta OPE1$ (Lead5)	$\Delta OPE1$ (Lead6)	$\Delta SALE2$ (Lead6)	$\Delta SALE3$ (Lead2)	$\bar{R}^2$	F	Sig. F	DW
$\Delta ECOINF$	-.662 (-3.533)				.403	12.482	.003	2.529
$\Delta ECOINF$				-.652 (-3.332)	.387	11.100	.005	2.023
(ΔEPG)	-.629 (-3.237)				.358	10.479	.005	1.877
(ΔTRA)				-.703 (-3.826)	.460	14.642	.002	2.535
(ΔTEL)			-.685 (-3.637)		.433	13.229	.002	2.122
(ΔIFC)		-.684 (-3.632)			.432	13.193	.003	2.339

Such a variation can also be seen in other sectors. The sales of construction companies ($\Delta SALE2$) appear most important in explaining the change in the production sector. Whereas, the sales of the trading companies ($\Delta SALE1$) are more important than those of the construction companies in the sector of social services, as shown in Table 5.8.

Table 5.8: Oligopolistic Interests in Other Sectors

Sector	ΔSALE1 (lead2)	ΔSALE2 (lead1)	ΔCUR3 (lead5)	$\bar{R}^2$	F	Sig. F	DW
ΔPRODUC		-.691 (-4.276)		.452	18.287	.000	2.161
ΔSOCIAL	-.579 (-3.098)			.301	9.595	.006	1.921
ΔSOCIAL			-.551 (-2.725)	.263	7.425	.014	1.814

5.5 Multivariate Analysis

5.5.1 Causal Nexus Models

It is previously hypothesized that the sectoral allocation of Japan's ODA loans is determined by the causal paths from the geographical distribution. The empirical data shows that there existed a positive relationship between the sector of irrigation and flood control and the loan allocation for Asia; and yet the paths from the geographical distribution have only lower or insignificant explanatory power concerning other sectors. Instead, the causal paths from the form and procurement conditions of ODA possess a relatively higher explanatory power concerning the sectors of production, social services and non-project loans. No significant causal path is identified with regard to the sector of economic infrastructure in general and its sub-sectors of transportation and telecommunications.

Table 5.9 lists the statistically significant causal paths identified for ΔEPG . Since there is a high correlation between ΔLDC and $\Delta(\text{TIED} + \text{LDC})$ at lag 3, we retain the latter variable with a higher coefficient as a more important one. There are no high

correlations between the pairs of ΔMID at lag 4, ΔTIED at lag 4, and $\Delta(\text{TIED} + \text{LDC})$ at lag 3. Therefore, we can proceed with a multiple regression using these variables. As a result of the backward elimination method, the variables of ΔMID and ΔTIED are deleted. Thus, it can be argued that the causal path from $\Delta(\text{TIED} + \text{LDC})$ at lag 3 is more important for this sector than the allocation of ODA in the Middle East. The loan aid projects of this sector has been strongly tied with Japanese contractors.

Table 5.9: Causal Nexus Models on Electric Power and Gas

Sector	ΔMID (Lead4)	ΔTIED (Lead4)	ΔLDC (Lead3)	$\Delta(\text{TIED} + \text{LDC})$ (Lead3)	$\bar{R}^2$	F	Sig. F	DW
(ΔEPG)	-.487 (-2.556)				.201	6.535	.018	2.475
(ΔIPG)		-.449 (-2.301)			.163	5.293	.032	2.486
(ΔEPG)			.552 (3.035)		.272	9.212	.006	2.523
(ΔIPG)				.630 (3.722)	.369	13.850	.001	2.341

Three significant causal paths to ΔIFC have been found, as shown in Table 5.10. The correlation matrix of these three variables indicates that no high correlations exist between the pairs of them. The backward elimination method using these three variables left out the two paths from ΔASIA and ΔMID at lag 5, and yet the Durbin-Watson statistic of this model indicates the presence of a negative autocorrelation problem. Thus, the path from ΔASIA , which has a higher path coefficient than ΔMID at lag 5, is likely to be the most important path to ΔIFC . It seems that Asian-centrism in this

sector was shared by the Ministry of Agriculture, Forestry and Fisheries (MAFF) and other ministries.

Table 5.10: Causal Nexus Models on Irrigation and Flood Control

Sector	$\Delta ASIA$	ΔMID (Lead5)	ΔIJC (Lead4)	$\bar{R}^2$	F	Sig. F	DW
(ΔIIC)	.476 (2.480)			.190	6.150	.022	2.496
(ΔIIC)		-.475 (-2.476)		.189	6.130	.022	2.450
(ΔIIC)			.445 (2.277)	.160	5.183	.033	2.169

As for the production sector, Table 5.11 shows that there is a positive relationship between $\Delta PRODUC$ and the ODA grant commitments ($\Delta GRANTCY$). It is understandable that the increase in the ODA loans for this sector, which includes agricultural projects, parallels the increase in concessional ODA grants, most of which are directed to the non-production sector, such as basic human needs.

Table 5.11: Causal Nexus Model on Production

Sector	$\Delta GRANTCY$	$\bar{R}^2$	F	Sig. F	DW
$\Delta PRODUC$	.526 (2.696)	.239	7.269	.014	2.560

There exist many significant paths from the volume and form, and the geographical distribution, of ODA as well as the procurement conditions of yen loans, to the sector of social services. Among these paths, some pairs of variables are highly correlated to each other. The parsimonious model selected by the established decision rule is

listed in the last row of Table 5.12. Since the high-income oil-producing countries in the Middle East did not request many loans projects for social services, there can be observed a negative relationship between Δ SOCIAL and Δ MID at lag 1. The positive relationship between Δ SOCIAL and the change in untied ODA loan may indicate that the sector of social services increased only when Japanese ODA-related businesses had stronger international competitiveness sufficient to increase the untied aid.

Table 5.12: Causal Nexus Models on Social Services

Sector	Δ ODACY	Δ BICY	Δ GRANT CY	Δ LOAN CY	Δ ASIA	$\bar{R}^2$	F	Sig. F	DW
Δ SOCIAL	.499 (2.507)					.209	6.285	.021	1.758
Δ SOCIAL		.567 (2.997)				.285	8.985	.007	1.553
Δ SOCIAL			.587 (3.161)			.310	9.991	.005	1.913
Δ SOCIAL				.522 (2.668)		.234	7.117	.015	1.638
Δ SOCIAL					.466 (2.469)	.181	6.095	.022	1.999

Table 5.12 (Continued)

Sector	Δ MID (lead1)	Δ IATIN (lead1)	Δ UN	Δ (UN + IYC)	$\bar{R}^2$	F	Sig. F	DW
Δ SXCIAL.	-.613 (-3.690)				.354	13.616	.001	1.999
Δ SXCIAL.		-.582 (-3.353)			.308	11.243	.003	2.165
Δ SXCIAL.			.613 (3.637)		.347	13.228	.002	1.920
Δ SXCIAL.				.606 (3.571)	.338	12.751	.002	1.916
Δ SXCIAL.	-.428 (-2.522)		.418 (2.462)		.475	11.404	.000	1.908

As shown in Table 5.13, many causal paths are also observed concerning non-project loans. Some pairs are highly correlated to each other. The multiple regression with the selected variables, that are not correlated to one another, resulted in the modeling with Δ BICY and Δ UN, as listed in the last row of Table 5.13. This makes clear that non-project yen loans increased rapidly when the Japanese government had to commit a larger amount of its bilateral ODA, especially its untied loans.

Table 5.13: Causal Nexus Models on Non-Project Loans

Sector	Δ ODACY	Δ GRANT CY	Δ LOAN CY	Δ MID (lead4)	Δ AFR	$\bar{R}^2$	F	Sig. F	DW
Δ NON PRO	.641 (3.644)					.380	13.276	.002	2.194
Δ NON PRO		.738 (4.766)				.521	22.711	.000	1.653
Δ NON PRO			.744 (4.852)			.530	23.542	.000	2.044
Δ NON PRO				-.482 (-2.521)		.196	6.357	.020	1.990
Δ NON PRO					.473 (2.460)	.187	6.050	.022	1.989

Table 5.13 (Continued)

Sector	$\Delta BICY$	$\Delta IATIN$ (lead1)	ΔIDC (lead2)	ΔIUN	$\Delta(TIED + IDC)$ (lead2)	$\bar{R}^2$	F	Sig. F	DW
ΔNON PRO	.791 (5.642)					.607	31.837	.000	1.943
ΔNON PRO		-.630 (-3.715)				.368	13.800	.001	2.322
ΔNON PRO			-.449 (-2.302)			.163	5.300	.032	2.037
ΔNON PRO				.729 (4.885)		.510	23.863	.000	2.394
ΔNON PRO					-.437 (-2.230)	.153	4.971	.037	2.104
ΔNON PRO	.558 (4.020)			.430 (3.099)		.729	27.929	.000	2.381

5.5.2 Synthetic Models

Tables 5.14 through 5.16 record the syntheses between the existing models, or between the existing and causal nexus models. Significant synthetic models between the existing paradigms can be obtained concerning the sectors of economic infrastructure, electric power and gas, telecommunications, and social services. The synthesis between the Marxian "economics of political aid" approach and the causal nexus model can be done with regard to electric power and gas, production, and non-project loans.

As for the economic infrastructure sector, Section 5.3.1 revealed that the sectoral division of labor between Japan and the United States has a higher explanatory power. A combination of $\Delta USECO$ and $\Delta USECO$ at lag 1 has no correlation, and yet it is difficult to obtain any significant result of the multiple regression using these variables due to the limited data. Although some Japanese officials

often justify the important role of overhead capital in economic growth and the sectoral division of labor with Western donors, Table 5.14 indicates that this behavior is also well explained by the business interests of Japanese trading and consulting companies. In this sense, a Marxian perspective appears plausible and defensible in explaining the change in the economic infrastructure sector.

Table 5.14: Synthetic Models for Economic Infrastructure

Sector	$\Delta OPE1$ (lead5)	$\Delta SAIE3$ (lead2)	$\bar{R}^2$	F	Sig. F	DW
$\Delta EICINF$	-.545 (-2.857)	-.387 (-2.027)	.498	8.436	.005	2.336

As for the sector of electric power and gas, the variables of $\Delta ASENE$ at lag 4 and $\Delta AFENE$ at lag 3 can be added into one single equation for the liberal explanation, as shown in Table 5.15. The realist and Marxist explanations by ΔLDP at lag 2 and $\Delta OPE1$ at lag 5 are also candidate variables for the multivariate analysis here. However, the multiple regression using these four variables is not significant, and thus the model of $\Delta OPE1$ with the highest value of R^2 is retained as the most explanatory model of the existing approaches. The second row of Table 5.15 shows the result of synthesizing this model with the most significant causal path from $\Delta(TIED + LDC)$ at lag 3. According to this modeling, about 62 percent of the variation in the change of ΔEPG can be accounted for in the trading companies' operational profit and the combined amount of tied and LDC-untied loans. The relative importance of the path from

the tied and LDC-untied loans combined is higher, because the path coefficient of $\Delta(\text{TIED} + \text{LDC})$ is higher than that of ΔOPEL .

Like the electric power and gas, the sectoral needs in developing economies can also be added into one single equation for the sector of telecommunications. However, the adjusted R^2 of the model with ΔASTEL at lag 6 and ΔSATEL at lag 6 is lower than that of the model with ΔSALE2 at lag 6, which is highly correlated with ΔSATEL at lag 6. Therefore, the regression model of the general contractors' sales alone is more explanatory concerning the sector of telecommunications.

Table 5.15: Synthetic Models for the Sub-Sectors of Economic Infrastructure

Sector	ΔASINE (Lead4)	ΔAFENE (Lead3)	ΔASTE1 (Lead6)	ΔASTE1 (Lead6)	ΔOPE1 (Lead5)	$\Delta(\text{TIED} + \text{LDC})$ (Lead3)	$\bar{R}^2$	F	Sig. F	DW
(ΔEXG)	.421 (2.000)	-.406 (-1.926)					.246	3.769	.048	2.165
(ΔEXG)					-.515 (-3.366)	.532 (3.480)	.621	14.932	.000	2.013
(ΔTIE1)			-.394 (-1.807)	-.414 (-1.897)			.406	6.479	.010	1.905

As for the production sector, the existing explanatory variables of ΔLDP at lag 3 and ΔSALE2 at lag 1 are statistically significant independently. Since these variables are highly correlated to each other, the latter variable is retained. The backward elimination method for the multiple regression using ΔSALE2 at lag 1 and the causal path from $\Delta\text{GRANTCY}$ produced the result shown in the first row of Table 5.16.

Japan's ODA loans for social services have increased since the late 1970s. Section 5.3 identified that the six variables operationalizing the capital interests held about 20 to 30 percent of the explanatory power independently. Among these variables, the pairs of ΔIMLDCY and ΔRAWIMY and of ΔRAWIMY and $\Delta\text{CAGEXCY}$, are highly correlated at lag 2 respectively. Since the highest R^2 is presented by $\Delta\text{CAGEXCY}$, this variable is added to the multiple regression together with ΔGENSOC , ΔSALE1 and ΔSALE2 , the pairs of which are not highly correlated. The significant result of the multiple regression by these variables is listed in the second row of Table 5.16. The yen loans for social services followed the OECF's general projects in the same sector at lag 1, and are negatively correlated with the decrease in the capital goods exports to the LDCs at lag 2.

As for non-project loans, there were observed significant relationships with ΔOYGAP , ΔBIYGAP , ΔLYGAP , ΔOGAP , and ΔLDP at lag 5. The first four variables are significantly correlated to one another, and ΔOGAP in dollar terms has the highest regression coefficient. This variable is regarded as most significant, because the Durbin-Watson statistic of the multiple regression result using ΔOGAP and ΔLDP at lag 5 is too low to assume no autocorrelation problem. The last row of Table 5.16 records the result of the synthesis between ΔOGAP and the causal nexus of ΔBICY . Nevertheless, the R^2 of this model is slightly lower than that of the causal nexus model listed in the last row of Table 5.13. In other words, the increase in quickly-disbursable non-project loans cannot be explained by the disbursement gap in total ODA volume alone.

This is probably because this type of aid has also been recognized as a positive policy measure, such as structural adjustment policy, which is reflected in the expansion of bilateral ODA commitments and untied loans.

Table 5.16: Synthetic Models for Other Sectors

Sector	Δ OGAP	Δ CAG EXY (lead2)	Δ GEN SOC (lead1)	Δ SALE2 (lead1)	Δ BICY	Δ GRANT CY	$\bar{R}^2$	F	Sig. F	DW
Δ PROD UC				-.662 (-5.221)		.470 (3.704)	.680	22.285	.000	2.302
Δ SOC IAL		-.497 (-2.611)	.449 (2.357)				.489	8.169	.005	2.038
Δ NON PRO	.362 (2.424)				.594 (3.976)		.687	22.940	.000	2.204

5.5.3 Models in the Time Domain

This section will further examine the previously obtained models by adding the time variables. One is the year (YR) variable to identify a trend across the examined period. The medium-term impacts on the sectoral allocation of ODA loans can be examined by considering thresholds as step functions. These include the years of 1974, 1982 and 1988. The pulse-function models may perceive short-term unit effects when compared to the year 1989.

By so doing, however, no significant improvement was observed, except for the sector of telecommunications. As for Δ TEL, the inclusion of the YR variable in the equation with Δ SALE2 at lag 6 increased the adjusted R^2 scores from .433 to .533 (see Table 5.17). It can be said that there has been an increase in the ODA loans provided for this sector in more recent years, although the relative

importance of the YR variable is lower than ΔSALE2 . The step and pulse function modelings did not present any significant results concerning this sector as well as others. It may be concluded that the modelings, without taking account of the time domain, are better in explaining the changing patterns of the other sectors.

Table 5.17: Long-Term Trends

Sector	YR	ΔSALE2 (lead6)	$\bar{R}^2$	F	Sig. F	DW
(ΔTIE)	.387 (2.054)	-.848 (-4.500)	.533	10.142	.002	2.305

Taken together, regarding the sectoral allocation of Japan's ODA loans, it is important to consider the interest links between Japanese industries and the four ministries on the yen loans as well as the four ministries on economic infrastructure. The four ministries on infrastructure include Transportation, Posts and Telecommunications, Construction, and the MAFF. As summarized in Table 5.18, the change in the economic infrastructure as a whole is largely influenced by ΔOPE1 and ΔSALE3 . The importance of ΔOPE1 reflects mainly the changing pattern in the large-scale loan projects of electric power and gas with a five-year project cycle in conjunction with $\Delta(\text{TIED} + \text{LDC})$ at lag 3. It can be inferred that MITI and its Agency of Natural Resources and Energy planned an increase of ODA allocation for this sector, by making the best use of the tied and LDC-untied loans in three-year intervals.

In cooperation with the Ministries of Transportation, the Ministry of Construction, as well as the MAFF, the MFA and MITI

may consider the strategic importance of the economic infrastructure for resource security and trade promotion by using the power of the oligopolistic interests. The emphasis on the economic infrastructure in Japan's yen loans was reproduced in the dialectical process between the state agents and the structures surrounding them.

It may be concluded that a different type of factor determines the change in non-project loans. As announced in the third ODA volume target, Japan came to face the problem of the expansion of the ODA commitments and the improvement of their disbursements at the same time. The Japanese government attempted to resolve this dilemma by introducing a structural adjustment policy in the post-cold war period.

Table 5.18: Summary of Chapter Five

Theories	Variables	Δ ECOINF	(Δ EPG)	(Δ TRA)	(Δ TEL)	(Δ IFC)
Marxism	Δ CAGEXY (Lead2)					
	Δ GENSOC (Lead1)					
	Δ OPE1 (Lead5)	-.545 (-2.857)	-.515 (-3.366)			
	Δ OPE1 (Lead6)					-.684 (-3.632)
	Δ SALE2 (Lead1)					
	Δ SALE2 (Lead6)				-.848 (-4.500)	
	Δ SALE3 (Lead2)	-.387 (-2.027)		-.703 (-3.826)		
Causal Nexus	Δ BICY					
	Δ GRANTCY					
	Δ UN					
	Δ (LDC+TIE D)(Lead3)		.532 (3.480)			
Time Domain	YR				.387 (2.054)	
Adjusted	R^2	.498	.621	.460	.533	.432
DW		2.336	2.013	2.535	2.305	2.339

Table 5.18 (Continued)

Theories	Variables	Δ PRODUC	Δ SOCIAL	Δ NONPRO
Marxism	Δ CAGEXY (Lead2) Δ GENSOC (Lead1) Δ OPE1 (Lead5) Δ OPE1 (Lead6) Δ SALE2 (Lead1) Δ SALE2 (Lead6) Δ SALE3 (Lead2)	 - .662 (-5.221)	 - .497 (-2.611) .449 (2.357)	
Causal Nexus	Δ BICY Δ GRANTCY Δ UN Δ (LDC+TIE D)(Lead3)	 .470 (3.704)		.558 (4.020) .430 (3.099)
Time Domain	YR			
Adjusted R^2		.680	.489	.729
DW		2.302	2.038	2.381

CHAPTER SIX: Sources of Change in the Terms and Conditions of Japan's Bilateral ODA Loans

This chapter provides an analysis of the financial terms and the procurement conditions of Japan's ODA loans;¹ it argues that the change in the terms and conditions can usually be explained well by including the nexus of the ODA aspects. There is a relatively strong correlation between the LDC-untied loans and the loan commitments in the production sector, and yet the causal paths identified for the other terms and conditions come from aspects other than the sectoral allocation. Among others, the ODA disbursements in Asia is a strong factor to determine the untied and LDC-untied loans. It can be understood that these explanatory variables reflect both the opportunities and limitations of state autonomy in relation to international political pressure and domestic economic constraints.

"While the terms do not appear outrageous," Loutfi commented in 1973, "neither the level nor the trend reflect a strong policy of easing terms, and we can expect the mild easing trend to continue."² Figure 6.1 shows that her prospect was basically correct, and yet it is needed to consider some anomalies, such as the period from 1981 through 1985, in which relatively higher interest rates (INT) are observed. Figure 6.2 shows that the average maturity (MAT) and grace period (GP) improved at a certain pace, but reached a plateau by the late 1970s and the early 1980s.

¹For a description of the data, see Appendix A.

²Loutfi, The Net Cost of Japanese Foreign Aid, 66.

As for the procurement conditions, Figure 6.3 displays that Japan's ODA loans were all tied until fiscal year 1970. In 1971 and 1972 Tokyo started lending general untied loans (UN), while expanding the absolute amount of tied loans (TIED) rapidly. However, general untying was rapidly replaced with LDC-untied loans (LDC) during the years of the oil crises. During the first half of the 1980s, the amount of tied loans decreased and, instead, both general and LDC-untied loans expanded in parallel.

Whether LDC-untied loans are de facto tied or untied is debatable. If LDC-untied loans are perceived as de facto tied aid, it is revealed that a rapid expansion of Japan's untied aid is quite a recent phenomenon and the tied aid remained constant throughout the 1970s and the 1980s. On the other hand, from a benevolent view of LDC-untied loans, Japan's aid-untied loans started in the 1970s and its extent becomes larger, as shown in Figure 6.3.

Figure 6.1: The Average Interest Rate of Japan's ODA Loans

Figure 6.2: Average Maturity and Grace Period of Japan's ODA Loans

Figure 6.3: Japan's ODA Loans by Procurement Conditions

6.1 Economics of Foreign Assistance

6.1.1 Recipients' Per Capita GNP

According to an OECF officer, the interest rate and maturity of Japan's ODA loan projects are determined by taking account of the level of per capita income of the recipient country.³ This means, the lower level of per capita income the recipient country has, the softer the loans provided in a given year. This does not always mean that GNP per capita is the determinant for the concern of the present study, that is the macro-level changing pattern of the financial terms. Rather, the regression analysis has revealed that there is no significant relationship between the financial terms of Japan's ODA loans and GNP per capita of the low-income economies (Δ LIE), the middle-income economies (Δ MIE), or the combination of these two economies (Δ LME).

The relationships between GNP per capita of the developing economies and the procurement conditions are also weak and not statistically significant at the targeted level of less than 0.05. With a lesser level of significance, however, GNP per capita of the low-income economies has a negative relationship with the change in the general untied loans, or the fully and LDC-untied loans combined, in dollar terms. This may imply that the untied loans tend to increase in accordance with the decreased change in GNP per capita in the low-income economies. On the other, strong relationships are not identified between the tied loans and the variables of Δ LIE, Δ MIE,

³Isao Kubota (ed.), Q&A Wakariyasui ODA: Sono Shikumi to Yakuwari (Tokyo: Gyosei, 1992), 237.

or ΔLME . It is hard to conclude that the tied loans decreased in accordance with the increase in national income in these economies.

6.1.2 International Money Markets

The change in the financial terms of Japan's ODA loans may be thought to run parallel to the change in those of the international money markets. However, the average interest rate of the yen loans has little relationship with the London Interbank Offer Rates on six-month U.S. dollar deposits ($\Delta LIOR$)⁴, or with the long-term prime interest rates ($\Delta LPIR$) at home for major Japanese firms, which may make foreign direct investment in the developing countries using those funds.⁵ In this sense, the financial terms of Japan's ODA loans are mainly decided through the discretion of the Japanese policy-makers, rather than due to a strong influence from the international money markets.

6.2 Politics of Foreign Assistance

6.2.1 The Donor's Balance of Payments

The Japanese government explained during the 1960s that its inability to improve the terms and conditions of its foreign aid was mainly due to Japan's shortage of capital and the weakness of its balance of payments.⁶ Thus, the government insisted on the

⁴Data of period averages in percent per annum for the years 1963-90 is taken from IMF Financial Statistics, various years.

⁵For 1966 and subsequent years, the figures at the end of the year are taken from the Bank of Japan's Economic Statistical Annual, various years.

⁶White, Japanese Aid, 69, and Loutfi, The Net Cost of Japanese Foreign Aid, 67.

participation of the commercial banks in aid projects, and the tying of aid to procurement was applied to all ODA except for debt consolidation and refinancing loans and multilateral ODA.

The impacts of current balance (ΔCB), trade balance (ΔTB), the change in gold reserve and foreign exchange reserves (ΔFER), and the exchange rate (ΔEXR) were examined as indicators constraining funds available for Japan's domestic investment.⁷ Table 6.1 shows that no statistically significant relationships are observed between Japan's balance of payments and the terms and conditions of yen loans. Similarly, the terms and conditions have no significant relationships with the exchange rate.

There is a strong positive relationship, however, between ΔFER and the untied loans, or the combined amount of general and LDC-untied loans. In this sense, the change in foreign reserves can be a predictor for aid-untying, but neither current balance nor trade balance is a determinant for aid-tying. This does not always mean that the Japanese decision-makers determine the amount of untied loans by looking at the indicator of the change in foreign exchange reserves.⁸ It can, at least, be said that MITI lost its rationale for tied aid and the Foreign Ministry got an impetus for aid-untying in accordance with the improved foreign reserve situation.

⁷The figures are expressed in U.S. dollars in calendar year. The source of data is exactly the same as that used in Chapter Three.

⁸Interview with a high-level official at the Economic Cooperation Bureau, the MFA, 27 November 1992.

Table 6.1: Japan's Balance of Payment and Aid-Tying

Condition	ΔFER (lead1)	$\bar{R}^2$	F	Sig. F	DW
ΔUN	.724 (4.804)	.501	23.082	.000	1.886
$\Delta(\text{LDC} + \text{UN})$	.661 (4.040)	.410	16.321	.001	2.457

6.2.2 Fiscal and Financial Policies

Since the major sources for the ODA loans are the General Account (ΔGA) and the FILP funds (ΔFILP), including postal savings, the Japanese decision-makers always have to consider the managing cost of these funds at home. The General Account, which does not require the recipient to repay, can be used to improve the financial terms of the ODA loans. The FILP fund, which requires the recipient to repay, is important to expand the size of the ODA loans. Thus, it is expected that there will be a relationship between the availability of these funds and the financial terms of the ODA loans. However, no statistically significant relationship is identified for the financial terms, although the expansion of the untied loans is explained, to a certain extent, by the change in the availability of these funds.

In terms of financial policy, the interest rate of the ODA loans may be related to the interest rate of the sources of the FILP funds, including a variety of postal savings that are directly linked to a short-term basic money rate of the Bank of Japan (ΔBOJ).⁹

⁹This is the so-called official rate, or "discount rate of commercial bills and interest rate on loans secured by government securities or specially designated securities and bills corresponding to commercial bills." The figures at the end of the calendar year are taken from the Bank of Japan's Economic Statistics Annual, various years.

Nevertheless, the average interest rate of ODA loans has no significant relationship with the official rate in Japan without a lag. There is a positive relationship at lag 3, but the lower R^2 as shown in Table 6.2 suggests that the official rate alone cannot explain the changing pattern of the financial term of the yen loans.

Table 6.2: Financial and Fiscal Policies

Condition	ΔR^2 (Lead3)	ΔGA	ΔFIP (lead1)	$\bar{R}^2$	F	Sig. F	DW
ΔUN		.417 (2.387)		.144	5.700	.024	2.095
ΔUN			.432 (2.490)	.157	6.199	.019	2.220
ΔIDC	.407 (2.315)			.134	5.361	.028	2.490

6.2.3 Unemployment Situations

Aid-tying may be justified by unemployment situations in the donor country. Actually, this is a rationale for many OECD countries tackling higher unemployment rates. The rate of totally unemployed (ΔRTU) in Japan, where the life-time employment system has been dominant, hovered around 1 to 2.5 percent, which is said to represent full employment effectively. Therefore, it is often said that the unemployment rate is not that sensitive to economic cycles in Japan. To cover this problem, the present study also uses the number of the totally unemployed (ΔNTU) and the effective job opening ratio ($\Delta EJOR$).¹⁰

¹⁰These statistics on the labor force are taken from the Economic Planning Agency's Keizai Hakusyo (1992), 64. The number of total unemployed

Table 6.3 shows that there are significant, negative relationships between the EJOR variable and the variable of tied loans. Similarly, the general untied loans have also a negative relationship with ΔNTU , or ΔRTU , to some extent. Thus, it can be inferred that the Japanese government, as well as the other donors, took into account the labor situation at home in determining aid-tying, although its explanatory power is not so high.

Table 6.3: State's Responsiveness to Labor

Condition	ΔNTU	ΔRTU	$\Delta EJOR$	$\bar{R}^2$	F	Sig. F	DW
$\Delta TIED$			-.443 (-2.473)	.164	6.118	.021	1.867
ΔUN		-.435 (-2.512)		.159	6.310	.018	1.862
ΔUN	-.393 (-2.222)			.123	4.937	.035	1.963

6.3 Politics of Foreign Economic Aid

6.3.1 Financial Regime of ODA Loans

As shown in Table 6.4, there is a significant, negative relationship between the interest rates of Japanese and U.S. ODA loans. It is understandable that the Japanese government was not free from the situation of the interest rates in the United States. Nevertheless, it is hard to conclude that the Japanese government decreased the interest rates of yen loans by responding to the increased interest of U.S. ODA loans ($\Delta USINT$). Since the major OECD donors focus on grants, rather than loans, it is unusual to expect a

is expressed in ten thousand, and the effective job opening ratio in folds, seasonally adjusted, in fiscal year.

strong relationship with regard to international regime on financial terms of ODA loans. Moreover, the average interest rate of U.S. ODA loans was already low even in the 1960s and the amount of the dollar loans was limited. No relationships are observed concerning the average terms and conditions between Japan and the other DAC members.

Table 6.4: The Regime on Terms of ODA Loans

Term	$\Delta \ln INT$ (lead3)	$\bar{R}^2$	F	Sig. F	DW
ΔINT	-.622 (-3.640)	.358	13.246	.002	2.467

The diplomatic behavior of Japan concerning the procurement conditions of loans can be examined by their equivalent of the United States or the other DAC members, excluding Japan. No significant relationships are identified concerning the dependent variables in yen terms, and yet a positive relationship is identified between the combined amount of general and partial tied aid of the United States, $\Delta US(TIED + PT)$, and Japanese tied and LDC-untied loans in dollar terms. The fact that the de facto tied loans in dollar terms are more significant than those in yen terms may suggest that the Japanese government is more sensitive to the other donors, rather than the recipient countries. On face value, it seems that Japan has tried to differentiate its aid-untying from the United States, or the other DAC donors, who upheld the higher levels of aid-tying. However, if LDC-untied loans, or the partially tied loans, are seen as de facto tying, Japan's behavior of aid-tying generally coincided with the United

States. In other words, this result supports the argument that Japan took the lead in promoting aid-untying partially, while this does not reject completely the argument that Japan maintained its procurement tying in real terms.

Table 6.5: The Regime on Conditions of ODA Loans

Condition	$\Delta US(TIED + PT)$	$\bar{R}^2$	F	Sig. F	DW
$\Delta(TIED + LDC)$ (Dollar)	.662 (2.647)	.375	7.009	.027	2.219

6.3.2 LDP Crisis and Aid-Tying

There are only insignificant relationships between the LDP's crisis indicator and Japan's tied, or LDC-untied ODA loans, respectively. However, Table 6.6 shows that there is a significant and relatively strong, negative relationship between the LDP indicator and the combined amount of both tied and LDC-untied loans. This can be evidence for the argument that when the LDP leaders recognized their political crisis they attempted to increase the tied and partially tied ODA, and that when they felt increased support from the industrialists they did decrease the tied aid.

The positive relationship between the LDP indicator and the untied loans, or the untied and partially untied loans combined, also verifies the argument that the LDP politicians could increase the amount of untied loans, but only when they felt secured with the increased support for the LDP government. Or, it can be inferred that the progress of aid-untying deprived LDP politicians of an incentive for political use of aid at home.

Table 6.6: LDP Crisis and Aid-Tying

Condition	ΔLDP	ΔLDP (Lead1)	ΔLDP (Lead4)	$\bar{R}^2$	F	Sig. F	DW
ΔUN		.403 (2.331)		.133	5.436	.028	1.975
$\Delta(TIED + LDC)$			-.548 (-3.272)	.272	10.704	.003	2.383
$\Delta(UN + LDC)$	.400 (2.306)			.130	5.319	.029	2.224

6.4 Economics of Political Decisions on ODA

6.4.1 Trade and Investment

There is no significant relationship between the financial terms and exports ($\Delta EXLDCY$) to, or imports ($\Delta IMLDCY$) from, developing countries, although the directions of the regression coefficients for these variables suggest that the interest rate of Japan's ODA loans decreased when its exports to developing countries expanded and the imports from these areas dropped. In this sense, it cannot be denied that the financial terms were loosened for promoting exports to and securing imports from the developing economies.

As shown in Table 6.7, a more salient feature is observed with regard to the increased general untied loans. The untied ODA loans increased in accordance with the decreased exports to the LDCs and the decreased imports from these countries. The increased amount of untied and LDC-untied loans can also be explained, to some extent, by the change in OECF's general projects (ΔGEN). It is possible to understand that the OECF promoted untied and LDC-untied loans

after confirming the decreasing tendency of this foreign investment category.

Table 6.7: Trade and Investment

Condition	ΔEX LDCY (lead2)	ΔIM LDCY (lead2)	ΔIM LDCY (lead3)	ΔGEN (lead2)	$\bar{R}^2$	F	Sig. F	DW
ΔIIX			.453 (2.213)		.163	4.899	.039	2.233
ΔIIN	-.574 (-3.138)				.296	9.847	.005	1.977
ΔIUN		-.438 (-2.179)			.151	4.746	.042	2.113
$\Delta(IIN + IIX)$	-.450 (-2.251)				.162	5.069	.034	2.084
$\Delta(IIN + IIX)$				-.520 (-2.721)	.234	7.403	.013	2.158

6.4.2 Oligopolistic Interests in the Japanese Economy

In general, aid-tying has a strong relationship with the oligopolistic interests in the ODA-related industries in the donor country, although the independent category of tied loans is an exception. As shown in Table 6.8, the change in LDC-untied loans has a positive relationship with the operational profits of the trading companies ($\Delta OPE1$), while having a negative relationship with the sales ($\Delta SALE2$) or the operational profits of the general contractors ($\Delta OPE2$). The combined amount of the fully tied and LDC-untied loans has a positive relationship with the operational profits of the consulting firm ($\Delta OPE3$). Taken together, the increase in Japan's partially tied loans reflects the decreased profit of the construction companies at home, and the decrease of the de facto tied aid occurs

in connection with the increase in the profits of trading and consulting firms.

If we assume that the LDC-untied loan is part of de facto untied aid, its increase occurs at the expense of the profits of the construction and consulting companies. However, this is against the common view shared by the practitioners at the Japanese general contractors. They shared a view that Japan's ODA projects provided good opportunities in general and yet the overseas projects were not so profitable as generally understood for the construction companies.¹¹ It can be inferred that the recent aid-untying was possible in the context of the strength of Japanese trading companies and Japan's construction boom at home. The aid-untying has had a serious impact on the relatively immature ODA industry, that is the Japanese consulting firms. The positive coefficient of $\Delta OPE3$ for the de facto tied loans suggests that the tied aid still remained for securing the profit of the consulting firms, because aid-untying was made at the expense of these interests.

¹¹Interview with a businessman working for one of the leading Japanese construction companies, 20 November 1992.

Table 6.8: Oligopolistic Interests and Aid-Tying

Cond.	$\Delta OPE1$ (Lead3)	$\Delta SALE2$ (Lead4)	$\Delta OPE2$ (Lead4)	$\Delta CUR2$ (Lead4)	$\Delta OPE3$ (Lead4)	$\Delta CUR3$ (Lead5)	$\bar{R}^2$	F	Sig. F	DW
ΔIDC	.532 (3.143)						.255	9.877	.004	2.313
ΔIDC		-.576 (-3.453)					.304	11.922	.002	1.950
ΔIDC			-.581 (-3.498)				.310	12.233	.002	1.684
ΔUN						-.648 (-3.068)	.375	9.411	.009	1.468
$\Delta(TIED + LDC)$					.544 (2.426)		.246	5.883	.029	2.467
$\Delta(UN + IDC)$		-.500 (-2.828)					.219	7.988	.009	1.603
$\Delta(UN + IDC)$			-.640 (-4.080)				.385	16.647	.000	1.599
$\Delta(UN + IDC)$				-.636 (-4.037)			.380	16.296	.001	1.802
$\Delta(UN + IDC)$						-.663 (-3.195)	.397	10.208	.007	1.549

6.5 Multivariate Analysis

6.5.1 Causal Nexus Models

Table 6.9 shows the causal nexus models for the financial terms. The interest rate is exempted for no significant correlation is found. The variables of ΔMAT and ΔGP are negatively correlated to ΔINT at lags 0 and 2, respectively. The variable of ΔGP is also negatively correlated to $\Delta TIED$ or $\Delta(TIED + LDC)$. The pairs of ΔINT at lag 1 and ΔINT at lag 2, and of $\Delta TIED$ and $\Delta(TIED + LDC)$, are highly correlated, and therefore we retained ΔINT at lag 2 and $\Delta TIED$ as more significant variables. These two variables are not highly correlated, and yet the multiple regression with the backward elimination method resulted in the deletion of $\Delta TIED$. Thus, it can be

determined that the average interest rate influenced both the maturity and the grace period of the yen loans, although its impact on the grace period was weaker and at a later lag.

Table 6.9: Causal Nexus Models for Financial Terms

Term	ΔINT	ΔINT (lead1)	ΔINT (lead2)	$\Delta TIED$	$\Delta(TIED +$ LDC)	$\bar{R}^2$	F	Sig. F	DW
ΔMAT	-.461 (-2.701)					.184	7.296	.012	2.436
ΔGP		.405 (2.259)				.132	5.103	.033	1.888
ΔGP			-.425 (-2.351)			.148	5.526	.027	2.129
ΔGP				-.402 (-2.284)		.131	5.215	.031	2.156
ΔGP					-.385 (-2.170)	.117	4.708	.039	2.079

It is clear that the improvements in maturity as well as the grace period were completed before the Japanese economy entered the era of lower economic growth. After entering the plateau period, maturity and grace period were no longer major concerns for both the donor and the recipient countries. For the financial lender, it is unrealistic to set up an extremely long maturity period, for instance fifty years. An extremely long maturity is also meaningless for the borrower, because, by definition, the degree of the contribution for the Grant Element of both maturity and grace periods decreases when the maturity and grace period increase.¹² By contrast, the

¹²Tomomichi Yoshikawa, "The Grant Element of Loan with a Variable Interest Rate Could be Negative," Journal of International Development Studies 1(2), (June 1992), 131-144.

borrower's focus on the interest rate continues, because there is a linear relationship between the interest rate and the Grant Element.

As shown in Table 6.10, there exists several causal paths to the general untied loans. Among them, the strongest causal path comes from $\Delta ASIA$. It can be inferred that the bulk of the general untied loans was intended to be directed to Asia. The negative sign in ΔMID or $\Delta LATIN$ at lag 1 may suggest that the increase in the general untied loans was made instead of expanding further the ODA provided to these geographical areas. The variable of $\Delta SOCIAL$ is highly correlated with ΔMID at lag 1 and $\Delta LATIN$ at lag 1. Therefore, the variable of $\Delta SOCIAL$, with the highest path coefficient among the three, can statistically represent the other two. The pairs of $\Delta SOCIAL$ and the other causal paths are not highly correlated, and the result of the multiple regression with them is shown in the last row of Table 6.10. According to this model, the general untied loans increased under the conditions that there was an increase in the allocation to Asia as well as the expansion of ODA grants. Since the bulk of ODA grants is still tied to Japanese contractors, it can be understood that the business interests previously involved in ODA loans shifted to the ODA grant programs.

Table 6.10: Causal Nexus Models for General Untied Loans

Cond.	Δ MULTIY (lead1)	Δ GRANTY	Δ ASIA	Δ MID (lead1)	Δ LATIN (lead1)	Δ SOCIAL	$\bar{R}^2$	F	Sig. F	DW
Δ UN	.514 (3.114)						.237	9.697	.004	1.505
Δ UN		.544 (3.305)					.269	10.921	.003	2.216
Δ UN			.745 (5.795)				.538	33.587	.000	2.166
Δ UN				-.451 (-2.577)			.173	6.643	.016	2.040
Δ UN					-.552 (-3.373)		.278	11.375	.002	2.171
Δ UN						.613 (3.637)	.347	13.228	.002	1.952
Δ UN		.366 (2.745)	.640 (4.801)				.637	20.289	.000	2.298

Like the general untied loans, Table 6.11 shows that the LDC-untied loans also increased in relation to the increase in the ODA disbursement in Asia. Since Δ PRODUC at lag 3 is correlated to Δ MID at lags 1 and 2 respectively, Δ PRODUC at lag 3 was used as a multiple regression analysis to avoid overdetermination. The last row of Table 6.11 lists the regression result of a combination of Δ PRODUC at lag 3 and Δ ASIA. This indicates that the LDC-untied loans was mainly directed to the production sector, such as agriculture. It may be argued that LDC-untying started in such a sector that would be less harmful to the lower end of the secondary manufacturing interests in the donor country. At the same time, these LDC-untied loans were also directed to the selected countries in the region of Asia.

Table 6.11: Causal Nexus Models for LDC-Untied Loans

Condition	Δ ASIA	Δ MID (lead1)	Δ MID (lead2)	Δ PRODUC (lead3)	$\bar{R}^2$	F	Sig. F	DW
Δ IX:	.517 (3.139)				.240	9.851	.004	2.097
Δ IX:		-.464 (-2.672)			.185	7.140	.013	1.712
Δ IX:			.591 (3.666)		.324	13.436	.001	2.516
Δ IX:				.680 (4.039)	.434	16.310	.001	2.152
Δ IX:	.414 (2.842)			.609 (4.175)	.587	15.232	.000	2.085

Table 6.12 shows that the fully tied yen loans decreased in relation to the three financial terms, which are not highly correlated to each other. The negative sign of Δ GP points to the concurrent improvements between the grace period and this procurement condition. When the backward elimination method was applied to the listed three variables, however, the variable of Δ MAT at lag 1 with a positive sign was left out for Δ TIED. This means that the decrease in the change in the maturity in a previous year led to the decrease in the tied loans. In other words, the decrease in the tied loans followed the slow-paced improvement in maturity.

Table 6.12: Causal Nexus Models for Fully Tied Loans

Condition	Δ INT (lead2)	Δ MAT (lead1)	Δ GP	$\bar{R}^2$	F	Sig. F	DW
Δ TIED	.402 (2.195)			.128	4.820	.038	2.305
Δ TIED		.446 (2.543)		.168	6.466	.017	.241
Δ TIED			-.402 (-2.284)	.131	5.215	.031	2.246

Table 6.13 shows the causal nexus models for the general and LDC-untied loans combined. High correlations were observed in the pairs of $\Delta ODAY$ and $\Delta MULTIY$, and between ΔMID at lag 1, $\Delta ECOINF$ at lag 5 and $\Delta SOCIAL$. The backward elimination method applied to a combination of $\Delta MULTIY$ at lag 1, $\Delta LOANY$ at lag 4, $\Delta ASIA$ and $\Delta SOCIAL$ resulted in the last row of Table 6.13. According to this model, it is verified that the Japanese government increased general and LDC-untied loans following the increase in the multilateral ODA that was fully untied. However, the relative importance of $\Delta MULTIY$ at lag 1 is much lower than $\Delta ASIA$.

Table 6.13: Causal Nexus Models for General and LDC-Untied Loans

Cond.	$\Delta ODAY$ (Lead1)	$\Delta MULTIY$ (Lead1)	$\Delta LOANY$ (Lead4)	$\Delta ASIA$	ΔMID (Lead1)	$\Delta ECOINF$ (Lead5)	$\Delta SOCIAL$	$\bar{R}^2$	F	Sig. F	DW
$\Delta(UN + LDC)$	.512 (3.097)							.235	9.592	.005	1.820
$\Delta(UN + LDC)$		.524 (3.199)						.248	10.232	.004	1.894
$\Delta(UN + LDC)$			-.505 (-3.038)					.227	9.226	.005	2.330
$\Delta(UN + LDC)$				.814 (7.294)				.651	53.196	.000	2.458
$\Delta(UN + LDC)$					-.558 (-3.426)			.284	11.735	.002	2.020
$\Delta(UN + LDC)$						.483 (2.276)		.188	5.179	.036	2.302
$\Delta(UN + LDC)$							.606 (3.571)	.338	12.751	.002	2.220
$\Delta(UN + LDC)$		.272 (2.265)		.723 (6.023)				.707	28.777	.000	2.261

The hypothesis of aid-untying for Asia should be argued with reservation, however. This is because the disbursement increase in

Asia concurred with the increase in the de facto tied loans, as shown in Table 6.14. In this sense, the seemingly contradictory phenomena occurred at the same time. A similar tendency is also found in the Middle East. Nevertheless, the adjusted R^2 s of these models are much lower than those of the best models in Tables 6.11 and 6.13, and therefore, it can be concluded that the "untying for Asia" hypothesis is more plausible than the "tying for Asia" hypothesis. The causal paths listed in Table 6.14 are not correlated to one another, but the result of the multiple regression of them presents a positive autocorrelation problem.

Table 6.14: Causal Nexus Models for Fully and Partially Tied Loans

Cond.	Δ ASIA	Δ MID	Δ MID (lead1)	Δ INT (lead2)	Δ MAT (lead1)	Δ GP	$\bar{R}^2$	F	Sig. F	DW
Δ (TIED + LDC)	.611 (4.013)						.350	16.107	.000	2.320
Δ (TIED + LDC)		.395 (2.234)					.125	4.991	.034	2.210
Δ (TIED + LDC)			-.418 (-2.349)				.143	5.519	.027	2.269
Δ (TIED + LDC)				.580 (3.560)			.310	12.676	.002	2.423
Δ (TIED + LDC)					.393 (2.180)		.122	4.752	.039	2.463
Δ (TIED + LDC)						-.385 (-2.170)	.117	4.708	.039	2.378

6.5.2 Synthetic Models

Table 6.15 records the multiple regression analyses within the existing explanations, or between the existing and causal nexus models identified in the previous section, for the procurement conditions.

As for the tied aid, a synthesis of the liberal explanation of the political responsiveness to labor can be made with the causal nexus from ΔMAT . The adjusted R^2 improved from .164, or .168, in the bivariate models to .260 in the multivariate model. The relative importance of ΔEJOR is slightly lower than that of ΔMAT at lag 1.

The second row of Table 6.15 aligns the synthetic model within the Marxian paradigm. The variables of ΔIMLDCY at lag 3 and ΔOPE2 at lag 4 are almost equally important in this model. However, these two were eliminated, when they were included in the causal nexus models of ΔASIA and ΔPRODUC at lag 3. In other words, the causal nexus model is better than the synthetic model within the Marxian framework.

A synthesis between the liberal approach and the causal nexus model is possible for both ΔUN and $\Delta(\text{UN} + \text{LDC})$. Among many candidate variables in the existing approaches, ΔFER at lag 1 in the liberal framework was selected in accordance with the decision rule that this study adopted. For the general untied loans, the importance of ΔFER at lag 1 is higher than the causal path from ΔASIA , or ΔGRANTY , whereas its relative importance is lower than ΔASIA for the general and LDC-untied combined.

Table 6.15: Synthetic Models for Procurement Conditions

Cond.	ΔIER (1.1)	$\Delta IJOR$	ΔIMI DC.Y (1.3)	Δ OPEL (1.4)	Δ GRAN TY	ΔMRU TY (1.1)	$\Delta ASIA$	ΔMAT (1.1)	$\bar{R}^2$	F	Sig. F	DW
ΔIED		343 (1.951)						362 (2.059)	.260	5.575	.010	1.852
ΔIDC			502 (2.821)	516 (2.901)					.498	8.933	.003	1.842
ΔIUN	456 (4.001)				372 (3.637)		423 (3.653)		.796	28.294	.000	1.758
$\Delta(IUN$ + $IDC)$	305 (2.566)					235 (2.145)	585 (4.822)		.771	25.676	.000	2.076

6.5.3 Models in the Time Domain

It is often said that the impetus for the improvement of the terms and conditions of Japan's yen loans led by the Foreign Ministry has accelerated recently. However, when the year variable (YR) is included as a measurement for a long-term momentum, the YR variable is eliminated from all the best models obtained by this study. It can be inferred that the trend effect at the level of the first-order differences was not as large as the Foreign Ministry stressed.

Likewise, no significant results are identified by the intervention analysis. As for the financial terms, the dummy variables of STEP68 and STEP76 are included in the most parsimonious equations that are obtained in the above sections. As for the procurement conditions, the step functions for the three threshold years of STEP71, STEP 76 and STEP81 are used. The threshold years for the original series of the dependent variables do not have any intervention effects for the first-order differences of the original series on the term and conditions.

The short-term unit effects was also examined by the dummy variables, with the year of 1989 as a base year. However, the Durbin-Watson tests for these models are unsatisfactory. All the models taking account of the time domain are not plausible, and thus the most plausible models reached by the present analysis can be summarized in Table 6.16.

This study could not identify a better explanation for the change in the average interest rate of Japanese ODA loans. The explanatory power of the model identified concerning the average interest rate between Japanese and U.S. loans is low. It is usually said that the interest rate of the yen loans is determined by the country or sectoral needs and the managing cost and availability of the major funds at home, and yet the macro-level analysis in this study could not verify these explanations. It can be understood that the change in the average interest rate is determined by chance through the negotiations mainly between the Finance Ministry and the Foreign Ministry by taking account of the subjective recognition of their ministerial interests. If this analysis is true, the contradiction of the yen loan management would be getting bigger in both recipient and donor sides. The maturity and the grace period of the yen loans, which are strongly correlated, appear to be influenced by the average interest rate, to a lesser extent, and other residual factors.

It is understandable that the tied loans are constrained by the labor situation at home in the donor society, and that Japan rapidly increased general and LDC-untied loans in accordance with the improved balance of payment situation. However, these factors are less influential than the causal nexus of the ODA aspects connecting

to the procurement conditions. In particular, Japan's ODA allocation to Asia is highly correlated with the expansion of the general and LDC-untied loans. It can be concluded that the Japanese decision-makers attempted to consider the increase in aid to Asia to be untied or LDC-untied. This was mainly due to MITI's development policy in Asia, but MITI had to tighten this tendency of LDC-untying in economic hard times to protect Japanese industry at home. The strong path coefficient of the disbursements of ODA in Asia and the tied and LDC-untied loans combined reveals that the tentative return to procurement-tying could happen during hard times, such as oil crises and recessions due to the high appreciation of the yen. On the other hand, the relatively higher positive coefficients for the untied loans or the general and LDC-untied loans combined reflect that the political initiative for aid-untying could be directed to Asia. These verify that the Japanese government attempted to balance aid-tying and aid-untying with emphasis on the latter.

Table 6.16: Summary of Chapter Six

Theories	Variables	Δ INT	Δ MAT	Δ GP
Liberalism	Δ FER (Lead1) Δ EJOR			
Realism	Δ USINT (Lead3)	-.622 (-3.640)		
Causal Nexus	Δ MULTIY (Lead1) Δ GRANTY Δ PRODUC (Lead3) Δ ASIA Δ INT Δ INT (Lead2) Δ MAT (Lead1)		-.461 (-2.701)	-.425 (-2.351)
Adjusted R^2		.358	.184	.148
DW		2.467	2.436	2.129

Table 6.16 (Continued)

Theories	Variables	Δ TIED	Δ LDC	Δ UN	Δ (TIED + LDC)	Δ (UN + LDC)
Liberalism	Δ FER (Lead1) Δ EJOR	-.343 (-1.951)		.450 (4.001)		.350 (2.566)
Realism	Δ USINT (Lead3)					
Causal Nexus	Δ MULTIY (Lead1) Δ GRANTY			.372 (3.637)		.235 (2.145)
	Δ PRODUC (Lead3) Δ ASIA		.609 (4.175) .414 (2.842)	.423 (3.653)	.611 (4.013)	.585 (4.822)
	Δ INT					
	Δ INT (Lead2) Δ MAT (Lead1)	.362 (2.059)				
	Adjusted R ²	.260	.587	.796	.350	.771
DW		1.852	2.085	1.758	2.320	2.076

CHAPTER SEVEN: State Mechanisms for the Delivery of ODA

This chapter argues that the Japanese state did not establish a single, central ODA agency because intra-bureaucratic differentiations and inter-bureaucratic competitions were structured efficiently, and because democratic and aristocratic units to counterbalance shortcomings of the state bureaucracy were developed ineffectively.¹ Benefits of the Japanese style of bureaucratic politics have turned into an obstruction for democratic control over the ODA policies today. It is important to understand both the advantages and disadvantages of these types of state apparatuses in order to restructure overall institutional frameworks. Otherwise, any proposals for legislation of a central ODA agency would not be feasible and workable.

According to a classical image about the relationship between bureaucracy and democracy, it is expected that politicians make policies and bureaucrats merely implement them.² In the case of Japanese foreign aid, policy-making bureaucracies were formed in place of the legislative branch for decision-making, and quasi-

¹The term "aristocratic unit" is used here in the Aristotelian sense. That refers to a governmental system in which a few groups of people rule and serve the public interests. This does not always mean hereditary aristocratic institutions like the British House of Lords. In the present Japanese context, some advisory organs or government commissions, in which selected, not elected, political appointees make policies, may be regarded as such aristocratic units.

²Joel D. Aberbach, Robert D. Putnam and Bert A. Rockman, Bureaucrats and Politicians in Western Democracies (Cambridge: Harvard University Press, 1981), 4.

governmental agencies were consolidated in place of the executive branch for implementation. In this process, both vertical and horizontal structures were differentiated within the bureaucracy. As a result, inter-bureaucratic rivalries became fierce with regard to a variety of aspects of ODA, especially in the period of sluggish economic performance. In controlling excessive competition in bureaucracy, the Diet and advisory organs are increasingly expected to play an active role as outer-bureaucratic institutions. Nevertheless, the efficacy of these organs is still limited because of structured bureaucratic resistance as well as limitations internal to these state apparatuses.

The intrinsic strengths of bureaucracy, democracy and appointed aristocracy are in responding best to past, present or future conditions respectively. These strengths stem from the different methods of recruitment: public service examination, election and political appointment. Bureaucrats, who are selected and legitimized by the public service exam, are designed to take care of the long term on the basis of past experience. Their accumulated knowledge and highly differentiated institutions can carry on without concern for the periodic interruptions caused by elections. However, this very differentiation of the bureaucratic structure, its parochialism and incrementalism, make it very slow to respond to rapidly changing situations which are characteristically relevant to many jurisdictions.

The electoral system ensures that politicians keep in regular touch with their constituents. In the theory of representative democracy, politicians can know the present situations and demands

of their constituencies and carry them to the parliament for decision-making more quickly than the bureaucrats. However, this grass-roots activity rarely reflects the demands outside their constituencies, like overseas affairs; and this activity is expensive in terms of time and money, especially for LDP politicians who have to be elected and maintain a majority under the medium-size electoral system. In consequence, politicians per se have little time to consider concrete policies for dealing with complicated and long-term issues, such as globally sustainable development, and therefore they tend to be short-sighted.

The inability of democratic and bureaucratic institutions to deal with future concerns has led to the creation of advisory bodies, which are in a way immune to the vicissitudes of electoral politics and bureaucratic fossilization. Thus, advisory councils are regarded as a device for adjusting conflicting interests and for coordinating the various fields of administration. However, the advisory organs are fundamentally undemocratic in terms of recruitment, even if they are efficient in formulating democratic and long-term policies. Thus, the static nature of Japan's ODA administration reflects the unbalanced development of state institutions skewed towards a past-oriented bureaucracy. The performance of Japan's ODA, as explained in the preceding chapters, has been reproduced by, and has reproduced, bureaucratic predominance in this field.

7.1 Intra-Bureaucratic Institutions

The internal hierarchy of state bureaucracy is determined by not only legislation and orders but also a variety of policy resources, such as annual budgets and personnel. A major demarcation for the issue of aid lies between policy-making bureaucracies and policy-implementing public corporations. The four ministries for ODA loans continue to form a centralized system in aid policy-making, and yet more ministries came to be involved due to the expansion and diversification of the ODA program. The OECF and JICA were legally in charge of implementing ODA loans and grants respectively, and the actual practices of ODA delivery augmented tensions within these institutions.

7.1.1 The Rise of MFA's Economic Cooperation Bureau

In terms of financial resources, Japanese ODA depends on not only the General Account but also the FILP and national bonds. More or less half of the total ODA operations is financed by the General Account, most of which depends on tax revenues, and the remaining half is divided between the FILP and national bonds. In terms of the form of ODA, Japan's bilateral ODA grants, including technical cooperation, and part of yen loans are financed by the General Account. Some parts of bilateral ODA loans are also financed by the FILP fund, most of which stem from postal savings. A part of the multilateral ODA, that is contributions to the United Nations agencies, are financed by the General Account, and a larger part of the multilateral ODA for international financial institutions is financed by national bonds from the National Debt Consolidation Account. Since

the Japanese state is less autonomous from the inter-state system and domestic society in determining the size of multilateral ODA and the FILP fund, the Cabinet has set policy targets of the ODA volume in the General Account only.

One of twelve Budget Examiners of the MOF Budget Bureau is in charge of foreign affairs, economic cooperation, international trade and industry, and this Budget Examiner has a strong influence in preparing and executing annual ODA budgets in each ministry or agency. As Japan's ODA programs expanded remarkably, the relative positions of the administrative units for economic cooperation in many ministries were increasingly recognized. Major internal units in charge of the ODA issue include the MOF's International Finance Bureau, the MFA's Economic Cooperation Bureau, MITI's Economic Cooperation Department, and the EPA's Economic Cooperation Divisions.

As far as the General Account is concerned, Figure 7.1 shows that the share of the economic cooperation budget requested by MFA's Economic Cooperation Bureau in relation to MFA's total budget increased rapidly during the 1970s and reached over 70 percent in the 1980s.³ This movement is in contrast to the dropped ratio of MITI's request for economic cooperation in the late 1960s, when the budget for trade promotion was separated from the economic cooperation budget. As a result, the recognition of the MFA Economic Cooperation Bureau was elevated, and the career path through this bureau came to be important for diplomats. Actually, former

³Zasiei Chosa-kai, ed., Yosan (Tokyo: Keyukai, various years).

Directors of this Bureau were promoted to high rank positions in the MFA, and the Economic Cooperation Bureau gained them over to their side.⁴

⁴For instance, former Director Koichiro Matsuura (1988-1990) was promoted to the position of Director, North American Affairs Bureau, which is regarded as the most important bureau at the MFA.

Figure 7.1: Economic Cooperation Budget Requests Divided by Total Budget Requests by Ministry (General Account)

Although the MFA Economic Cooperation Bureau has the largest number of personnel for economic cooperation, the number of career diplomats at this bureau is very limited, in part because of the ceiling on the number of officials under administrative reform. Most of the personnel there consist of non-career diplomats and officers dispatched from other ministries and agencies. A few members are dispatched even from private companies. Another way to supplement policy-making capabilities is to make the best use of the staff of the implementation agencies. JICA is directly supervised by the Technical Cooperation Division, the Development Cooperation Division, and the Grant Aid Division of the MFA Economic Cooperation Bureau. OECF matters concerning the ODA portion are legally supervised by the First Economic Cooperation Division of the EPA's Coordination Bureau, and yet the MFA's Loan Aid Division is also closely involved in this matter.

It seems that there is a difference in the mind-set between the OECF and JICA staff members about the increase of ODA. The OECF officials have a positive attitude towards the volume of ODA, because they have a spirit of rivalry against the Ex-Im Bank concerning their creditor balance.⁵ Whereas, the JICA staff is not always positive towards a simple expansion of the ODA volume, partly because JICA is the sole organization for technical assistance, with no rival state institution, and partly because technical assistance is hard to assess in financial terms alone. They fully recognize that an increase of the ODA budget without substantial staff would result in lower quality of

⁵Historically, the OECF was derived from the Ex-Im Bank, and the headquarters of these financial institutions are located in the same building.

their works. Nevertheless, JICA, as a policy implementation agency, has to follow through on the MFA's enthusiasm for ODA expansion.

7.1.2 Intra-Ministerial Politics over Geographical Distribution

The intra-ministerial politics over geographical distribution of ODA can be seen in the MFA, and, to a lesser extent, MITI. Inside the MFA, when the scale of the ODA program was not so large, both the Economic Cooperation Bureau and regional bureaus were less powerful than the Economic Affairs Bureau, which was in charge of Japan's membership of OECD, in making aid policy. White identified, in the 1960s, that the Asian Affairs Bureau was incoherent and that a conflict between pro-Malaysia and pro-Indonesia factions was present within the Bureau.⁶ Where stronger diplomatic ties were formed, the balance was tilted towards the regional bureaus and divisions. Rix observed, in the 1970s, "the regional bureau predominates, especially in the context of highly political bilateral relationship such as that between Japan and Indonesia."⁷

The Aid Policy Division of the MFA Economic Cooperation Bureau became increasingly powerful vis-a-vis the regional bureaus in the 1980s due to the expansion of the ODA budgets.⁸ Recently, it is commonly observed that the regional bureaus have to request the Economic Cooperation Bureau for their favorite aid projects, and that the Economic Cooperation Bureau does not always grant their

⁶White, Japanese Aid, 30.

⁷Rix, "The Future of Japanese Foreign Aid," 426.

⁸Interview with a former official at the Economic Cooperation Bureau, the MFA, October 23, 1992.

requests automatically, except for highly-politicized projects. The strength of the Economic Cooperation Bureau is its access to technical expertise through JICA. Since JICA was structured by sector and form, the MFA's Economic Cooperation Bureau felt the need to have an administrative unit within JICA that would coordinate geographical distribution of development studies. By the late 1980s, JICA established the Regional Division within the Planning Department with the support of the MFA, and started to issue a series of country studies for development assistance, which are listed in Table 7.1.

Table 7.1: Country Studies by JICA

Date of Issue	Country
April 1987	Philippines
December 1988	India
January 1990	Indonesia
February 1990	Bangladesh
February 1991	Brazil
February 1991	Pakistan
March 1991	Sri Lanka
December 1991	China
December 1991	Oceania
December 1991	Sub-Saharan Africa
April 1992	Egypt

Unlike the MFA, MITI developed both geographical divisions and the Economic Cooperation Department within the same bureau. MITI's International Trade Policy Bureau is currently composed of the General Affairs Division, the Americas Division, the Europe-Africa-Middle East Division, the Southeast Asia Pacific Division, and the Northwest Asia Division. The Bureau also has two departments: the International Economic Affairs Department and the Economic

Cooperation Department, the latter of which is made up of the Economic Cooperation Division and the Technical Cooperation Division. The Economic Cooperation Division is directly in charge of supervising JICA and the Institute for Developing Economies (the original name in Japanese, "Institute for Asian Economies"), and yet the geographical divisions are also involved in the aid projects from the perspective of bilateral and regional trade policies. When conflict arises between them, the General Affairs Division coordinates them in favor of enforcing trade policies under the same jurisdiction of the Bureau.

7.1.3 The Mushroomed "Octopus Pots"

Masao Maruyama called Japanese political structure "octopus traps," into which political actors fall and disclaim responsibility for general decisions. Since there was no macro-level policy on sectoral allocation of ODA, many ministries formed "octopus pots" while watching for increased ODA budgets. These pots were nested within the respective ministries, and tended to become bigger by linking their jurisdictions with thematic issues for development.

The MFA officials, who themselves have little technical expertise on specific sectors, are less concerned with the substance of ODA projects. The more important concerns for the MFA diplomats are thematic issues outwardly discussed at the international community. Therefore, the MFA tend to arrange the shredded selection of ODA projects into a thematic shape. In attempting to do so, the MFA set up thematic study groups within JICA's Institute for International Cooperation. These groups, which include experts from the private sector and practitioners from sectorally divided

departments of JICA, have produced a series of study reports. These include study reports on the environment submitted in December 1988, on poverty in July 1990, on women in development in February 1991, and on population and development in March 1992. It is difficult to assess to what extent the findings of these reports have had an impact on the sectoral allocation of ODA, and yet it can be said that more ministries became more conscious about the thematic issues studied by these groups as a rationale in requesting economic cooperation budgets.

The differences in the sectoral preference between the MFA and the MOF comes from their different jurisdictions and standards. The MFA, which is also in charge of grant aid, easily accepts requests for ODA loans in the infrastructure sector, because they think that the profit-making sector is more suitable for ODA loans, rather than for grants. In contrast, the MOF, which is also in charge of the Ex-Im Bank loans and controls private loans, tends not to provide ODA loans for large-scale infrastructure, because the financial terms of ODA loans are "softer" than the market interests of private flows and in their view ODA loans should be used for less profitable sectors. The MFA also prefers project aid partly because many of these visible projects are believed to have a higher appeal value with the public. Whereas, the MOF is concerned with the financial assistance for the financial sector. The MOF International Finance Bureau is more active towards multilateral ODA devoted to international financial institutions, rather than aid projects of United Nations agencies. As for bilateral ODA, the MOF's Development Policy Division and Development Finance Division focus on non-project aid, which is

designed for easing fiscal crises and international balance of payments. The so-called "two-step" loans are also welcomed because these are believed to strengthen banking systems in the recipient countries. In this process, the MOF took the lead in policy-level coordination with the international financial institutions. Thus, assistance for the financial sector is increasingly provided in conjunction with the IMF's and the World Bank's adjustment lending, including sector loans. The MOF is also in charge of bilateral grants for KR food aid and the second KR aid for increased food production, by which the MOF consistently requires the recipient government to deposit counterpart funds for improving their financial policies.

The EPA's Second Economic Cooperation Division is in charge not only of coordination of basic aid policies concerning various ministries, but also long-term development planning and programming. However, since development and planning services are closely related to energy planning and training for human resources development by nature, the EPA always has to rely on the expertise of other ministries, such as MITI and Education.

MITI's sectoral concerns differ by region and country. For those countries such as China, in which the infrastructure is largely undeveloped and a huge demand of energy is present, MITI continues to emphasize the large-scale projects of economic infrastructure. For the ASEAN countries, many of which "took off" to become middle-income economies, technical assistance for the horizontal division of labor is stressed. MITI is less energetic on the agricultural sector and the BHN sector, because MITI officials

seemingly have a prejudice that aiding these sectors would sometimes impede the industrialization of developing economies.

The Ministry of Education is one of the ministries which is in charge of the assistance of human resources development. The Science and International Affairs Bureau has the International Scientific Affairs Division, which is in charge of international exchanges, and the Student Exchange Division. The grants and scholarships of the Ministry of Education for international students from developing countries are counted as ODA, and yet the Ministry of Education uses them in the context of promoting the diffusion of education, science and culture, if anything, rather than as development education.

The MAFF has increasingly become enthusiastic about the involvement of economic cooperation, partly because of the possible stalemate of the domestic agricultural policy. The recent tactics of the International Economic Cooperation Division of the MAFF's Economic Affairs Bureau is to emphasize aid in the agricultural sector as part of basic human needs and environmental conservation.⁹ The MAFF's expertise on rice farming, including institutional development of agricultural cooperatives, was often applied to Southeast Asia, but the emphasis on rice farming without opening the Japanese market has been contradictory. Partly because of that, the MAFF is eager to promote assistance for non-rice affairs, such as biotechnology and remote sensing. It is also important for MAFF's Food Agency and

⁹Teruo Miyake, "Norin Suisan-gyo ni okeru Kokusai Kyoryoku no Tenkai," in Kahei Ishii, ed., Waga Kuni no Keizai Kyoryoku (Tokyo: Sangyo Seisaku Kenkyu-sho, 1990), 305-311.

Fisheries Agency to aid projects for the construction of grain storage and fish refrigerators, especially after the provision of the 200-mile fishing zones.

The Ministry of Health and Welfare established the International Affairs Division within the Minister's Secretariat. Although health and welfare is the core of the BHN sector, tropical diseases are not always an area of expertise for many Japanese doctors. The requests for medical and health care projects from the developing countries often include high-tech facilities, such as CT scanners, and it is often criticized that these facilities were not well operated and maintained because of lack of training.

The Director of the International Cooperation Division of the Ministry of Transport recognizes two major rationales for promoting assistance in the sector of transportation.¹⁰ One is that the development of transportation networks in developing economies would help in the trade of raw materials and industrial goods. Another reason is the promotion of tourism and international cooperation on safety and meteorology, both of which are under the jurisdiction of the Ministry of Transport. For the latter reason, the Ministry of Transport launched the Holiday Village Plan in relation to international cooperation in 1988.

The Ministry of Construction has the International Affairs Division within its Economic Affairs Bureau. Using the economic cooperation budget, the Ministry of Construction has been

¹⁰Susumu Takizawa, "Un'yu Bun'ya ni okeru Kokusai Kyoryoku no Genjo to Kadai," in Waga Kuni no Keizai Kyoryoku, 294-299.

researching Global Super Projects since 1988.¹¹ These include construction of a second Panama Canal and the bridging of the Strait of Gibraltar. All parts of these projects would not be implemented by Japan's ODA, and yet development studies with ODA grants and the project-identification efforts by attaches at overseas missions from the Ministry of Construction would continue to increase the ODA projects in this sector.

The Ministry of Posts and Telecommunications has the International Affairs Division and the International Cooperation Division within its Communications Policy Bureau. These divisions plan and execute technical and financial assistance for the telecommunications sector, as well as research and development through the International Telecommunication Union. The importance of the telecommunications sector is increasing, but the general account budget for this sector is still minor. However, the Ministry of Posts and Telecommunications attempted to expand the new horizon of development cooperation outside the ODA scheme. The Postal Saving Bureau initiated the International Volunteer Savings Account, which is a tax-free, pre-authorized donation for Japanese voluntary agencies using part of the earned interest of postal savings.¹² It seems that this is another challenge for the four-ministry system of ODA loans by the collector of ODA loans. It is ironical that the MOF controls the financial terms of loans for the depositors of postal savings and that the depositors reimburse their collected earned

¹¹Tokuji Tsumaru, "Kensetsusho no Susumeru Kokusai Kyoryoku no Genjo to Kongo no Kadai," in Waga Kuni no Keizai Kyoryoku, 300-304.

¹²Kokusai Kaihatsu Journal (December 1989), 96-98.

interest to the peoples of developing countries through the NGO activities. It is a potentially effective arrangement for Japanese NGOs, which have been suffering from financial shortages, and yet this is also becoming a target of inter-bureaucratic competition because the MFA and other ministries also introduced their subsidies for NGOs within the ODA scheme.

7.1.4 Internal Tensions on Terms and Conditions

The MOF International Finance Bureau tends to take a favorable position on the easing of financial terms of ODA loans, and yet the Budget Bureau is reluctant to do so. The Development Policy Division of the International Finance Bureau is in charge of deciding the financial terms of OECF loans and other ODA budgets under the MOF's jurisdiction. The internal tension as such sometimes has resulted in a dual expression of the MOF's policy. When the Japan-ASEAN Fund reduced the interest rate of yen loans the MOF Budget Bureau strongly opposed this decision, while it positively agreed to the provision of extremely soft loans to Turkey, Egypt and Jordan during the period of the Gulf War. For the procurement conditions, the Development Finance Division is also closely involved, because this division jointly controls foreign exchange transactions and balance of payments with MITI. The Development Institution Division of the International Finance Bureau is in charge of multilateral contributions, which are totally untied.

The MFA Loan Aid Division is the sole unit that has to tackle the improvement problem of financial terms within the Economic Cooperation Bureau, because other divisions are only in charge of bilateral or multilateral grants. For the improvement of procurement

conditions, however, the Loan Aid Division is becoming more liberal and much closer to the International Organizations Division in promoting aid-untying. The North American Affairs Bureau, which traditionally is the most influential unit in the MFA, has influenced aid-untying in the context of U.S.-Japan relations.

The fact that MITI's Economic Cooperation Department is organized under the Trade Policy Bureau, not the Industrial Policy Bureau, poses a significant implication for terms and conditions. The Industrial Policy Bureau and other sectorally specialized bureaus have also influenced aid policy. For the Trade Policy Bureau, easing the financial terms was advantageous for export promotion of Japanese industrial goods and plants, as well as import promotion of raw materials and primary products from the developing countries. While the Industrial Policy Bureau attempts to protect domestic industries through source-tying, the Trade Policy Bureau has two major incentives for aid-untying. One is the increased competitiveness of the export industries of Japan. The other factor is the increased trade surplus. In advancing Japanese direct investment in developing countries, LDC-untying can attain the same effect on Japanese industries as source-tying. Thus, after the Plaza Accord, MITI shifted more to an untying policy in conjunction with the promotion of foreign direct investment in selected countries. In other words, MITI is still pursuing administrative guidance in promoting exports for higher economic growth, while searching for a new horizontal division of labor.

7.2 Inter-Ministerial Rivalries and Cooperation

Finance, Foreign Affairs, MITI and the EPA were established in 1949, 1951, 1952 and 1957, respectively. This order is the same as the order of the size of their operational budgets on economic cooperation. The OECF and JICA were created in order to play a coordinating role in ODA delivery; however, those reorganizations consisted of minor changes and offered an arena for inter-bureaucratic struggles. It is still not simple, however, as to which government ministry is the most influential.

7.2.1 Finance vs. the MFA-MITI Coalition

The inter-ministerial rivalry over the volume of ODA is characterized by the struggle between the MOF and the MFA-MITI coalition. The MOF kept a strict balanced budget until 1965, when the then Finance Minister, Takeo Fukuda, broke this policy and introduced "red ink" national bonds. Even after this year the MOF maintained a relatively healthy budget, and was reluctant to rapidly increase the budget for economic cooperation as well as other items. The MFA was most enthusiastic to increase its budget for ODA, especially bilateral grants, because giving aid is believed to be the most effective means of diplomacy for a less militarized, peaceful nation, and because the increase of grants was expected to change the balance of power of the four-ministry system. MITI was also positive in expanding the ODA budget, partly because ODA was believed to fetch trade with recipient countries, and partly because tied aid was regarded as an outlet for products of declining industries.

Figure 7.2 shows the history of bureaucratic politics between the MOF and the MFA-MITI coalition. The economic cooperation budget allocated for the MFA caught up with and surpassed the level of MOF's economic cooperation budget in the late 1970s. However, it is not wise to conclude that the MOF's dominance over the ODA budget is weakening. Rather, it was at this very time when the MOF completed and won the struggle over the presidency of the OECF to control the ODA loans.

Figure 7.2: Economic Cooperation Budget Requests by Ministry
Divided by Total Economic Cooperation Budget Requests
(General Account)

As shown in Table 7.2, the first and second presidents of the OECF were selected from the business circle, and the then Director-General of the EPA controlled the bureaucratic struggle for the OECF presidency. Seijiro Yanagida was President of Japan Airlines, and Shin'ichi Takasugi was former President of Mitsubishi Electric and then Chairman of the Keidanren's Economic Cooperation Committee.¹³ The EPA selected their former director at the Planning Bureau, Saburo Okita, as third OECF President. The shift from business leaders to a bureaucratic economist virtually resulted in a victory for the MOF economists. Thus, after the fourth presidency all of the OECF heads have been former high-ranking officials of the MOF.

Similarly, the presidents of the OTCA were selected from financial institutions, and yet when it was reorganized into JICA the MFA constantly sent their former Administrative Vice-Minister as JICA President, as shown in Table 7.3.¹⁴ Thus, in the budget making process, the MFA and JICA can consistently negotiate with the MOF on the budget of ODA grants. Whereas, it is the EPA and the MOF-controlled OECF which negotiate with the MOF for the budget of ODA loans. The EPA's relatively weak position within the bureaucracy together with the MOF's control over its presidency were serious obstacles for the MFA-MITI coalition, and the volume of ODA loans increased less dramatically than ODA grants. In short, the volume of

¹³Yanagida also served as president of the Bank of Japan.

¹⁴The first president of the OTCA was Ataru Kobayashi, former President of the Japan Development Bank, and the second president was Sohei Nakayama, former President of the Industrial Bank of Japan.

ODA rapidly increased because of, not despite, the fragmented state structures.

Table 7.2: Presidents of the Overseas Economic Cooperation Funds

Name (period in office)	Career
1. Yanagida (1961-69)	Business (Japan Airlines)
2. Takasugi (1969-73)	Business (Mitsubishi Electric)
3. Okita (1973-77)	Bureaucrat (EPA)
4. Ishihara (1977-81)	Bureaucrat (MOF)
5. Hosomi (1981-85)	Bureaucrat (MOF)
6. Yamaguchi (1985-89)	Bureaucrat (MOF)
7. Nishigaki (1989-)	Bureaucrat (MOF)

Table 7.3: Presidents of the Japan International Cooperation Agency

Name (period in office)	Career
1. Hogen (1974-80)	Bureaucrat (MFA)
2. Arita (1980-88)	Bureaucrat (MFA)
3. Yanagiya (1988-)	Bureaucrat (MFA)

7.2.2 Policy Innovations by MFA's and MITI's Asian-Centrism

The diversification of developing economies after the oil crises demanded more detailed criteria for the allocation of ODA than before. While coordinating inter-ministerial interests, the EPA took the lead in formulating more objective criteria in terms of economic planning. The EPA's Economic Council first established its Sub-Committee on Economic Cooperation for the long-term economic plan decided by the Cabinet in 1976. This plan classified the recipient countries into four groups: LLDCs, oil-producing countries, primary goods exporting countries, and industrial goods exporting countries.¹⁵ This plan still regarded Asia as the targeted area of Japanese

¹⁵Economic Planning Agency, Showa 50-nendai Zenki Keizai Keikaku (Tokyo: MOF Printing Bureau, 1976), 53.

economic cooperation, but the subsequent Seven-Year Plan of 1979 emphasized the diversification of the recipient countries outside Asia.¹⁶ Once this classification was identified in this way, the criteria of allocation by income group were prevalently shared and employed within the government in determining the volume and form of ODA to these groups.¹⁷

Establishing objective criteria was useful for the EPA in charge of inter-ministry coordination, but the fact that some of the Asian recipients were graduating from LDC status and many non-Asian LLDCs were suffering from overdue debts caused problems for the MFA and MITI, both of which desired to continue aiding Asia but for different reasons. Despite having the U.S. demands on Japan's globalization of aid targets, Asia remains as the primary constituency in the international community for the MFA. For instance, the MFA has to win support from the Asian electorate so that Japan can become a permanent member of the United Nations Security Council. For MITI, Asia remains one of the most important trade partners; it hopes to advance horizontal division of labor with Asian countries, especially in the period of looming protectionism in North America and Europe. Therefore, both the MFA and MITI have attempted to keep Asia in custody as the targeted recipient of Japanese ODA.

¹⁶Economic Planning Agency, Shin Keizai Shakai 7-kanen Keikaku (Tokyo: MOF Printing Bureau, 1979), 70.

¹⁷According to a senior MFA officer, national income based on the World Bank's Development Report has been used as a criterion to determine whether loans or grants or technical cooperation is provided. For instance, in 1992, the GNP per capita of US\$ 1195 was the graduation line for grant assistance, and US\$ 2445 for yen loans. Technical assistance was provided regardless of these lines.

One of the policy measures innovated by the MFA for this purpose is the so-called "tripartite cooperation" or the ODA for a third-party country through Japanese recipient countries. Using this form of aid, the MFA can give aid to, and thus gain political support from, the graduating countries in the name of international cooperation for the South-South cooperation. The recent two economic plans mentioned Asian NIEs, such as Korea and Thailand, as the targeted countries for this type of ODA.¹⁸ Actually, Indonesian President Suharto, who sought leadership in non-alignment countries, requested this type of ODA from Tokyo in 1991, and Prime Minister Miyazawa committed a large amount of ODA for that in 1993.

Another Asian-oriented policy innovated by MITI is exemplified by the New Asian Industrial Development (AID) Plan as expressed by MITI Minister Hajime Tamura in January 1987 in Bangkok. The essence of the New AID Plan is the structural adjustment of the Japanese economy after the Plaza Accords. In attempting to resolve the graduation problem of Asian recipients, Japan's enormous trade surplus, labor shortage and increased labor costs in Japan, MITI integrated aid, trade and investment policies into a single program. Thus, MITI attempted to manage the relocation of production sites by Japanese firms by encouraging direct investment to Asian countries, by providing ODA for infrastructures and training projects to attract Japanese investors

¹⁸Economic Planning Agency, Sekai to Tomo ni Ikiru Nihon: Keizai Un'ei 5-kanen Keikaku (Tokyo: MOF Printing Bureau, 1988), 26, and Seikatsu Taikoku 5-kanen Keikaku (Tokyo: MOF Printing Bureau, 1992), 32.

there, and by opening the Japanese market for the selective items produced there.¹⁹ The New AID Plan is currently going on in Malaysia, Indonesia, Thailand and China, and feasibility studies were also conducted for other Asian countries.²⁰ Thus, the concentration of Japan's ODA in Asia will continue, despite the phenomenal economic growth in this area, because of policy innovations by the MFA and MITI.

7.2.3 The Multiple-Ministry System of Sectoral Allocation

Although the MFA obtained the right of supervising JICA and being involved in OECF affairs, diplomats were not able to fully manage human resources in sectoral issues, and had to rely on the expertise possessed by other ministries in order to prepare and implement the ODA programs. Thus, the MFA had to accept assistance as well as resistance from other ministries.²¹ The multiple-ministry system as such was institutionalized and exemplified in the executive positions at JICA. Table 7.4 illustrates

¹⁹Jeremy Paltiel, "Japan's Innovative East Asian Policies: Keeping the Flying Geese in Formation," paper presented at the Japan Studies Association of Canada, Ottawa, October 1992.

²⁰MITI, Keizai Kyoryoku no Genjo to Mondaiten (Tokyo: Tsusyo Sangyo Chosa-kai, 1989), 81.

²¹The number of ministries involved in the ODA issue reached eighteen in fiscal 1991. Those are MFA, MOF, EPA, MITI, Education, MAFF, Health & Welfare, Labor, Management & Coordination, Transport, Science & Technology, Justice, Construction, Posts & Telecommunications, Environment, National Public Safety (Police), Home Affairs, and National Land. The size of the ODA budgets in the General Account is bigger in this order.

that most of the executive positions have been shared by many ministries since its difficult birth in 1974.²²

Table 7.4: "Descending from Heaven" to JICA

Position	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91		
President	MFA						MFA						MFA							
Vice President	MITI								MOF				Sci. & Tech			MITI				
Vice President	MAFF						MAFF						MAFF			MAFF				
Executive Director	MFA			MFA			MFA			MFA			MFA			MFA				
Executive Director	Posts & Tel.		-		Labor						JICA			JICA						
Executive Director	MAFF						MAFF				MAFF					MAFF				
Executive Director	OTCA	MOF				-	JICA					JICA				JICA				
Executive Director	OTCA		MITI				MITI					MITI					NIA			
Executive Director	MFA		MFA			MFA			MFA		MFA		MFA			MFA		MFA		
Executive Director	MAFF			MAFF						(abolished)										
Executive Director	MITI					MITI				(abolished)										
Auditor	Police					Board of Audit (BOA)						Police					BOA			
Auditor	Diet member					MFA			JICA		(abolished)									
Auditor	Personnel			(abolished)																

JICA has two vice-presidentships, because JICA contains two major functions: technical cooperation and investment, both of which involves MITI and the MAFF to a larger extent. One vice-president position has usually been filled by ex-bureaucrats of MITI or the MOF, and the other vice-president position has been in the hands of the MAFF's Fishery Agency. Out of six positions of executive directors, only two positions are currently served by JICA proper. The rest of the executive director positions are distributed among the MFA, the MAFF and MITI. Many positions of directors and assistant directors at JICA's departments and divisions are also "colonies" of

²²Unpublished paper by the JICA Union, undated. "NLA" stands for the National Land Agency, and "OTCA" means the Overseas Technical Cooperation Agency.

bureaucratic control. As of mid-1991, six of those positions were held by the MAFF, four by the MFA, three by MITI, two by the MOF, two by Health and Welfare, and one by Transport, Labor, Construction, and Posts and Telecommunications, respectively. The continuing "descending from heaven" deprived the JICA staff of their incentives for promotion, and these posts became the channels for bureaucratic struggles over sectoral selection of the ODA projects through the conventional process of "ringisei" circulation.²³ Project proposals requested through the embassies are initially selected by the MFA, and selectively delivered to other policy-making bureaucracies and the implementation agencies. Administrative plans are drafted by middle ranking staff members at JICA, and those documents are circulated and makes its way up to higher executives for final approval. In these complex and time-consuming paths, bureaucratic struggles over sectoral allocation constantly occur.

The number of positions at JICA for the MAFF is outstanding. The MAFF, which is excluded from the four-ministry veto system for ODA loans, has a stronger influence on ODA grants. The Economic Cooperation budget in the General Account requested by the MAFF has also been outstanding among the four ministries for its emphasis on infrastructure, as shown in Figure 7.3.

The relative dominance of the MAFF's positions is reflected in one of the most important functions of JICA, that is to conduct development study. In terms of both the number and the costs of

²³Haruhiro Fukui, "Policy-Making in the Japanese Foreign Ministry," in Robert A. Scalapino, ed., The Foreign Policy of Modern Japan (Berkeley and Los Angeles: University of California Press, 1977), 8.

development studies, about 30 percent is devoted to the field of agriculture, such as irrigation and livestock.²⁴ The second majority is the sector of transportation, and the third is social infrastructure. Writing development study reports is especially important in sectoral allocation of ODA, because they are conducted during the stage of project identification and preparation in the project cycle. In addition, these development surveys provide basic data for implementation in terms of technology, cost, organization and management. JICA's business in this field is regarded as part of the technical assistance aspect of Japan's ODA grant program, and almost all of these study reports have directly resulted in the provision of OECF's project loans or JICA's grant projects of capital grant assistance and technical cooperation. The MAFF's prominent position at this stage is not always against the MFA's policy of granting humanitarian aid and food security for diplomatic purposes. MITI and Construction also accepted the MAFF's dominance at this level, partly because MAFF's ODA projects at the implementation level are usually smaller in size than the large-scale projects under their own jurisdictions.

²⁴Interview with the Deputy Director, the Development Cooperation Division, the Economic Cooperation Bureau, the Ministry of Foreign Affairs, November 20, 1992.

Figure 7.3: Recent Trends of Economic Cooperation Budgets of the Four Ministries on Infrastructure

7.2.4 The Dilemmas of the MOF-MFA-MITI Triangle

Rix identified that Japan's ODA loans were determined by an "equal partnership" of the four-ministry committee (MFA, MITI, MOF and EPA) chaired by the MFA's Loan Aid Division.²⁵ In theory, the four ministries have equal vetoes on the basis of project by project, but the actual power balance is not always equal. The basic orientation of the terms and conditions of yen loans are determined by bureaucratic politics among the MOF, the MFA and MITI. Table 7.5 summarizes the monetary and fiscal manipulation of financial terms, trade and industrial control over the procurement conditions. In a simple structure, the MOF preferred loans to grants, the MFA preferred grants to loans, and MITI preferred tying to untying. However, changing situations have created dilemmas for these ministries in adhering to these basic stances.

Table 7.5: The Basic Stances of the Three Ministries on Terms and Conditions

	MOF	MFA	MITI
Untied Softer Loans/Grants	reluctant	for	reluctant
Tied Softer Loans/Grants	reluctant	for	for
Untied Harder Loans	for	reluctant	reluctant
Tied Harder Loans	for	reluctant	for

The MOF increasingly tries to strike a healthy balance when the OECF's operations tend to be at a deficit. The interest rate of the OECF borrowings from the FILP fund has been higher than the interest rate of the OECF loans for developing countries. As a result, the OECF's borrowings from the government have exceeded the OECF's capital

²⁵Rix, *Japan's Economic Aid*, 139.

since fiscal 1979, and the gap has been increasing. Furthermore, the amount of collection and interest returns from the developing countries is becoming sluggish. On the other hand, in the early years, the MOF was reluctant about aid-untying for the balance of payments, but became less concerned with it when the balance turned into surplus.

The MFA is more sensitive to the quality of loans, when the aid will become an oxymoron because yen appreciation has made it difficult for recipient countries to repay yen loans and an increase in yen loans could unexpectedly worsen the debt situation of the recipient countries. However, the MFA is also in a dilemma in that the amount of ODA has to be increased by relying on the loans to meet the international commitments. The MFA, which had no domestic basis, was less concerned with aid-tying, but prefers more untying when international pressure for aid-untying increases. However, the other donors still provided tied grants, so the MFA officials are somehow skeptical whether Japan should take the lead in further promotion of untying, or should no longer reduce LDC-untying.

MITI, which has a strong connection with domestic industries, preferred tying to untying in the early years. However, easing terms allowed for promoting exports of Japanese industrial goods to the recipient countries. The mixed credit that Western countries employ is usually tied. MITI's linkage of ODA-OOF-PF after the Plaza Accords is different by nature from this classical type of mixed credits, because it is untied. This was MITI's policy intention in managing the foreign direct investment and import promotion of industrial goods

of developing countries. For this reason, the consulting portion of yen loans are still tied in many cases.

7.3 Outer-Bureaucratic Institutions

The exchange of notes for bilateral ODA has been considered as administrative agreements rather than treaties. Administrative agreements do not include legislative matters, and therefore require approval of the Cabinet, not the Diet. The government repeatedly justifies this by referring to the Constitution, which ordains that the Cabinet shall "manage foreign affairs."²⁶ The Diet has another weakness. Because the standing committees of the Diet are organized to respond to the fragmented bureaucratic structure, the Diet debates on the ODA issue are also separately discussed by the Budget Committee, the Foreign Affairs Committee, and so forth. Because the Diet treats the ODA issue separately, the Diet rarely reaches even a resolution for comprehensive treatment of aid. The Diet resolutions listed in Table 7.6 were not only less frequent but also less effective.

Table 7.6: Diet Resolutions on Economic Cooperation

Date	House	Committee	Regarding
10-MAY-1974	HR	Foreign Affairs	Aid and Trade
05-APR-1978	HR	Foreign Affairs	Economic Cooperation
23-APR-1980	HR	Foreign Affairs	Cooperation for LDCs
30-MAR-1981	HR	Foreign Affairs	Economic Cooperation
22-JUN-1989	HC	Plenary Session	Int'l Development Coop.

Foreign aid issues have also been discussed by many advisory organs sponsored by the different ministries, such as EPA's Economic

²⁶Article 73 (2), the Constitution of Japan.

Council and MITI's Industrial Structure Council. These Councils, however, are regarded as extensions of bureaucracy, rather than aristocracy. The official main advisory body for Japan's ODA policy has been the Council of Foreign Economic Cooperation (CFEC), which was reorganized in 1969 under the Prime Minister's Office.²⁷ However, as shown in Table 7.7, Japanese Prime Ministers have formally consulted this council about the aid issue just four times during the period from 1969 to 1992, and the Council's influence on Japan's ODA policy was very limited.²⁸

²⁷The aid issue has been discussed by other advisory councils, such as MITI's Council of Industrial Structure and the EPA's Council of Economic Affairs.

²⁸Regarding this Council Rix pointed out, "Despite its high-powered membership, its impact is weak. It did not even convene to discuss Japan's aid policy toward UNCTAD IV in 1976." Rix, "The Future of Japanese Foreign Aid," 424.

**Table 7.7: Activities of the Council of Foreign Economic Cooperation
Since the 1969 Reorganization**

Date	Prime Minister	Chair (Period)	Activities
30-MAR-1970	Sato	Nagano (I)	Consultation
14-MAY-1970	Sato	Nagano (I)	Opinion
27-JUL-1970	Sato	Nagano (I)	Interim Report
07-SEP-1970	Sato	Nagano (I)	Opinion
23-DEC-1970	Sato	Nagano (I)	Opinion
09-SEP-1971	Sato	Nagano (I)	Report
09-SEP-1971	Sato	Nagano (I)	Report
22-OCT-1971	Sato	Nagano (I)	Final Report
21-NOV-1972	Tanaka	Nagano (II)	Opinion
29-NOV-1973	Tanaka	Nagano (II)	Opinion
09-OCT-1974	Tanaka	Nagano (III)	Consultation
18-AUG-1975	Miki	Nagano (III)	Report
31-AUG-1976	Miki	Nagano (III)	Opinion
26-DEC-1978	Ohira	Nagano (IV)	Opinion
20-DEC-1979	Ohira	Nagano (V)	Consultation
20-DEC-1979	Ohira	Nagano (V)	Opinion
12-NOV-1980	Suzuki	Nagano (V)	Report
27-FEB-1986	Nakasone	Goto (VIII)	Consultation
15-MAY-1987	Nakasone	Goto (VIII)	Report
26-MAR-1991	Kaifu	Okita (X)	Opinion
08-MAY-1992	Miyazawa	Okita (X)	Opinion

7.3.1 Endorsing the Cabinet Decision on the Volume and Form of ODA

The Diet discusses the volume and form of ODA in relation to a budget bill proposed by the Cabinet. However, only a list of total commitments is presented at the Budget Standing Committee. Likewise, the FILP fund has been submitted to the Diet since the 1960s, and yet the FILP also requires approval by the Cabinet, not the Diet.

When the opposition parties propose basic legislation on foreign aid, which would require the Diet approval, the government usually refuses it by referring to the examples of other Western donors. Although six members of the DAC countries have basic legislation for foreign aid, it is only the United States which requires

the approval of the legislature for budgeting and its appropriation.²⁹ The 1989 resolution of the House of Councilors called for a parliamentary arena for examining annual aid programs, and yet this has not yet been realized and the basic structure that the Diet endorses the Cabinet decision on the volume and form of ODA remains in place due to the continuing dominance of the LDP in the lower House.

The CFEC occasionally expressed its opinions on the volume and form of aid, and yet it seems that those views also just endorsed the existing trend, or the "already-decided" policy of the government. Their opinions were general and moderate, rather than specific and ambitious. When the Council attempted to express specific and ambitious views, those proposals were neglected by the government bureaucracy.

For example, in responding to Prime Minister Sato's consultation about a basic strategy of aid in the 1970s, the Council submitted a quick opinion on the aid volume stating that Japan should make every effort to attain the target of 1 percent of the GNP by 1975, and the Sato government expressed this policy at the OECD Ministerial Council.³⁰ The aid here referred to total official and private flows to developing countries, and as for ODA, the Council stated that it was difficult to set up a target of GNP ratio and its schedule for attainment, and just expressed a modest view that

²⁹These include the United States' Foreign Assistance Act of 1961, the United Kingdom's Overseas Development and Cooperation Act of 1980 and similar legislation in Austria, Switzerland, Italy and Denmark.

³⁰The Council of Foreign Economic Cooperation, "The Volume Target of the Aid for Developing Countries and its Attaining Schedule," May 14, 1970.

Japan should increase its volume to a level suitable for Japan's international status.

It was in the late 1970s when the CFEC paid special attention to ODA. The Council suggested, in 1976, that Japan should improve its ODA/GNP ratio (0.24 percent in 1975) to at least that of the DAC average (0.36 percent in 1975) by 1980 at the latest.³¹ Since then Japan's ODA/GNP ratio has increased little by little, to 0.32 percent in 1980, and yet this suggestion was not realized and the DAC average increased to 0.38 percent in 1980. Then, in 1980, the Council again encouraged a continuing effort for the 0.7 percent goal, although Japan's ODA/GNP ratio never reached even the DAC average.³²

As for the form of aid, the Council frequently emphasized technical cooperation. This is not only because the ratio of Japan's technical assistance in bilateral ODA was limited, but also because technical aid was believed to improve the efficiency of other forms of aid.³³ Thus, the expansion of multilateral and bilateral ODA related to technological transfer was encouraged.³⁴ Despite this, Japan's technical assistance did not expand rapidly due to institutional and cultural obstacles. One of the most difficult problems that the Council

³¹The Council of Foreign Economic Cooperation, "A Drastic Improvement of the ODA Program," August 31, 1976.

³²The Council of Foreign Economic Cooperation, "What Economic Cooperation Should Be Hereafter," November 12, 1980.

³³The Council of Foreign Economic Cooperation, "What Technical Assistance Should Be," July 27, 1970.

³⁴The Council of Foreign Economic Cooperation, "Arrangements for Expansion and Strengthening of Technical Cooperation for Developing Countries," September 9, 1971.

identified was language barriers.³⁵ The Council, however, still repeated the importance of human resource development in both the donor and recipient countries.³⁶

7.3.2 Calls for Criteria of Geographical Distribution

The opposition parties often criticized the government's decision on aiding those countries which oppressed human rights and rapidly built up their military forces. For instance, Hideo Den, Diet member of the Japan Socialist Party, introduced a bill whereby the Diet should examine the government's allocation of ODA in terms of the principles of democracy and non-military use of aid in recipient countries. The Foreign Affairs Committee of the House of Councilors did not approve this bill by reason that legislation as such would impede smooth implementation of the government's economic cooperation policy.³⁷ The answers from the government were always negative against parliamentary control over country-based budgeting of ODA, and yet the principle of non-military use of aid was shared by the LDP government. It may be regarded that this principle was reflected in the four-point guidelines decided upon by the Cabinet in 1991. However, this Japanese version of an ODA Charter was made by bureaucratic initiative, rather than through

³⁵The Council of Foreign Economic Cooperation, "Improvement of Foreign Language Education for Development Cooperation," November 29, 1973.

³⁶The Council of Foreign Economic Cooperation, "A Plan of Establishing a Grain Bank and Securing and Training of Human Resources for Technical Cooperation," November 29, 1973, and "Cooperation of Human Resource Development in Developing Countries and Training and Securing Japanese Experts for This Cooperation," December 20, 1979.

³⁷Iwaki, "ODA and the Diet," 111.

parliamentary leadership. The existence of this charter would provide the government with a rationale for introducing no further legislation on the ODA program, and therefore parliamentary tactical control over ODA would be more difficult.

The CFEC also called for rational criteria for ODA allocation. The Council first mentioned, in 1971, the need for country-based aid programs in the context of expanding technical assistance, which required detailed socio-cultural arrangements specific to a variety of recipient countries.³⁸ Like the EPA's criteria for the allocation by income groups, the Council's 1975 report suggested that the recipient countries should be branched into four groups: (1) LLDCs or MSACs, (2) countries producing primary goods, (3) countries exporting industrial products, and (4) wealthy oil-producing countries.³⁹

In general, the Council followed and endorsed the "already-decided" policy change. At the time of the second oil crisis of 1978, the Council expressed the view that Japan should follow-up the commitments of ODA for ASEAN countries.⁴⁰ In 1980, after the Afghan and Iranian crises, the Council endorsed the security aid for the countries bordering areas of conflict. Similarly, the Council recognized, in the 1980 report, the geographical diversification to the

³⁸The Council of Foreign Economic Cooperation, "Arrangements for Expansion of Technical Cooperation for Developing Countries," September 9, 1971.

³⁹The Council of Foreign Economic Cooperation, "The Promotion of Development Cooperation Hereafter," August 18, 1975. A similar categorization of developmental stages was again mentioned in the 1980 report.

⁴⁰The Council of Foreign Economic Cooperation, "What Economic Cooperation Should Be Hereafter," November 12, 1980.

Middle East, Africa and Latin America when the 7:1:1:1 formula was applied.

7.3.3 Limited but Increasing Actions over Sectoral Allocation

Samejima observed that the opposition parties of the Diet were easily persuaded to go along with the basic strategy of the LDP government for foreign aid because of the promise of reward for securing a steady supply of energy and natural resources for Japan as a whole.⁴¹ It is true, in early years, that the Diet followed governmental actions under the longevity of the LDP dominance in the Diet. For instance, the Budget Committee of the House of Councilors discussed and recognized that aid would be used for the overproduced items of structurally weak industries, such as cement, fertilizers and synthetic fibers.⁴²

Recently, however, the role of the opposition parties has become more active than before, especially in the upper house where the LDP lost a simple majority in the 1989 election. For instance, Osamu Yatabe, Socialist member of the House of Councilors, critically reviewed and requested information on the preliminary study report on JICA's project of constructing paths through tropical forests in Sarawak, Malaysia, which he claimed destroyed the ecology and the life of the native people there.⁴³ Project-based criticisms as such did

⁴¹Samejima, "Can Japan Steer its Foreign Aid Policy Clear of Militarism?," 34. Yasutomo quoted and agreed to Samejima's view. Yasutomo, The Manner of Giving, 62.

⁴²October 20, 1977. Yamamoto, Nihon no Keizai Enjo, 29.

⁴³"Minutes of the Foreign Affairs Committee, the House of Councilors," August 27, 1987, quoted in Takako Doi, "Nihon no Kokkai to Enjo Rongi" (Japan's Diet and the Aid Debate), in Takako Doi, et al., ODA Kaikaku (ODA Reform) (Tokyo: Shakai Shiso-sha, 1990).

not influence aid policy-making directly, and yet they did result in the government's awareness on social and environmental considerations. The Diet debate on the OECF's co-financing with the World Bank for the Sardar Sarovar Dam project (the Narmada River) in India also resulted in the stopping of aid in June 1990.⁴⁴

The CFEC also played a limited role in multiplying the sectoral allocation of ODA. In emphasizing the importance of technical assistance, the CFEC often stressed the sectors of medical care, culture, education and science and technology. The Prime Ministers usually appointed medical doctors, educators and academicians as part of the CFEC, and it can be inferred that they took the lead in stressing these BHN sectors.⁴⁵ However, the Council also represented a variety of sectoral ministries and industrialists, and they expressed the significance of the infrastructure sectors, in particular transportation such as roads, railways and harbors, in the context of "development imports."⁴⁶ Thus, a symbiosis of economic infrastructure and basic human needs became major sectors of the aid recommended by the Council.⁴⁷

Environment is a recent concern of the Council. Although at the time of the United Nations Conference on Environment and

⁴⁴Kazuo Sumi, Kirawareru Enjo (Tokyo: Tsukiji Shokan, 1990).

⁴⁵The Council of Foreign Economic Cooperation, "What Technical Assistance Should Be," July 27, 1970.

⁴⁶The Council of Foreign Economic Cooperation, "Promotion of Private Economic Activities as Development Cooperation for Developing Countries," September 9, 1971.

⁴⁷The Council of Foreign Economic Cooperation, "The Promotion of Development Cooperation Hereafter," August 18, 1975.

Development (UNCED) the prime minister did not formally consult the Council about environment and development, the Council, chaired by the late Saburo Okita, formulated a view of Japan's contribution to global environmental problems through economic cooperation as part of the follow-up of the 1987 report. The Council concluded that Japan, as the world's largest donor of ODA and possessing one of the highest levels of technology for environmental protection, anti-pollution and energy-saving, can contribute to the harmonized promotion of economic development and environmental preservation in the developing countries.⁴⁸ It seems that the Council encouraged the bureaucracy to make environmental guidelines for ODA. Actually the OECF and JICA formulated them, and yet the Council did not specify arrangements for evaluation of these environmental considerations.

7.3.4 Unsuccessful Challenges to Cabinet Control over Terms and Conditions

The Diet debate on the terms and conditions of yen loans has been extremely unproductive due to the government's resistance to open information on this matter. This kind of confidentiality became more rigid in 1986, when the Marcos scandal was examined by the Diet's Special Committee of Research on Economic Assistance for the Philippines. The then leader of the Japan Socialist Party, Takako Doi, requested that the OECF release a list of names of companies that supplied goods through commodity loans with a maturity of twenty-five years. However, the government firmly refused her request in

⁴⁸The Council of Foreign Economic Cooperation, "Global Environmental Problems and Japan's Overseas Economic Cooperation," March 26, 1991.

the name of maintaining diplomatic and business secrecy. Facing the stalemate, Doi argued that the OECF's filing rule for scrapping documents was made "in a hurry" in August 1984, just several months after the assassination of Benigno Aquino in 1983, to hide the records unfavorable to the OECF.⁴⁹ Doi also pointed out the inappropriateness of the OECF's filing disclosure rule, which secures documents for three, five or ten years, even on loans with the maturity of twenty-five or thirty years.

The debate at the CFEC generally resulted in a positive view of improving the financial terms and conditions of ODA loans. In relation to technical assistance, the Council preferred "extremely soft" loans as well as grant assistance.⁵⁰ The Council also proposed, in 1975, to set up "standard financial terms" in improving them gradually.⁵¹ Nevertheless, the Council reports never mentioned a specific target and schedule for improving the quality of ODA. At best, they just referred to the international target of grant element of 86 percent without any attaining schedule.⁵²

On September 7, 1970, just one week before the DAC senior meeting was held in Tokyo, the Council expressed a cautious but

⁴⁹"Minutes of the Special Committee of Research on Economic Cooperation for the Philippines, the House of Representatives," April 23, 1986, quoted in Takako Doi, "Japan's Diet and the Aid Debate," 17.

⁵⁰The Council of Foreign Economic Cooperation, "Promotion of Private Economic Activities as Development Cooperation for Developing Countries," September 9, 1971.

⁵¹The Council of Foreign Economic Cooperation, "The Promotion of Development Cooperation Hereafter," August 18, 1975.

⁵²The Council of Foreign Economic Cooperation, "What Economic Cooperation Should Be Hereafter," November 12, 1980.

positive opinion on aid-untying.⁵³ The Council recommended aid-untying for responding to "international trust and expectation," while paying attention to sufficient and concrete arrangements for the business situations at home. Since the Council has no single sponsoring ministry to back it up, except for the Prime Minister's Office, its policy recommendations on procurement conditions also tend to follow the "already-decided" policy of the Cabinet or that of the Prime Minister's Office.

⁵³The Council of Foreign Economic Cooperation, "The Issue of Aid-Untying," September 7, 1970.

CONCLUSIONS

This study began with the generation of four key questions about Japanese ODA performance and one puzzle about its aid administration. This concluding chapter summarizes the answers to the theoretical and substantive questions on the changing pattern of Japanese ODA by building the explanation based on the main findings throughout the previous chapters. In so doing, it draws conclusions concerning the adequacy of existing frameworks and of the new synthesis identified by the causal nexus model. It also presents policy alternatives for democratic control of Japan's foreign aid for a balanced and sustainable development.

Theoretical Summary

The central theme developed through this thesis has been that the existing dichotomous explanations for Japanese foreign aid-giving behavior are inadequate, and that the triangular schema of political economy helps overcome some of the philosophical and theoretical difficulties that the vulgar dichotomy could not resolve. Major strengths of the triangular scheme included a more comprehensive examination of the factors that shaped the changing characteristics of Japanese ODA, and thus would facilitate the development of more efficient and effective policy-making and implementation based on a more coherent philosophy of sustainable development and democratic politics. Some weaknesses of the statistical models developed in this study may be derived from the linearity

assumption. This study did examine an S-curve effect in the time domain, but not in the non-time domain. For example, unexplained patterns of Japan's ODA decisions, such as the geographical distribution in Latin America, may be able to be explained by an S-curve model in which there exists a policy zone with upper and lower limits of the aid allocation. For further study, loglinear or other modelings may be able to be applied in elaborating the arguments like this.

The first chapter identified three major approaches to the problem: liberalism, realism, and Marxism. These yielded four existing explanatory frameworks for Japanese ODA: politics of aid, economics of aid, politics over economics, and economics over politics. The four major approaches to foreign aid, or to political economy more generally, have been understood and elaborated on a one-dimensional dichotomous line. The hard core premise of liberal economics is based on the temporal duality of traditional, closed economy and modern open-market economy. Similarly, liberal politics stands on the temporal duality of pre-modern politics and high density modern politics. Realism stems from the spatial dichotomy of conservative nationalism against liberal internationalism. Marxism-Leninism arises from the relational dichotomy of the bourgeoisie and the proletariat, or the center and the periphery. This thesis argues that the study of foreign aid should be liberated from the dichotomous way of thinking, which can be replaced with a triangular scheme. In terms of ideologies, this study attempts to texture the three competing ideologies of political economy organically. They are not exclusive to one another, rather

they look at different dimensions of political economy. By doing so, a synthesis of different approaches was possible and the explanation of Japanese ODA decisions was enriched. In other words, the source of causation in political economy moves around liberal, economic nationalist as well as capitalist principles.

Both bilateral and multilateral forms of ODA are inter-state financial flows, and yet it is thought that multilateral aid is based on more open economic nationalism, although many of the existing international financial institutions were created under the hegemonic, or unilateral, power of the United States. Many bilateral ODA activities can be more mercantilist. Grants by private voluntary agencies are perhaps based on a more open nationalism or supranational globalism. From this perspective, Japan's ODA activities moved from a less open nationalism to a more open nationalism in the late 1970s, but did not move forward to supranationalism and instead moved back to the strengthened bilateralism.

Grants versus loans is another issue in the form of ODA, from which changing patterns in the aid philosophy can be understood. In the light of welfare liberalism, it is prevalently believed that grants, or a more concessional lending of loans, should be provided so as to improve basic human needs in the heavily indebted economies. From this perspective, Japan's ODA activities varied across time and space. Loan-centrism remained relatively high in Asia throughout the postwar period. Loans and grants were almost balanced in the Middle East in the early years, and loan-centrism quickly emerged and remained after the oil crises. By contrast, the share of grants in Japan's bilateral ODA for Africa gradually increased, and yet loans

represented almost half of the disbursement. They have increased recently. As for Latin America, the share of grants suddenly increased in the 1980s, and then did not advance further. Thus, the magnitude and speed of the vector to the principle of welfare liberalism are very limited and slow, except for Africa.

The tying of ODA reflects another aspect of closed nationalism, because donor states require contractually, for mercantilist reasons, that the recipient state spend the ODA loans and grants for importing goods and services only from their own nationals or designated sources. The financial terms of the ODA loans can be used as a scale measuring the extent to which yen loans incline to the efficiency principle of the capitalist market. With respect to the terms and conditions, the vector towards general untying from wholly tying grew slowly during the 1970s, and quickly after the late 1980s. In this process, the Grant Element of the yen loans slowly improved, and yet the tendency towards loan-centrism as well as actual procurements can still be criticized from the radical perspective.

The pre-existing explanations were also criticized for being monocausal or at one level of analysis only, and for still being based on a dichotomous conception of causation. Analytically, it is very difficult to find single causal explanation for the complex political and economic phenomena of foreign aid. Instead, this study proposes the examination of the triangular relationship between the agency, the structure and the institutional process, as well as three levels of analysis: the international system, the state and domestic society. It is revealed that many ODA aspects can only be explained by taking not only Japanese domestic politics but also Japan's situations in the

international arena into account, together with an analysis of domestic society, moreover, also required moving beyond the traditional dichotomies.

On the institutional level of the state, it was proposed that a tri-polar model, in place of the traditional legislative-executive dichotomy, would provide us with a clearer understanding of the centrally-fragmented nature of Japanese aid administration. This would contrast present-responsive democracy, past-responsive bureaucracy and future-oriented appointed bodies with each other.

The basic conclusion of the statistical analysis for the sources of changes with respect to all the disaggregated dependent variables is that the explanatory power of hypotheses generated by each of the four existing frameworks is variable, though often low, and that the explanatory power can usually be improved by adopting the synthetic causal nexus model. Among the existing explanations, the business interests presented higher explanatory power in many sections of the analysis. The role of the business interests were also reflected well in the causal nexus of the ODA aspects. The synthetic causal nexus models in the time domain that are obtained by the statistical evidence presented in Chapters Three through Six can be summarized in Figure C-1.

The symbols in rectangles represent the variables, or pools of the cases, for the respective aspects of ODA. The symbols in ellipses at the central area are the exogenous variables at the levels of the international system, the state and domestic society, from left to right, respectively. The causal order between the variables is expressed by a circular single-headed arrow, with the head pointing

to the effect and the tail to the cause. To make the illustration simpler, the residual variables are not shown here. The exception is for the functions in the time domain.

It is not always clearly observed that the causal nexus starts from the volume of Japan's ODA to the terms and conditions of the yen loans, through the geographical and sectoral distribution. However, some of the hypothetical causal paths are verified empirically, and a multiple level analysis and a more sophisticated agent-structure-institution approach have revealed that most of the ODA aspects are cumulatively and circularly determined by other aspects as well as by exogenous variables at the levels of the international system, the state and domestic society. Among others, many arrows come from the variables representing oligopolistic interests of the major industries in the donor society.

Figure C-1: The Observed Synthetic Causal Nexus Model
in the Time Domain

The major role of the business community in policy determination through its link to the LDP and the bureaucracy can influence many ODA aspects through the causal paths of this model. This does not mean that business always dominated, but it suggests that business interests did significantly shape the aid process and its outputs in terms of the volume, form, geographical and sectoral distribution, and procurement conditions. When business interests were not the primary explanation, they almost always seem to be a complementary factor to one of two other explanations.

A number of political factors appear to co-determine aid outputs along with the business interests in the system-state-society nexus. This makes it impossible to simply dictate aid policy, especially in the form and volume. Some of these are domestic political factors as explained in Chapter Seven. Others are international political factors, notably, the changing role of Japan in the world economy due to its prosperity, exports, technological capabilities and others, which requires Japan to adjust its aid policy a bit towards what the international community favors at any one moment, which included more aid to Africa, untying aid, and the relationship of Japan to the United States.

Thus, business interests did not dictate Japan's ODA policy mainly because of domestic and international political factors. For example, the MFA refused to break relations with Israel as the business community wanted but, in exchange, it focused considerably more aid on the Middle East in compensation. Japan's changing international role and its role in the aid process emerges again in the terms and conditions which have, in turn, impacted on the internal

politics of aid negotiations in bureaucratic politics as well as the business community.

In summary, the seemingly contradictory phenomena of Japanese ODA policies should be brought and understood together in a sequential way. Thus, the synthetic causal nexus explanation will contribute to knowledge of Japanese ODA, both theoretically and pragmatically. Theoretically, these findings can be combined with exogenous variables claimed by the pre-existing theories. Such a synthesis follows from the interplay of the various agents with distinct motives. From a pragmatic point of view, narrowly defined policy recommendations are not appropriate. Rather, a comprehensive policy package will constitute a more effective approach. More specifically, the following conclusions can be drawn for each of the research questions.

Conclusion 1

Why and how did Japan, a former aid-receiving country, increase the volume of its ODA and become one of the world's largest donors? Despite this increase, why does Japan's ODA/GNP ratio remain stagnant? Why did Japan come to extend more yen loans than grants, though its aid program had evolved from grant-like reparations? Why did Japan provide more bilateral than multilateral aid, in spite of its official "UN-centered" foreign policy?

Japan has become one of the world's largest ODA donors mainly by expanding its bilateral ODA loan programs in the post-reparation period. A number of intentional and structural factors led to the dramatic increase in the ODA volume. Among others, bureaucratic

infighting was one of the most dynamic factors that pushed Japan to increase its bilateral ODA program. There are both international and domestic reasons for why Japan came to provide more yen loans than grants. At the level of the international system, the yen loans appear to respond to the needs of middle-income countries, rather than those of lower-income. The expansion of yen loans was also expected to help balance Japan's trade deficit or surplus. This expansion was not always supported by the public at home, but was strongly favored by Japanese trading companies, construction industries, as well as the leading consulting firms.

However, the relative importance of the yen loan programs has been decreasing since the early 1980s mainly due to the yen appreciation and the funding problems at home. Instead, bilateral grants and multilateral ODA have been increasingly important contributors to Japan's ODA programs. The rapid expansion of these forms of ODA cannot be explained by business activities alone. Internationally, this evolution occurred because Japan followed and maintained the U.S.-led DAC regimes, and regarded it as a supplemental measure of national security. In this sense, the idealistic conception of Japan's "UN-centered" foreign policy should be understood as the neo-realistic notion of international regimes and cooperation.

The absolute-term expansion of Japan's ODA programs happened within the context of bureaucratic rivalries between the major ministries. Yet, there is every reason to believe that there existed policy goals concerning the ODA/GNP ratio, behind which the MOF's ideology for a balanced budget was present. If the ODA/GNP

ratio increased to the 0.7 percent international target, the absolute volume of Japanese ODA in total ODA in the world would be extremely high, and the other DAC donors as well as recipients of the yen loans would face many difficulties, unless the terms and conditions of yen loans were further improved. Despite the rapid improvement in untying of yen loans, the significant relationship with the LDC-untying can be seen only in Japan's multilateral ODA. Political reforms will also be needed to improve the ODA/GNP ratio. If a political consensus is agreed upon, innovative financial sources may be easier to identify. The primary sources of Japan's multilateral contributions are taxes and national bonds, and yet postal savings can be added as another possible source, like the use of the interest from postal savings for NGO activities. In the same manner, private funds may also be used as a means to expand more open nationalism or supranational globalism.

Conclusion 2

Why did Japan concentrate its ODA on Asia, and why did this regional "core power" subsequently begin to diversify the geographic focus of its ODA?

There is a clear lack of relationship between the needs of individual recipients and the geographical distribution of Japan's ODA, despite the fact that Japanese aid is supposed to be initiated by the individual recipient country. But, this is highly understandable if we take into account the major role of the business community in the aid process, especially in Asia. The reparation process, which only ended in the late 1970s, produced an unexpected relationship among

the donor state, the recipient state and the private sector in Japan. Most contracts passed directly between a recipient government and Japanese firm, and this connection is reflected in the strong relationship of the tied and LDC-untied loans in this region.

Business was closely linked to the LDP and the LDP was closely linked to the bureaucracy, and the bureaucracy, notably MITI, the OECF and JICA, was tightly linked to the business community. As early as 1958 the Keidanren set up an economic cooperation committee to lobby for a Kishi Fund, and this led to the creation of the OECF. The OECF was placed under the Economic Planning Agency, which was vulnerable to inter-ministerial struggles, and the first two presidents were businessmen. Internationally, Kishi's idea of Asian-centrism resulted in the creation of the Asian Development Bank, which was strongly controlled under the MOF. These, I would argue, were the beginning of the preference for loans over grants, as well as the institutional basis of Asian-centrism in Japan's ODA policy and programs.

While having strong public support during the oil crises, Japan diversified its aid allocation to the Middle Eastern countries. The increase in the Middle East was also accompanied with the further geographic diversification in Latin America, where some oil-exporting countries existed. Japanese business played an important role again in this region. Yet, once the Japanese economy recovered from the oil crises, the relative importance of these regions was not always intensified. Instead, Japan re-focused on the Asian region as the most important target, and expanded the disbursements in

Africa, to a lesser extent. In this process, the role of the tied loans was replaced with ODA grants and untied loans.

Conclusion 3

In accordance with liberal theory, program aid is provided to the trusted recipient governments, while project aid is the common form when a sophisticated development plan and administrative apparatus is lacking in recipient countries. While most of Japanese aid recipients, especially Asian Newly Industrializing Economies (NIEs), have attained notable success, why did large-scale project aid, in particular for economic infrastructure, dominate Japan's ODA programs? Moreover, how and why did Japan actively choose specific sector projects, while outwardly insisting on the reactive principle of responding to requests?

Only weak relationships were observed between sectoral needs in the recipient economies and the sectoral allocation of Japan's ODA loans. It is revealed that, throughout the period from the mid-1960s, the changing patterns in allocation of yen loans for economic infrastructure were explained, to a great extent, by the oligopolistic interests at home. The predominance of the economic infrastructure originated in the Japanese experience of post-war economic reconstruction, in which overhead capital was emphasized.

Like domestic public works in Japan, the major role of the business community in policy determination through its links to the LDP and the sectoral ministries were outstanding in the sectoral allocation of the yen loans for developing countries. In particular, there existed a strong, negative relationship between the operational

profit of the leading Japanese trading companies and the sectors of electric power and gas or irrigation and flood control. Similarly, the decreases in the sales of Japanese construction and consulting companies were leading factors for the increases in the sectors of telecommunications and transportation, respectively. The sectors of production and social services were also strongly related to Japanese trading and oligopolistic interests. A drastic change in the sectoral allocation of the yen loan program will be possible not through a sophisticated development plan, but through a restructuring of the interests in the Japanese business community and its links with the LDP and the bureaucracy.

Receiving external and internal pressures, the MFA and other ministries have increasingly committed their ODA, without drastically changing the disbursement mechanisms of their ODA. In this process, the usefulness of quickly-disbursable non-project loans has been fully recognized. When policy-lending is expanded, the conditionality should be made on social or environmental ideologies as well. To facilitate this, it would be required to establish a comparable indicator to assess possible impacts, as well as to post-evaluate the actual impacts, on at least three aspects of sustainability. Those being economically sustainable growth, humanly sustainable welfare and ecologically sustainable development.

If environmental and welfare considerations were fully reflected in the economic infrastructure, the predominance of this sector was not a serious problem. It was a serious mistake that they were neglected, and that the government often regarded Basic

Human Needs and the environment as independent sectors. These are not sectors, but principles that should be incorporated into all kinds of aid sectors and programs. If Japan continues to emphasize economic infrastructure for Japan-like capitalist growth, the government should play a role in looking for ways to minimize pollution and maximize welfare while maintaining efficiency. Even more so, companies should be made aware that these efforts in environmental and welfare considerations will increase their business profitability in the long run.

At the same time, however, new sectoral policies of ODA programs should be innovated to serve the relatively neglected principles. Especially in some Asian countries, where many large-scale aid projects have already been completed, the sectoral focus should shift to current issues of social democracy and environmental protection. The cutting edges for welfare, include aging or younger populations, and gender and ethnic politics, all of which are related to humanly sustainable welfare. The aid programs for children, women, and native people should be elaborated in terms of social democratic values. Air, land and water are intertwining issues from the perspective of environmental sustainability. If Japan continues to provide project aid, project-cycle management for balanced and sustainable development will be required.

Conclusion 4

Why has the proportion of Japan's grant aid and the grant element of Japanese ODA remained low? If this is explained by Japan's mercantilism, why and how did the "business-oriented" state

come to have a relatively lower proportion of tied aid when compared to other major OECD donors?

It is unrealistic and not so important to provide yen loans with a longer maturity and grace period. Yet, it is important to change the interest rate for sustainable growth for the recipient in the era of the yen appreciation. If the present volume of Japan's ODA is maintained in the near future, Japan has to continue to provide ODA loans relying largely on the FILP fund. Japan is likely to increase the ODA grants and multilateral ODA, and yet it is unlikely to go beyond the level of yen loans at anytime in the near future. With this dilemma, it is problematic that the recipient states request yen loans only for large-scale projects of economic infrastructure, rather than socio-ecological projects. If the Japanese government provides extremely concessional lending, even with interest-free loans, for environmental projects, it would provide the recipients with an incentive to use yen loans effectively for balanced and sustainable development. If the Japanese government provides larger sized ODA loans with a higher interest rate for economic infrastructure, the recipient states selectively might utilize them more effectively.

Tied aid is basically the businessman's pecuniary interest. While there has been considerable pressure on Japan to untie its aid, the beginnings of untying aid were not found until Japanese firms would be able, by setting the specification or attaining international competitiveness, to win contracts even if the aid was untied. And, the major countries to benefit from this untying are the LDCs in Asia. The real beneficiaries of Japan's untied aid can include Japanese joint-ventures and other multinationals as well as local capital in Asia.

Despite the limited effects of untying, it is very important to maintain a higher untying ratio, especially in the post-cold war period, when both liberal and socialist forms of internationalism have started fading and parochial nationalism and protectionism have regained power. In actual fact, however, some Japanese aid practitioners have come to feel that the recent untying was too advanced to provide Japanese developers and LDP politicians with economic and political incentives to be involved in the aid issue. To keep a higher standard of globalism, it is important to focus on the substance of untying. For instance, a user-friendly, energy-efficient, and environment-conscious automobile and machinery are more important than the local contents of the parts.

Conclusion 5

Why did the Japanese state, which is often described as "reactive," not set up a single, powerful ODA agency in responding to outside pressures? In contrast, if Japan is a "stateless nation," why and how was Japanese aid guided in a specific direction?

Japan has become one of the largest aid powers because of the oligarchic system of the MOF, the MFA, MITI and the EPA. Despite the inter-ministerial rivalry, there was considerable control over the aid process. It was not anarchic. Within the bureaucracy, these four policy-making ministries directed, to a very great extent, the work of the implementation agencies. These ministries formed different alliances for different aspects of foreign aid. Other state institutions, such as the Diet and the advisory organs, were less powerful or less mature. They became permissive causes of bureaucratic dominance

in the aid process. In terms of the state-society relationship, the triangle of bureaucracy, the LDP and the business encroached on the feasibility and necessity of creating a central aid agency.

Therefore, even if some ODA aspects are improved further in the current system, the Japanese public would not be satisfied unless political reform within the state is achieved and the triangle of the conservative party "zoku" members, the oligopolistic business community and the sectorally differentiated bureaucracy is fairly resolved. An effective central aid agency would be workable only in that context. Changing the courses of Japanese ODA programs is not easy, but neither is it impossible, if ideological and institutional structures are effectively restructured and the substance of the agency is altered for democratization.

Democratic control of the bureaucratic dominance of the aid process will also have provided a model for some of the authoritarian regimes in Asia, where the Japanese notion of "economic cooperation" in Chinese characters is roughly shared and followed. For instance, South Korea established the Economic Development Cooperation Fund (EDCF) in 1987 and the Korea International Cooperation Agency (KOICA) in 1991, which are the equivalents of the OECF and JICA, respectively. Thus, democratic innovations of the Japanese aid programs and their process will expand a horizon of possibilities of not only Japanese but also regional political economies in the post-cold war global environment.

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APPENDIX A: Data Files on Japanese ODA

A.1 Chapter Three

The data set for Chapter Three is compiled from publications released by the DAC of the OECD, the Japanese Ministry of Foreign Affairs and other agencies.¹ Data on Japan's bilateral and multilateral ODA used here is a net disbursement basis.² The units of analysis is the volume of ODA by form and calendar year (CY). The bilateral and multilateral ODA include official net flows since 1956, such as reparation and indemnification as well as technical cooperation.

Volume

1. Net Disbursements (ODA or ODAY)

Net disbursements of ODA at current prices of U.S. dollars (ODA), or of yen (ODAY), are defined as the differences between gross disbursements from the donor and repayments by the recipients.

2. ODA/GNP Ratio (ODA/GNP)

The United Nations set the goal of the ODA/GNP ratio in 1980, and since then the ODA/GNP has used this to evaluate the efforts of the member countries.

¹Data on Japan's ODA taken from the DAC Chairman's Reports and the OECF's Taigai Enjo no Shin-Koso (Tokyo: OECF, 1966) is expressed in millions of dollars. These figures are converted into yen terms using the exchange rate set by the DAC. These figures are double-checked with the original, but fragmented, data released by various agencies of the Japanese Government, including the OECF and the IDE.

²Available statistics may record aid performance on a variety of bases, such as pledges, commitments, exchanges of notes, net and gross disbursements.

Form

1. Bilateral ODA (BI or BIY)

This refers to total net disbursements of bilateral ODA and contributions to multilateral institutions, or their equivalents, in the millions of dollars or yen.

2. Multilateral ODA (MULTI or MULTIY)

Multilateral ODA includes grants for UN agencies and other institutions as well as capital subscription payments to the World Bank, the IDA and other multilateral regional development banks.

3. Bilateral ODA Grants (GRANT or GRANTY)

Bilateral ODA grants and grant-like contributions consist of technical assistance, food aid, administrative costs, and other grants.

4. Bilateral ODA Loans (LOAN or LOANY)

Bilateral ODA lending and capital include new development lending, food aid loans, equities and other bilateral assets.

A.2 Chapter Four

The micro-level data set for Chapter Four is compiled from documentation released by MITI and other agencies.³ Data on Japan's bilateral ODA used here is on an exchange-of-note basis, which is perhaps most suitable as an indicator of deciding the geographical allocation of ODA in the government. The bilateral ODA includes both direct government loans since 1957 and grant aids since 1966.⁴

³Data is taken from MITI's Keizai Kyoryoku no Genjo to Mondaiten, 1991, 854-977.

⁴General grant aid, which constitutes the bulk of Japanese ODA grant programs, has provided funds since 1966, grant aid for fisheries since 1973, grant aid for cultural activities since 1976, grant aid for debt relief since 1978, non-project grant assistance since 1987, food aid based on the Food Aid Convention since 1968, and grant aid for increased food production since 1977.

Reparations and technical assistance are excluded from this data set, although those are counted as ODA by the DAC.⁵ Several loans in early years, before the concept of the grant element was introduced, are included here, although those are not ODA in a strict sense.

The unit of analysis is the recipient country or the area by fiscal year (FY). The amount reported by MITI is in the millions of yen category, and is recorded from the fiscal year of 1957 to 1990. The geographical categories listed in this set of data are based on the classification by the Japanese Ministry of Foreign Affairs. The present study adopts the MFA classification, since it is assumed that the MFA is one of the most important agents in determining geographical distribution of Japanese ODA. The MFA classification is not exactly the same as those of MITI, the Ministry of Finance, nor the OECD. One of those differences is that the Republic of the Sudan is classified as part of the Middle East by the MFA. For details, the ODA variables have the following geographical categories:⁶

Grant aid for disaster relief and small-scale grant assistance to NGOs and other local organizations, which was introduced in fiscal 1989, are not included here.

⁵Obviously, the major determinants of geographical distribution of reparations are not the same as those of bilateral ODA. Time-series data on technical assistance is not reported by this MITI publication. The data reported by the MFA and JICA would be added to this set of data for further study. However, it would be more appropriate to measure technical assistance in terms of a combination of the numbers of experts and trainees and the duration of their dispatch or acceptance, rather than the ODA amount for their programs. In terms of the ODA amount, technical assistance is still limited.

⁶Japan did not always provide all the countries or areas listed here. Those countries include, as of 1991, North Korea, Mayotte, Anguilla, Turks & Caicos Islands, Aruba, Falkland Islands, St. Pierre & Miquelon, Virgin Islands, Tokelau, Gibraltar, according to MFA's Keizai Kyoryoku ni kansuru Kihon Shiryō (October 1991), 47.

1. Asia (ASIA)

Northeast Asia (NEA)

People's Republic of China, Hong Kong, Democratic People's Republic of Korea, Republic of Korea, Macao, Mongolia, Taiwan (Province of China).

Southeast Asia

(ASEAN): Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore, Thailand.

(Non-ASEAN): Burma, Kampuchea, Lao People's Democratic Republic, Viet Nam.

Southwest Asia (SWA)

Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka.

2. Middle East (MID)

Afghanistan, Algeria, Bahrain, Egypt, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Libyan Arab Jamahiriya, Morocco, Oman, Qatar, Tunisia, United Arab Emirates, Saudi Arabia, Sudan, Syrian Arab Republic, Yemen, People's Democratic Republic of Yemen, Turkey.

3. Africa (AFR)

Angola, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Congo, Djibouti, Equatorial Guinea, Ethiopia, Gabon, Gambia, Ghana, Guinea, Guinea-Bissau, Cote d'Ivoire, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mauritius, Mayotte, Mozambique, Namibia, Niger, Nigeria, Reunion, Rwanda, St. Helena, Sao Tome & Principe, Senegal, Seychelles, Sierra Leone, Somalia, Swaziland, Tanzania, Togo, Uganda, Zaire, Zambia, Zimbabwe.

4. Central and South America (LATIN)

Central America

Anguilla, Antigua & Barbuda, Aruba, Bahamas, Barbados, Belize, Bermuda, Cayman Islands, Costa Rica, Cuba, Dominica, Dominican Republic, El Salvador, Grenada, Guadeloupe, Guatemala, Haiti, Honduras, Jamaica, Martinique, Mexico, Montserrat, Netherlands Antilles, Nicaragua, Panama, St. Kitts & Nevis, St. Lucia, St. Pierre & Miquelon, St. Vincent & the Grenadines, Trinidad & Tobago, Turks & Caicos Islands, Virgin Islands.

South America

Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Falkland Islands, Guiana, Guyana, Paraguay, Peru, Suriname, Uruguay, Venezuela.

5. Oceania

Cook Islands, Fiji, Kiribati, Nauru, New Caledonia, Niue, Federated States of Micronesia, Marshall Islands, Palau, Papua New Guinea, French Polynesia, Solomon Islands, Tokelau, Tonga, Tuvalu, Vanuatu, Wallis & Futuna Islands, Western Samoa.

6. Europe

Cyprus, Gibraltar, Greece, Malta, Portugal, Yugoslavia, Poland, Hungary.

A.3 Chapter Five

The set of data used for Chapter Five is compiled from documentation published by the Overseas Economic Cooperation Fund (OECF) and other agencies.⁷ Data on the sectoral distribution of

⁷Data for the period from FY 1966 to FY 1980 is taken from the OECF's Keizai Kyoryoku Kikin 20-nenshi (The Twenty Years of the OECF), 1982, 580-582. Data for the subsequent years was collected from OECF's Annual Report, various years.

Japan's bilateral ODA loans used here is on the basis of commitments. It is noted that the OECF has been providing loans directly to foreign governments (ODA) as well as to private corporations registered in Japan (non-ODA), and that the dependent variables to be examined constitute OECF's ODA loans only. However, it is also noted that before 1975, there was no clear demarcation between OECF loans and loans provided by the Export-Import Bank of Japan. As is mentioned in Chapter Two, loans to foreign governments with a grant element equal to or exceeding 25 percent, that is a criterion of ODA, have been the province of the OECF since July 1, 1975. Therefore, this data set does not include ODA equivalents of the Ex-Im Bank loans, and may include non-ODA portion of the OECF loans before that date.

The unit of analysis is the sector by year. The OECF loans directed to foreign government are recorded by fiscal year from 1966 to 1989. The sectoral categories listed in this data set are based on the OECF classification, which is almost similar to the DAC's classifications of aid by major purposes. The DAC reports of Development Cooperation since 1973 have been using a classification similar to the numbered categories as follows.

1. Economic Infrastructure (ECOINF)

Electric Power and Gas (EPG)

This category includes multipurpose dams, power plants, transmission lines and distribution systems, gas, and other energy-related projects.

Transportation (TRA)

The sector of transportation is further categorized into roads, bridges, railways, airports, ports, marine transportation, and others.

Telecommunications (TEL)

The telecommunications sector consists of telecommunications and broadcasting.

Irrigation and Flood Control (IFC)

Projects for irrigation and flood control are treated as a single category.

2. Production (PRODUC)

Agriculture, Forestry and Fisheries

This category is divided into the sub-categories of agriculture and forestry, and of fisheries.

Mining and Manufacturing

Projects of mining and manufacturing are classified into a single category.

3. Social Services (SOCIAL)

This category includes water supply and sewerage, education, health, tourism, and other services.

4. Non-Project Loans (NONPRO)

Financial-Intermediary Loans

These are also called the "two-step" loans, which provide funds to promote development in the private sector, such as medium- and small-scale enterprises and farmers, through financial institutions of the recipient state.⁸

⁸The OECF has recently come to categorize this type of loan as part of project loans, although it is similar to the non-project type of loan in terms of decision-making on the side of the donor state.

Commodity Loans

These loans are often called non-project type loans. This category includes not only the traditional type of commodity loans, which is extended mainly to improve the international balance of payments in the short term, but also the recently introduced and increased longer-term policy-based lending, such as Structural Adjustment Loans (SALs), Sectoral Adjustment Loans (SECALs), and Sector Program Loans.

5. Others

This category includes debt relief measures.⁹

A.4 Chapter Six

The set of data for Chapter Six is compiled from documentation of MITI, OECF and other agencies.¹⁰ Financial terms and procurement conditions of yen loans is on an exchange-of-note basis. Most of those loans are project and commodity loans that were disbursed through the OECF, and yet many loans lent in early years include loans extended by the Export-Import Bank of Japan alone, or in conjunction with private city banks. There also exist a few cases of mixed loans between the OECF and the Export-Import Bank. Regarding food aid loans, they were provided through the Food Agency. In accordance with international custom, debt relief measures are excluded from the targeted cases in calculating average values of terms and conditions.

⁹In the case of OECF's ODA loans, debt relief is usually implemented in the form of rescheduling based on a Paris Club agreement.

¹⁰The original source of data on ODA loans is exactly the same as that used for Chapters Four and Five.

The unit of analysis is the financial term, or the procurement condition of Japan's ODA loans by fiscal year. Means of three major aspects of the financial terms and three types of tying status are listed in the data base as follows:

1. Financial Terms

Rate of Interest per Annum (INT)

An annual interest rate of a loan is one of the most important financial terms influencing a Grant Element, an index of "concessionality" or "softness" of the public loan.¹¹ The Grant Element of a loan can be divided into the grant element of the interest rate and that of the principal, and there is a linear relationship between the interest rate and the Grant Element.¹²

Repayment Period (MAT)

Repayment period, reported in a certain number of years, is another term determining a Grant Element. A longer maturity period contributes to the increase in a Grant Element, and yet the degree of the contribution decreases when maturity increases.¹³

Grace Period (GP)

A grace period is also expressed in a certain number of years during which no repayment of principal is made, and it is

¹¹Grant Element (GE) is calculated using the following formula:

$$GE (\%) = 100 \times [1 - (r/a) / d] \{ 1 - [1/(1 + d)^{aG} - 1/(1 + d)^{aM}] / d (aM - aG) \}$$

where r = interest rate
 a = number of repayments per annum
 d = discount rate
 G = grace period
 M = maturity.

Due to the OECF's administrative procedures, the number of repayments per annum is 2 in the case of Japan's ODA loans. The DAC defines that the grant element of a discount rate is 10 percent for a comparative purpose.

¹²Yoshikawa, "The Grant Element of Loan," 131-144.

¹³Yoshikawa, "The Grant Element of Loan," 143.

another term determining the value of a Grant Element. With respect to the grace period, as well as maturity, the grant element of a loan has diminishing returns.

2. Procurement Conditions

Fully Tied (TIED)

Aid tied to procurement in the donor country.

Partially Tied (LDC)

This is also called "LDC-untied," which is available for procurement from the donor and substantially all developing countries.

General Untied (UN)

Fully and freely available for essentially world-wide procurement.

APPENDIX B: Data Description of the Explanatory Variables

B.1 International System

Conceptual Definitions (Chapter)	Symbol	Variable (Dimension)	Year	Duration	Source
North-South Gap in Economic Growth (Chapter 3)	NEED1	Difference in GNP per capita between high-income countries and low- and middle-income economies (US\$)	CY	1968-89	World Bank
	NEED2	Difference in GNP per capita between high- and low-income economies (US\$)			
	NEED3	Difference in GNP per capita between high- and middle-income economies (US\$)			
(Chapter 4) Recipients' Balance of Payments (Chapter 5)	BOP	Current account balance before official transfers in individual recipients (% of GDP)	CY	1968-90	World Bank
	ASBOP	Average current account balance before official transfers in Asia (% of GDP)			
	MIBOP	Average current account balance before official transfers in the Middle East (% of GDP)			
	AFBOP	Average current account balance before official transfers in Africa (% of GDP)			
	LABOP	Average current account balance before official transfers in Latin America (% of GDP)			
International Money Market (Chapter 6)	LJOR	London Interbank Offer Rates on six-month U.S. dollar deposits (%)	CY	1963-89	IMF
	LPIR	Long-term prime interest rates in Japan at end of year (%)		1957-89	Bank of Japan
Donor's Balance of Payments (Chapter 6)	CB	Current balance of Japan (US\$)	CY	1966-90	World Bank
	TB	Trade balance of Japan (US\$)			
	FER	Change in gold reserve and foreign exchange reserve of Japan (US\$)			
	EXR	Exchange rate set by the DAC for one US dollar (¥)			

B.1 International System (Continued)

Conceptual Definitions (Chapter)	Symbol	Variable (Dimension)	Year	Duration	Source
Hegemonic Regime of the U.S. (Chapter 3)	USODA	Total ODA disbursements from the United States (US\$ million)	CY	1960-90	OECD
	USBI	Bilateral ODA disbursements from the United States (US\$ million)			
	USMULTI	Multilateral ODA disbursements from the United States (US\$ million)			
	USGRANT	Bilateral ODA grants disbursed from the United States (US\$ million)			
	USLOAN	Bilateral ODA loans disbursed from the United States (US\$ million)			
International ODA Regime (Chapter 3) (Chapter 4)	OTHODA	Total ODA disbursements of total DAC members excluding Japan (US\$ million)	CY	1960-90	OECD
	OTHBI	Bilateral ODA disbursements of total DAC members excluding Japan (US\$ million)			
	OTHMULTI	Multilateral ODA disbursements of total DAC members excluding Japan (US\$ million)			
	OTHGRANT	Bilateral ODA grants disbursed from total DAC members excluding Japan (US\$ million)			
	OTHLOAN	Bilateral ODA loans disbursed from total DAC members excluding Japan (US\$ million)			
	TOTBI	Net disbursements of bilateral ODA by DAC countries combined to individual recipients (US\$ million)	CY	1976-90	OECD
	TOTMUL	Net disbursements of ODA by multilateral agencies to individual recipients (US\$ million)			
Sectoral Regime of ODA (Chapter 5)	USICO	Commitments of U.S. bilateral ODA for economic infrastructure (US\$ million)	CY	1973-84 1987-89	OECD
	USSOC	Commitments of U.S. bilateral ODA for social services (US\$ million)			
	USPRO	Commitments of U.S. bilateral ODA for production (US\$ million)			
	OTHICO	Commitments of bilateral ODA by total DAC members (excluding Japan) to economic infrastructure (US\$ million)			
	OTHISOC	Commitments of bilateral ODA by total DAC members (excluding Japan) for social services (US\$ million)			
	OTHIPRO	Commitments of bilateral ODA by total DAC members (excluding Japan) for production (US\$ million)			

B.1 International System (Continued)

Conceptual Definitions (Chapter)	Symbol	Variable (Dimension)	Year	Duration	Source
International Regime on Financial Terms (Chapter 6)	USINT	Average interest rate of U.S. ODA loans (%)	CY	1962-90	OECD
	USMAT	Average maturity of U.S. ODA loans (years)			
	USGP	Average grace period of U.S. ODA loans (years)			
	DACINT	Average interest rate of ODA loans of total DAC members (%)			
	DACMAT	Average maturity of ODA loans for total DAC members (years)			
	DACGP	Average grace period of ODA loans for total DAC members (years)			
International Regime on Aid-Tying (Chapter 6)	USTIED	Tied amount of gross disbursements of U.S. bilateral ODA (US\$ million)	CY	1972-89	OECD
	USPT	Partially tied amount of gross disbursements of U.S. bilateral ODA (US\$ million)			
	USUN	Untied amount of gross disbursements of U.S. bilateral ODA (US\$ million)			
	US(TIED+PT)	Fully and partially tied amount of gross disbursements of U.S. bilateral ODA (US\$ million)			
	US(UN+PT)	Partially tied and untied amount of gross disbursements of U.S. bilateral ODA (US\$ million)			
	OTHIED	Tied amount of gross disbursements of total DAC bilateral ODA (US\$ million)			
	OTHPT	Partially tied amount of gross disbursements of total DAC bilateral ODA (US\$ million)			
	OTHUN	Untied amount of gross disbursements of total DAC bilateral ODA (US\$ million)			
	OTH(TIED+PT)	Fully and partially tied amount of gross disbursements of total DAC bilateral ODA (US\$ million)			
	OTH(UN+PT)	Partially tied and untied amount of gross disbursements of total DAC bilateral ODA (US\$ million)			
Dominant Capital in the World Economy (Chapters 3 & 6)	EXLDCY	Japan's exports to developing areas (¥ million)	CY	1960-90	Bank of Japan
	IMLDCY	Japan's imports from developing areas (¥ million)			
	PFY	Private flows from Japan to developing countries (¥ million)	CY	1961-90	OECD
	GEN	General projects of OECD's loans and equity investment (¥ million)	FY	1961-90	OECD

B.1 International System (Continued)

Conceptual Definitions (Chapter)	Symbol	Variable (Dimension)	Year	Duration	Source
Dominant Capital in the World Economy (Chapters 3 & 6)	jEX	Japan's exports to individual recipient countries (¥ million)	CY	1965-90	MOF
	JIM	Japan's imports from individual recipient countries (¥ million)			
Dominant Capital in the World Economy (Chapter 5)	CAGEXY	Japan's exports of capital goods to the world (¥ million)	CY	1966-90	MOF
	RAWIMY	Japan's imports of raw materials from the world (¥ million)			
	GENECO	Commitments of OECF's general projects for economic infrastructure (¥ million)	FY	1961-90	OECF
	GENPRO	Commitments of OECF's general projects for production (¥ million)			
	GENSOC	Commitments of OECF's general projects for social services (¥ million)			

B.2 State

Conceptual Definitions (Chapter)	Symbol	Variable (Dimension)	Year	Duration	Source
Roles of the State (Chapters 3 & 4)	PRORR	Japan's real GNP growth rate projected by the Economic Planning Agency (%)	FY	1955-90	EPA
	PRONR	Japan's nominal GNP growth rate projected by the Economic Planning Agency (%)			
	DEBT	External public debt of individual recipients at end of year (US\$ million)	CY	1968-89	World Bank
Fiscal Policy (Chapter 3 & 6)	GA	General Account of the Government of Japan (Y million)	FY	1955-90	MOF
Budget-Making Contingencies (Chapter 3)	FILP	Fiscal Investment and Loan Program of the Government of Japan (Y million)			
	SSB	Social Security Budget of the Government of Japan (Y million)			
	NDB	National Defense Budget of the Government of Japan (Y million)			
	PWB	Public Works Budget of the Government of Japan (Y million)			
Political Development in the Recipient State (Chapter 4)	MIL	Military expenditure in individual recipients (local currency)	CY	1956-89	SIPRI
	MILR	Growth rate of military expenditure in individual recipients (%)			
Governmental Politics in the Donor State (Chapter 5)	OYGAP	Difference between Japan's total ODA commitments and disbursements (Y million)	CY	1968-89	OECD & MFA
	BYGAP	Difference between Japan's bilateral ODA commitments and disbursements (Y million)			
	LYGAP	Difference between Japan's ODA loan commitments and disbursements (Y million)			
Financial Policy (Chapter 6)	BOJ	Short-term basic money rate of the Bank of Japan (%)	CY	1957-90	Bank of Japan
ODA Diplomacy of the Trading State (Chapter 3)	TBY	Japan's trade balance vis-a-vis the world (Y million)	CY	1966-90	MOF
	TBUSY	Japan's trade balance vis-a-vis the U.S. (Y million)			
ODA Diplomacy (Chapter 4)	DIP	Combined number of Japanese prime ministers' official visits to, and national guests from, the recipient country (#)	CY	1954-85	Government of Japan
ODA Loan Diplomacy (Chapter 6)	OGAP	Difference between Japan's total ODA commitments and disbursements (US\$ million)	CY	1968-89	OECD & MFA
	BGAP	Difference between Japan's bilateral ODA commitments and disbursements (US\$ million)			
	LGAP	Difference between Japan's ODA loan commitments and disbursements (US\$ million)			

B.3 Domestic Society

Conceptual Definitions (Chapter)	Symbol	Variable (Dimension)	Year	Duration	Source
Affordability of the Donor's Society (Chapters 3 & 4)	JGNPY	Japan's Gross National Product (¥ billion)	CY	1956-89	Prime Minister's Office, OECD & UN
	JPCGNPY	Japan's GNP per capita (¥ billion)			
Recipients' Socio-Economic Needs (Chapter 4)	PCGNP	GNP per capita in individual recipients (US\$)	CY	1970-90	World Bank
	PCENE	Per capita consumption of energy in individual recipients (kilograms of coal equivalent)		1970-89	UN
	PCCAL	Daily per capita calorie supply in individual recipients (% of requirement)		1965-89	FAO
Sectoral Needs in the Recipient Economies (Chapter 5)	AFENE	Per capita consumption of energy in Africa (kilograms of coal equivalent)	CY	1964-89	UN
	SAENE	Per capita consumption of energy in South America (kilograms of coal equivalent)			
	ASENE	Per capita consumption of energy in Asia (kilograms of coal equivalent)			
	AFRAIL	Railway traffic in Africa (thousand million net ton-kilometers)		1959-89	
	SARAIL	Railway traffic in South America (thousand million net ton-kilometers)			
	ASRAIL	Railway traffic in Asia (thousand million net ton-kilometers)			
	AFTE	Number of telephones in use in Africa (in thousand units)		1964-89	
	SATE	Number of telephones in use in South America (in thousand units)			
	ASTE	Number of telephones in use in Asia (in thousand units)			
Recipients' Per Capita GNP (Chapter 6)	LIE	GNP per capita of low-income economies (US\$)	CY	1968-90	World Bank
	MIE	GNP per capita of middle-income economies (US\$)			
	IME	GNP per capita of low- and middle-income economies (US\$)			
Public Opinion on the Volume of Aid (Chapter 3)	PRD	Combined % of those who support "expanding" or "maintaining the present level" of Japan's aid (%)	CY	1977-90	Prime Minister's Office
	CON	Combined % of those who think that Japan's aid should be "reduced" or "stopped" (%)			

B.3 Domestic Society (Continued)

Conceptual Definitions (Chapter)	Symbol	Variable (Dimension)	Year	Duration	Source
Public Opinion on the Geographical Distribution (Chapter 4)	ASPO	Percentage of those who favor aid to Asia (%)	CY	1980-90	Prime Minister's Office
	MIDPO	Percentage of those who favor aid to the Middle East (%)			
	AFPO	Percentage of those who favor aid to Africa (%)			
	CSAPO	Percentage of those who favor aid to Central & South America (%)			
	SPPO	Percentage of those who favor aid to the South Pacific (%)			
Public Opinion on the Sector (Chapter 5)	SECPO	Combined % of those who favor aid for resource development, transportation and telecommunications (%)	CY	1983-88	Prime Minister's Office
Unemployment Situations (Chapter 6)	NTU	Total number of unemployed (10,000)	IY	1957-90	Ministry of Labor & EPA
	RTU	total unemployment rate (%)			
	EJOR	Effective job opening ratio (%)			
LDP Crisis and Compensation (Chs. 3 - 6)	LDP	Combined scale for the LDP crisis (point)	CY	1958-90	Diet & Asahi
Oligopoly in the Donor Economy (Chs. 3 - 6)	SALE1	Combined amount of net sales of Japanese leading trading companies (Y million)	IY	1960-90	METI
	OPE1	Combined amount of the operational profit of Japanese leading trading companies (Y million)			
	CUR1	Combined amount of the current profit of Japanese leading trading companies (Y million)			
	SALE2	Combined amount of net sales of selected construction companies in Japan (Y million)	IY	1958-90	Bank of Japan
	OPE2	Combined amount of the operational profit of selected construction companies in Japan (Y million)			
	CUR2	Combined amount of the current profit of selected construction companies in Japan (Y million)			
	SALE3	Net sales of the Nippon Koei (Y million)	IY	1968-90	MOF
	OPE3	Operational profit of the Nippon Koei (Y million)			
	CUR3	Current profit of the Nippon Koei (Y million)			

APPENDIX C: Dendrograms of Cluster Analysis

C.1 Volume

Dendrogram using Complete Linkage

Clustering Variables: ZODRY Z(ODA/GNP)

C.2 Form (Multilateral and Bilateral)

Dendrogram using Complete Linkage

Clustering Variables: MULTIY BIY

C.3 Form (Grant and Loan)

Dendrogram using Complete Linkage

Clustering Variables: GRANTY LOANY

C.4 Volume and Form

Dendrogram using Complete Linkage

Clustering Variables: ZODAY Z(ODA/GNP) ZMULTIY ZBIY ZGRANTY ZLOANY

C.5 Geographical Distribution

Dendrogram using Complete Linkage

C.6 Sectoral Allocation

Dendrogram using Complete Linkage

Clustering Variables: ECOINF PRODUC SOCIAL NONPRO OTHER

C.7 Financial Terms

Dendrogram using Complete Linkage

Clustering Variables: ZINTEREST ZMATURITY ZGRACE

C.8 Procurement Conditions

Dendrogram using Complete Linkage

Clustering Variables: TIED LDCUN GENUN

C.9 Terms and Conditions

Dendrogram using Complete Linkage

Clustering Variables: ZINTEREST ZMATURITY ZGRACE ZTIED ZLDCUN ZGENUN