

CHAPTER III

JAPAN'S ODA POLICY TOWARDS CHINA

Characteristics of Japanese ODA

Since 1989, Japan has been the world's biggest donor of ODA in absolute terms. In terms of percentage of GNP, however, the figures are much less impressive. Japanese ODA in 1999 was 0.35 per cent of GNP⁷, which placed it as number seven among the 22 DAC countries. Still, Japanese ODA as a percentage of GNP has increased. In 1996, it was only 0.20 per cent of GNP, one of the lowest figures among the DAC countries. When it comes to the quality of aid (as measured in purely economic terms, by grant share and grant element), Japan has performed very poorly. It clearly demonstrates one of the peculiarities of Japanese aid: it is to a large extent based on loans and the recipients are expected to repay them although the loans come with a long grace period and a low interest rate.

Another characteristic of Japanese aid is its heavy emphasis on Asia. In 1999, 63.2 per cent of all bilateral aid went to Asia. Asian countries receive the main part of their aid in the form of loans, receiving a total of 81.7 per cent of all the loan-aid. The number one recipient on a cumulative basis is Indonesia. China has a much shorter history of receiving aid but is quickly catching up and was the largest recipient during much of the 1990s.

In comparison with other countries Japanese ODA clearly shows an emphasis on economic infrastructure development (32 per cent of total). Within the category of economic infrastructure, building roads and railways and other transportation facilities

receives the largest amount of ODA. A total of 21 per cent of Japanese ODA is in this sector.

In Japan's latest five-year medium-term policy document on ODA, announced in August 1999, the present approach and priority issues were outlined. The document signals substantial changes in Japanese ODA policy. Social development gets much more emphasis than before and specific goals are formulated. They include halving the proportion of people living in extreme poverty, provision of universal primary education, and the elimination of gender disparity in education. The key to realizing these goals lies in self-help efforts as developing countries work towards economic take-off. Greater emphasis is being placed on human resource development and Japanese ODA is to provide more knowledge assistance in improving policies and institutions as well as strengthening organizational capacity in developing countries. Environmental improvement is another priority area.

The Trend of Japan's ODA Policy

At present, Japan's aid programmes play a key role in its plans to promote a greater degree of rationalization and co-ordination of Asia-Pacific economic development, with attendant benefits to the Japanese economy. This is hardly a new phenomenon. Japan's aid programmes traditionally have fulfilled a number of foreign and domestic policy objectives. By one account, each phase in Japan's aid strategy has responded to a perceived "vulnerability", with emphasis moving chronologically from promoting exports, to insuring access to vital raw materials, to deflecting foreign criticism of Japan's enormous trade surpluses.

In 1978, Japan became the leading bilateral donor of ODA in Asia. In 1989, Japan became the leading bilateral donor globally. Japan's ascendance as an ODA power has closely paralleled Japan's rise as an economic power. The association is not accidental. Japan has used ODA as an instrument, along with other instruments, to build international economic relationships and to encourage domestic economic expansion. Other objectives and motives have also been present, ranging from pressure by the U.S. on Japan to growing concerns about political stability and security in Asia to issues of debt relief in Latin America and famine relief in Africa. Japan has continued to be a substantial aid donor to the ASEAN countries even while they move towards middle-income status and their raw materials acquire relatively less significance to the Japanese economy. In fact, three Southeast Asian countries – Indonesia, Thailand and the Philippines – are among the top five recipients of Japanese ODA.⁵⁰

According to Robert M. Orr and Bruce M. Koppel, export promotion remained the *raison d'être* of the Japanese aid programme throughout the 1960s.⁵¹ A turning point in the evolution of Japan's aid policy was the imposition of the Arab oil embargo on industrialized nations viewed as sympathetic to Israel following the Yom Kippur War in 1973. Japan moved rapidly to downgrade the tenuous ties that it maintained with Israel and attempted to appease OPEC Arab states with gifts of foreign aid. Japan hoped that the oil spigots would be turned on again to relieve the fuel shortages that were beleaguering the Japanese archipelago. This policy succeeded in having the oil embargo lifted for Japan, but inadvertently it was also the first step in the true globalization of Japan's aid programme. Eventually Japan began to rationalize providing aid in terms of resource diplomacy.

⁵⁰ Richard P. Cronin, "Japan, the U.S., and the Asia-Pacific century", *Japan, the United States and prospects for the Asia-Pacific century: three scenarios for the future* (New York, 1992), pp.33-37

⁵¹ Robert M. Orr, Jr., and Bruce M. Koppel, "A Donor of Consequence: Japan as a Foreign Aid Power", *Japan's Foreign Aid: Power and Policy in a New Era*, (Oxford, 1993), pp. 2

Although Japan has reduced the formally “tied” element of its aid programmes to the lowest level among the OECD donors, its aid programmes still play a significant role in promoting its exports. According to one source, for a five-year period during the early and mid-1980s some 60 per cent of Japan’s “untied” loans overall resulted in procurement of Japanese goods and services, while 85 per cent of “untied” loans to the Less Developed Countries (LDCs) resulted in procurement in Japan.⁵²

By the late 1970s, Japan faced other vulnerabilities. Washington began to take a tougher look at Tokyo’s trade policies as the bilateral balance of payments deficits burgeoned for the United States. As Japan’s dependence on America as a trading partner and export market continued to increase, many in Tokyo viewed the potential of U.S. protectionism as yet another threat. Calls for burden sharing and greater participation by Japan in financially supporting collective security arrangements in Asia as well as the global security objectives of the Western alliance were more frequently and openly heard. In response, Japanese officials began to define aid as a component of “comprehensive security”, defined at home as related to Japan’s security but described to American negotiators and legislators as part of Japan’s contribution to Western security. American pressure on Japan helped Japanese Ministry officials make the case for ever larger aid budgets throughout the 1980s. Consequently, during the 1980s, a consensus in support of aid as a foreign policy tool, not simply as an international economic tool, began to emerge.

Currently, Japanese aid programmes in the developing nations of the Asia-Pacific region support twin goals of promoting economic development and stability, on the one hand, and creating infrastructure for the offshore expansion of Japanese business, on the

⁵² Richard P. Cronin, “Japan, the U.S., and the Asia-Pacific century”, *Japan, the United States and prospects for the Asia-Pacific century: three scenarios for the future* (New York, 1992), pp.33-37

other. Japanese officials and government agencies have developed a number of concepts for better integrating the region, especially Southeast Asia, into the Japanese economy through the development of infrastructure and the transfer of technical and manufacturing know-how, with the broad objective of promoting economic modernization along lines that complement the Japanese economy. Recently, Japan has cautiously added other goals such as promoting democratization and human rights, but the seriousness of its intent in this regard is still being questioned, and in any event Tokyo's outlook on these issues will remain considerably different from that of the United States and other Western donors.

Much like American aid programmes in the 1950s and 1960s, Japanese aid tends to support capital-intensive projects such as building ports, power plants and telecommunication facilities that characteristically have high import content. In addition, the "recipient-initiated request" basis of Japan's aid programmes gives strong advantages to its engineering and construction firms in the field, who are able to develop project proposals and suggest them to the host government. The fact that grant aid that often constitutes the seed money for such engineering studies is almost always tied, the sometime use of "LCD untied" loans in which only developing countries' firms can compete with Japanese companies, and the cosy relationship between Japanese engineering consulting firms and the powerful international trade and industry (MITI), construction and transport ministries, further tip the scales towards Japanese business.

The longer-term market penetration aspects of Japan's infrastructure lending programmes may be even more significant than the immediate export potential of Japanese aid projects. The participation of Japanese companies in infrastructure projects also establishes their technology as the standard and facilitates the development

of follow-on business. All other things being equal, the less developed the region, the more the potential return on getting in on the “ground floor”. In fact, the European countries are even more aggressive purveyors of commercially oriented aid, but their relatively weak market position in Asia means that the overall impact of such lending by France, Britain or Italy pales into insignificance compared to that of Japan.

Largely as a result of outside pressure, Japan is moving slowly to reduce the commercial bias of its aid programme. In response to criticisms from the United States, the OECD and recipient countries, Japanese aid officials have countered with a strong defence of their approach and a denial of undue commercial motivations, even while acknowledging some of the (non-commercialist) criticisms as valid. An English language summary of the overview to the annual White Paper, *Japan's ODA, 1991*, acknowledges, for instance, that Japan's ODA “is still low, when measured according to recognized international criteria, such as the ratio of aid to GNP (0,31 per cent), grant share and grant element”. On the other hand, Japan strongly rejects commercialization criticisms. Official documents cite a drop in ODA loans resulting in contracts for Japanese firms from 75 per cent in FY 1984 to 38 per cent in 1989, while shares of business going to LDC contractors have risen to 41 per cent.⁵³

To date, these rebuttals have been less than persuasive. First, while the growth in contracts for European and U.S. firms represents a clear opening up of the system, the growth of LDC contractor shares remains suspect. It is not yet clear that the rising share of business acquired by LDC contractors represents a genuine growth in local procurement or just increased participation by Japanese offshore subsidiaries or Japanese-controlled joint ventures. Second, the blending of ODA with other export

⁵³ Richard P. Cronin, “Japan, the U.S., and the Asia-Pacific century”, *Japan, the United States and prospects for the Asia-Pacific century: three scenarios for the future* (New York, 1992), pp.39-45

credits still provides great advantages to Japanese contractors and exporters, since Export-Import Bank type credits normally require procurement from Japanese vendors.

The obstacles to reform are formidable. Policymaking responsibility remains divided among four agencies and ministries whose institutional aims differ considerably and who jealously guard their “turf”. Achieving a consensus in favour of a more open aid process involves the subordination of vested interests to broader policy goals, never an easy task in any country, least of all Japan. In addition, the main political constituency for expanding aid budgets lies in the business community itself, whose interests would be harmed by more altruistic aid policies. As a consequence, critics remain convinced that politically powerful business interests will continue to seek ways to maintain a significant commercial focus in Japan’s ODA.

Japan’s ODA Policy in China

China is a special country for Japan in many respects. Active governmental dialogue only started after diplomatic normalization in 1972, and discussions on foreign aid started in 1978. This is very different from Japan’s foreign aid relationship with many Southeast Asian countries, which started as reparation payments under Article 14 of the 1951 San Francisco Peace Treaty. Even after diplomatic normalization and the initiation of foreign aid relations with Japan, the Chinese Government renounced formal reparation arrangement in relation to Japan’s aggression and damages to China before and during World War II. In 1989, Sino-Japanese Peace and Friendship Treaty was signed.

Japan’s ODA programme to China was commenced after Prime Minister Masayoshi Ohira’s visit to China in 1979, after he declared that Japan would co-operate with the

efforts to modernize China.⁵⁴ Since that time ODA has grown enormously. Between 1982 and 1986 China was the single largest recipient of ODA from Japan. The incident in Tiananmen Square in 1989 led to a temporary cessation of new ODA projects, but aid has now resumed and continues to grow.

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

Priority Regions

Japan is providing assistance, primarily through ODA loans, to support improvement of economic infrastructure. In addition, in order to promote balanced development, Japan devotes more effort to China's inland regions, which have a relatively large potential for development, and provides assistance for agriculture and development of rural areas, as well as assistance to develop China's plentiful natural resources. For grant aid and technical cooperation, Japan emphasizes China's inland regions, and is cooperating to attend to basic human needs (BHN), mainly in impoverished regions.

⁵⁴ Marie Soderberg, "Shipping aid to China", *The business of Japanese foreign aid: five case studies from Asia* (London, 1996), pp. 214-216

Priority Sectors

a) Environment

Japan has used its experience and technology to provide assistance based on China's needs that included technology transfers in areas such as energy saving and recycling of waste, and measures to prevent air pollution such as soot and smoke emissions and water pollution (i.e., sewage treatment). Moreover, Japan has implemented various cooperation projects centering on Japan-China Friendship Environmental Protection Center, which was established with grant aid in May 1996. The concepts discussed in "Japan-China Environmental Cooperation toward the 21st Century" from the 1997 Japanese-Chinese summit should be developed into specific plans. Cooperation in the area of flood control should be considered because of the severe flooding (and resulting extensive damage) in Chang Jiang and other areas.

b) Agriculture

Japan felt the need to assist China's agriculture sector, particularly to ensure stable food supplies in China. Japan has provided assistance in improving agricultural infrastructure, such as irrigation and wastewater facilities, and provided equipment needed for construction. Japan has also supplied fertilizer and agricultural equipment, and cooperated in improving agricultural techniques through research and testing facilities, as well as promoted the diffusion of these techniques to rural areas.

c) Economic infrastructure

Japan has provided assistance to eliminate the problem of antiquated infrastructure, including transportation, communications and electric power generation, which are areas that have become bottlenecks to China's economic growth.

In the sector of Transportation and Transit, Japan has contributed to an increase in freight capacity through the building of facilities and the improvement of maintenance and management technology in order to increase transportation efficiency.

Meanwhile, in the Energy field, Japan has assisted the construction of power plants in China in order to ameliorate current deficiencies in power supplies available and in the building of an electrical power grid to correct the energy imbalance between coastal and inland regions.

In Communications sector, Japan has offered cooperation in the improvement of China's communications infrastructure, and assistance in developing the human resources to meet maintenance and management needs.

d) Health and medical services

Japan believed that China should improve its Health and Medical Services in rural areas. In order to correct regional disparities, Japan has provided assistance to improve regional medical services by focusing on the promotion of primary and preventive health care and medical services in rural areas.

e) Human resources development

Japan has provided assistance to promote and improve basic education through measures such as providing educational materials and building schools. Japan has also provided assistance in Human Resources Development, particularly with respect to mid-level technical and managerial personnel, through the provision of educational materials, the acceptance of trainees and the dispatch of experts.

With a more than a ten-year history, Japan's aid diplomacy towards China has become an indispensable part of Sino-Japanese relations. Although the 1972 Sino-Japanese rapprochement and the 1978 Sino-Japanese Peace and Friendship Treaty laid foundations for the rapid development of bilateral relations, it was not until 1979 that China received any Japanese foreign aid. At that time, Beijing signed an agreement with Tokyo to receive an ODA loan. From this beginning, Japanese aid to China grew substantially throughout the 1980s (Table 1). From 1982 to 1986, China was the largest recipient of Japanese aid and during the 1987-1990 period, China was the second largest recipient next to Indonesia.⁵⁵

⁵⁵ Zhao Quansheng, *Japan's Aid Diplomacy with China*, ed. Bruce M. Koppel and Robert M. Corr (Oxford, 1993), pp. 165

Table 1

ODA Flows to China from Japan (US\$ million)

Year	Amount
1979	2.60
1980	4.30
1981	27.70
1982	368.80
1983	350.20
1984	389.40
1985	387.90
1986	497.00
1987	553.10
1988	673.70
1989	832.20
1990	723.00
1991	585.30
1992	1,050.76
1993	1,350.67
1994	1,479.42
1995	1,380.15
1996	861.72
1997	576.86
1998	1,158.15
1999	1,225.97
2000	801.59
2001	684.44
2002	815.35

Source: Japan's Official Development Assistance annual reports, the Ministry of Foreign Affairs of Japan, various volumes

Japan is now the largest ODA donor to China. For example, Japan's ODA to China accounted for 45 per cent of the total amount from DAC members and international organizations. During the same period, the International Monetary Fund was second (14 per cent), with United Nations agencies third (12 per cent), and West Germany fourth (9 per cent) as aid donors to China. In 1989, Japan's share of aid to China reached nearly 70 per cent of the total aid China received before the Tiananmen incident.⁵⁶

⁵⁶ Marie Soderberg, *Shipping Aid to China*, (London, 1996), pp. 212

Table 2

Japan's ODA Disbursements to China (US\$ million)

Year	Grants			Loan Aid
	Grant Aid	Technical Cooperation	Total	Total
1992	72.05	187.48	259.53	1050.76
1993	54.43	245.06	299.49	1350.68
1994	99.42	246.91	346.33	1479.41
1995	83.12	304.75	387.87	1380.15
1996	24.99	303.73	328.72	861.73
1997	15.42	251.77	267.19	576.86
1998	38.21	301.62	339.83	1,158.15
1999	65.68	348.79	414.47	811.50
2000	53.05	351.36	404.41	397.18
2001	23.02	274.85	297.87	386.57
2002	54.92	251.90	306.82	508.53

Source: Japan's Official Development Assistance annual reports, the Ministry of Foreign Affairs of Japan, various volumes

Among the DAC countries, Japan was China's largest ODA donor over the 1991-1995 period. Japan's ODA disbursement to China overwhelmed all DAC countries such as France, Germany, Italy, Spain and Australia. Japan's ODA disbursement to China increased substantially from US\$585 million (46.7 per cent of DAC countries) in 1991 to US\$1.38 billion (54.5 per cent of DAC countries) in 1995⁵⁷. Japan's ODA disbursement to China has even surpassed all international organizations combined over the 1992-1995 period.

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

⁵⁷ - , *Japan's Role in ASEAN*, (Singapore, 1999), pp.215

Over the 1990-1994 period, both Japan's grants and loan aid to China increased substantially except in 1991. Japan's grants to China dropped from US\$201.3 million in 1990 to US\$194.1 million in 1991. Its loan aid to China dropped from US\$521.7 million to US\$391.2 million during the same period. The Tiananmen incident occurred on 4 June 1989 and Western countries led by the US were quick to impose economic sanctions on China and suspended economic aid as well. Japan tried not to be influenced by the West, but Japan's continued ODA disbursement to China was severely criticized, both domestically and internationally. This is seen to have affected Japan's ODA disbursement to China in 1991. Japan's ODA disbursement to China also dropped from US\$1.48 billion in 1994 to US\$61.7 million in 1996; this was basically due to China's nuclear test in August 1995 and Japan's consequent freezing of its grant aid to China.

An important characteristic of Japan's aid to China is that loan aid has accounted for 85 to 90 per cent of the total ODA. The Chinese have been especially interested in acquiring Japan aid for large-scale infrastructure projects, such as railways, ports, and hydroelectric power plants. From the Japanese perspective, these large-scale projects normally have 'high feasibility' status, receive better publicity in the international community, and are favoured by an important domestic constituency of Japanese ODA, the engineering and construction firms.⁵⁸

Since 1979, there have been major packages of Japanese Government loans to China. The first ODA loan package was 350 billion yen (US\$1.5 billion) for China's five-year plan (1979-84), which was pledged by Prime Minister Masayoshi Ohira on his visit to China in December 1979 that included five projects (two ports, two railway projects,

⁵⁸ Zhao Quansheng, *Japan's Aid Diplomacy with China*, ed. Bruce M. Koppel and Robert M. Corr (Oxford, 1993), pp. 166

and a commodity loan). The second package, from 1984 to 1989, was promised by Prime Minister Yasuhiro Nakasone in March 1984 for sixteen projects at a total value of 470 billion yen (US\$2.1 billion). However, as the value of the yen rose, much more could be financed with that sum, and so another nine projects were added to the original sixteen. Further funding was also provided in 1988 by an additional loan of 70 billion yen (US\$550 billion) through the so-called 'yen recycling programme'.⁵⁹ The third package was 810 billion yen (US\$5.4 billion) for 42 projects covering the period from 1990 to 1995 that was promised by Prime Minister Noboru Takeshita during his visit to Beijing in August 1988. These government loans, known as 'soft loans' follow the international standard of providing longer payback periods and lower interest payments. This means the loans are repayable in thirty years at approximately three percent interest with a ten-year grace period. In 1988, the Japanese Government announced an interest reduction on yen loans to developing countries to approximately 2.6 per cent. China was one of the first countries to receive such a low interest rate.⁶⁰

The mutual importance of the relationship today between China and Japan is not in doubt; indeed, Japan clearly takes into consideration economic factors when formulating its aid policy towards China.⁶¹ This seems only natural, since they are geographically close to each other and complementary in many ways. Japan, a small island country with only one-tenth the population of China, is advanced both economically and technologically and can supply China with machinery, steel, and chemicals. China with its vast territory can supply Japan with raw materials, textiles and light industry products. Japan possesses huge amounts of capital and China has an abundance of cheap labour.

⁵⁹ Marie Soderberg, "Shipping aid to China", *The business of Japanese foreign aid: five case studies from Asia* (London, 1996), pp. 215

⁶⁰ Zhao Quansheng, *Japan's Aid Diplomacy with China*, ed. Bruce M. Koppel and Robert M. Corr (Oxford, 1993), pp. 166

⁶¹ *Ibid*

In 1979, China began its economic reform and open-door policy. For the first time, China showed a willingness to accept foreign aid including loans and grants. The first loan request was for a package of eight infrastructure construction projects which included three hydroelectric power plants, three railroad lines, and two ports. When China began to explore loan possibilities for these projects in the summer of 1979, Tokyo was well aware of the potential for competition from Western countries. For example, there were several private commercial loan offers from France (US\$7 billion), Britain (US\$5 billion), Sweden and Canada. The Japanese also knew of U.S. Vice-President Walter Mondale's promise of US\$2 billion Eximbank credits to China when he visited Beijing in 1979. The Japanese Government understood that ODA project loans would be a convenient and useful way to enhance Japan's long-range economic benefits. The loans would allow, as Chae-Jin Lee, a long-time observer of Sino-Japanese relations, pointed out, "to establish a firm foothold in China's economic infrastructure, and induce a spillover effect to other areas of Sino-Japanese economic cooperation."⁶²

To further promote the bilateral relationship and increase mutual understanding at the public level, Japan has concentrated most of its grant aid towards humanitarian purposes and cultural exchanges. One of the most important projects was the China-Japan Friendship Hospital in Beijing, which cost 16.4 billion yen and accounted for 57 per cent of all grants to China in the 1980-85 period. Other smaller projects included a Sino-Japanese youth exchange center in Beijing (1985), a rehabilitation center in Beijing for the physically handicapped (1986), water purification facilities in Changchun (1986), forest resources restoration (1988), a national library and a foreign

⁶² Zhao Quansheng, *Japan's Aid Diplomacy with China*, ed. Bruce M. Koppel and Robert M. Corr (Oxford, 1993), pp. 167

language college in Beijing (1988), and preservation of the Dunhuang Mogao Cave on the historic Silk Road (1988). A one-billion-yen grant for the Mogao Cave was pledged by Prime Minister Noboru Takeshita when he visited China in 1988. The Prime Minister indicated that the grant was to “appeal to the hearts of the Chinese.” Economic assistance to China has also come in the form of technical and training assistance. For example, in 1986, of ten thousand ‘foreign experts’ in China, about 40 per cent were Japanese. A management-training center funded by the Japanese was opened in Tianjin in 1986.⁶³

Japan’s economic interests were clearly reflected in its selection of loans. From the first loan package (1979), Japan agreed to provide six out of eight construction projects for government loans. Railroad line and port projects were selected, while two hydroelectric power plant projects were dropped. The two ports, Shijiusuo and Qinhuangdao, are important ports for exporting coal to Japan. Two of the three railroad lines, the Yanzhou-Shijiusuo Railway and the Beijing-Qinhuangdao Railway, directly connect the two ports. Japan provided 62 per cent and 100 per cent of requested loan amounts respectively. On the other hand, the third railroad, Hengyang-Guangzhou Railway, was irrelevant for energy exports to Japan. It received only 16 per cent of what China asked for. The two hydroelectric power plant projects (Longtan and Suikou) were rejected by the Japanese, because they were in conflict with Japan’s economic interests. The Longtan Hydroelectric Power Plant would have had the capacity to supply electricity to a large aluminum refinery with an annual production capability of 600,000 tons, which was in conflict with Japanese joint venture interests in aluminum production in Indonesia and Brazil. These examples demonstrate that the actual selection from the requested projects reflected, as Greg Story suggested, “the needs of

⁶³ *Ibid*, pp. 168

the donor rather than the recipient, that is, it followed Japanese rather than Chinese economic priorities.”⁶⁴

Apart from the concessional loans, China has also accepted grant aid, technical assistance for projects approved for the loans, and personnel exchange programmes for specialists, trainees and students. Under the loans programme, China receives designated funds for technical assistance that covers the costs of specialist advisers and trainees. Since Japan was one of the first countries to provide ODA loans to China, by 1986, according to one estimate, about 40 per cent of foreign specialists in China were Japanese. Since 1982, the number of specialists involved in the designated technical cooperation programme has varied between 599 in 1982 (the lowest) and 2,152 in 1994 (the highest to 1996). Under Japan’s aid programme, China also receives support for trainees and student exchanges. In 1996, the trainee programme involved some 6,000 people and the official student support programme involved some 14,000 people, a massive increase from the previous year of just over 2,000. China is among the top recipients of personnel training under Japan’s aid programme, although it is not the leader⁶⁵.

China also receives indirect aid from Japan through its contributions to the assistance programmes for China of multi-lateral agencies, such as the International Monetary Fund (IMF), the World Bank, the Asian Development Bank (ADB), and the UN agencies, such as the UN Development Programme (UNDP) and the UN Food and Population Programme⁶⁶.

⁶⁴ Zhao Quansheng, *Japan’s Aid Diplomacy with China*, ed. Bruce M. Koppel and Robert M. Corr (Oxford, 1993), pp. 167

⁶⁵ However, the number of trainees in China is very low relative to China’s huge population.

⁶⁶ Kwang W. Jun and Saori N. Katada, “Official Flows to China: Recent Trends and Major Characteristics”, *Financing China Trade and Investment*, (Praeger, 1997), p.171

China has also benefited from a variety of other loans from Japan on a non-concessional basis, and it is one of the few governments to do so. Japan made a large loan to China, some ¥420 billion, for joint exploitation of natural resources and energy, some seven months in advance of its first ODA loan package of December 1979. In 1981, the Japanese Government agreed to rescue the Chinese Government's participation in the Baoshan steel mill project, with ¥300 billion in commodity loans, ¥100 billion in suppliers credit by its Eximbank, and ¥70 billion of government encouraged commercial loans. Japan has assisted China through provision of loans by the Export-Import Bank of Japan and through export insurance coverage from the Ministry of International Trade and Industry. By 1994, the Eximbank had committed more than ¥1,700 billion in non-concessional loans for energy development in China - ¥420 billion in 1979, ¥580 billion in 1985 and ¥700 billion in 1992. Each of these loans was committed when Japan-China political relations were at high points. In 1996, the two agencies were considering support for Japanese sale of generators worth ¥50-70 billion to the Three Gorges Dam project. Japan has also made two special loans by way of trade surplus compensation – in 1987 and in 1994. In 1998, Japan offered China official loans of more than ¥100 billion to support a bid by Japanese contracts on China's proposed Beijing-Shanghai bullet train.⁶⁷

⁶⁷ Greg Austin & Stuart Harris, "Priorities and Outcomes for Japan and China in the Aid Relationship", *Japan and Greater China, Political Economy and Military Power in the Asian Century*, (London, 2001), p.165

Table 3

Japan's ODA Loans to China, 1979-98

(Sector per cent share by value)

	1793-83	1984-9	1990-5	1996-8
Rail	43	30	23	25
Ports	24	20	6	8
Power	-	20	17	32
Commodities	33	5	-	-
Telecommunication	-	6	9	-
Social Services	-	6	12	15
Manufactures	-	12	3	-
Other Transport	-	<1	14	20
Agriculture	-	-	14	1
Irrigation and Flood	-	-	2	-
Total	100	100	100	100

Source: Japan's Official Development Assistance annual reports, the Ministry of Foreign Affairs of Japan, various volumes

Table 4

Japan's ODA Loans to China, 1979-98

By Value and By Project Approvals

(¥ million)

	1793-83		1984-9		1990-5		1996-8	
Rail	130,030	3	170,285	3	207,475	9	50,173	3
Ports	70,730	3	116,000	3	58,195	9	15,400	1
Power	140	1	112,635	3	151,289	9	65,000	2
Commodities	99,100	-	30,900	-	-	-	-	-
Telecommunication	-	-	35,000	1	81,949	7	-	-
Social Services	-	-	34,470	4	105,416	13	29,541	6
Manufactures	-	-	70,000	1	30,999	1	-	-
Other Transport	-	-	2,510	1	128,540	13	40,000	1
Agriculture	-	-	-	-	127,747	7	2,792	1
Irrigation and Flood	-	-	-	-	22,535	3	-	-
Total	300,000	7	571,800	16	912,127	71	202,906	14

Source: Japan's Official Development Assistance annual reports, the Ministry of Foreign Affairs of Japan, various volumes

As the data in Table 3 and 4 suggest, Japan's biggest and most widespread interventions in China's economy through its aid programme came in the first half of the 1990s, more than a decade after the aid programme started. Thus, ironically, Japan's biggest contributions to China's development came when China needed them least. By the early 1990s, China's foreign exchange reserves had already become quite substantial, its creditworthiness for international loans was high, and other countries and multilateral institutions were also providing substantial amounts of aid. Importantly for China though, some of the soft loans came to it from Japan well in advance of substantial direct investment by the Japanese private sector and in some respects the Japanese loans husbanded the development of a positive relationship between the Chinese Government and Japanese investors. The size of the loans was consistently much larger than direct foreign investment by Japan's private sector for most of the time since 1979, although by the late 1990s this gap had been closed and the average annual value of Japan's direct investment (about US\$2 billion per year) was roughly double the annual value of its loans (about US\$1 billion).⁶⁸

Japan can claim impressive contributions to particular sectors of development in China. For example, by 1995, according to the OECD, its loans had financed the electrification of 25 per cent of all rail lines electrified after 1981 – some 2,700 km out of a total 10,900. However, Japan cannot claim in respect of China such a staggering dominance in infrastructure development as it can in respect of some countries as Indonesia, where by 1991 it could claim credit for 31 per cent of all electric power facilities, 14 per cent of all railways, or 76 per cent of power lines in the national capital. Seen in this light, and in the light of the small size of Japan's aid programme relative to total domestic

⁶⁸ Greg Austin & Stuart Harris, "Priorities and Outcomes for Japan and China in the Aid Relationship", *Japan and Greater China, Political Economy and Military Power in the Asian Century*, (London, 2001), p.168-170

investment, the direct positive impact on China's economy, while important, should not be overstated.

The export of coal from some parts of China, and the export capacities of several of China's major ports have been enhanced as a result of the twenty years of Japan's aid. By the fourth loan offer (¥580 billion approved for the three years FY1996-98 for forty projects extending over five years), there had been a marked shift away from support for commodities trade towards urban transport and urban social services. This supported the common interest of Japan and China in both the economic development and social stability of the cities. The sharp increase in the share going to power by the fourth loan period represented an intensification of China's need to improve energy supplies to its industrial centers and Japan's interests in promoting clean power technologies to reduce pollution.

In marked contrast to its ODA loans, Japan's grant aid to China (more than ¥100 billion in two decades) has been directed to projects in education, medical services, agriculture, and the environment. For example, in the province of Hainan by February 1998 Japan had contributed 'free aid' directed to poverty alleviation for the purchase of medical equipment, improvement of facilities in the province's school for the hearing-impaired and speech-impaired, clean water projects, and the construction of small bridges in two countries. Between 1992 to 1996, grant aid accounted for about one quarter of Japan's total net bilateral ODA to China.

Japan's aid programme probably made its biggest contribution to China's development in the 1980s by providing international confidence to China's open door and economic modernization policies. The improvement of some of China's rail links and ports using

Japanese loans, and the Japanese engineering and planning expertise associated with them through the tied portion of these loans, provided important boosts to the perception at home and abroad that China was serious about modernization and that it was prepared to take the political risk of at least some penetration of its society by the outside world to achieve the goal.

Goals, Outcomes and Shifting Priorities for China in 'economic cooperation' with Japan

For Communist China, acceptance of 'development assistance' has always been a highly sensitive political issue because of strong tendencies in the leadership towards autarky, a disposition based in part on precedents from the imperial period when foreign countries had demanded territorial concessions from China to conduct trade and then used these agreements as an excuse for intervention in Chinese domestic affairs. But the disposition of China's revolutionaries towards maximum independence in economic development and international affairs when they gained power was not that different from values held by governments around the world at that time, and in China, as in many other countries, a desire for maximum national economic self-reliance remains a powerful political consideration. Yet governments of less developed countries have felt obliged to subordinate such sentiments to the goal of national economic development, and in this China has proven to be little different.

In 1972, when Japan recognized the People's Republic of China, China rejected a Japanese offer to provide it with development assistance through concessional loans. It rejected a similar offer several times in subsequent years as late as 1977. China's domestic politics was still giving priority to doctrines of autarky, partly in response to the Soviet Union's abrupt halt in 1960 to its massive economic assistance. China was also conducting a virulent anti-capitalist propaganda campaign through much of the

1970s and certainly did not want any contamination of its socialist society by foreign money, foreign officials or foreign entrepreneurs.

Through 1978 China's attitude on accepting official development assistance from capitalist countries began to change after the return to power of Deng Xiaoping led to shifts in the domestic consensus on what sort of modernization was needed and how it was to be achieved. Chinese officials began talks with Japanese counterparts on a possible aid relationship. The new policy directions for the economy and relations with capitalist countries were endorsed at a CCP Central Committee meeting in December 1978. The signing of the Treaty of Peace and Friendship with Japan in that year also was an important milestone which helped create the necessary conditions for China to accept aid from Japan.

In 1979, China agreed publicly to accept Japanese foreign aid as part of a general policy position that it would accept aid from foreign countries 'as long as China's sovereignty is not impaired and the conditions are appropriate'. But Japan was not the only non-communist country from which China had accepted aid. In the same year, China received small amounts of bilateral aid from Austria, Germany, Italy, Sweden, Switzerland, and Australia; and some multilateral aid from UN agencies. The local value of ODA received by China in 1979 from all sources was US\$17 million, of which Japan's share was US\$2.06 million in bilateral aid and US\$1.26 million in imputed multilateral aid⁶⁹, although Japan had pledged a much larger amount for delivery in the subsequent years.

⁶⁹ OECD Development Assistance Committee, On-line Statistical Databases

Economic Impacts in China of Japan's aid programme

What aid has China received from Japan? In accepting aid from Japan, China was obliged to accept Japanese system of aid giving which relied heavily on loans with concessional interests rates and terms, and in which grant aid played only a small role. China must repay each loan within thirty years. China received some special treatment in being one of the first countries to receive the concessionary rates and being the only country to receive loans from Japan as part of a package approved for disbursement over periods longer than one year. Until 1996, China's ODA loans from Japan were approved in five-year packages, and after 1996, in a three plus two year packages.

Japan has justified its preference for loans as opposed to grant aid on the grounds that the loan system provides the recipient with larger amounts of money to invest than would be the case if an equivalent amount of grant were simply transferred for specific projects. The grant element in Japan's 'soft' loans can be calculated according to the difference between the net estimated cost to China of loans to be the same value on notional market terms and this grant element has varied over time. Japan has also used the argument that provision of ODA loans is preferable to direct grant aid because the former tends to foster self-reliance in the recipient more than gifts of money. According to the Japanese Government, the grant element in the loans has been rising steadily since they were introduced. At a global level, the highest grant element reached in Japanese ODA loans has been 62.1 per cent. If this figure is applied to the amount of Japan's loans to China committed for 1996 to 1998, then the effective grant element in the loans would still be quite high – US\$500 million per year on average for the three years. Japan's foreign aid statistics, like those of the Development Assistance Committee of the OECD, classify the full value of such loans by any country as official development assistance regardless of the size of the grant element in them.

Japan's aid projects which provide new employment, build durable and more efficient infrastructure, support exports, aid technology transfer and link up with domestically-sourced investment will have maximum stimulatory effect. These effects will be felt in levels of economic activity, in growth rates, and in new domestic investment. Since up to 60 per cent of the total project costs are funded from domestic sources, the value of projects helped in this way is considerably larger than the foreign aid component might suggest. Moreover, the project appraisal and technical assistance process has helped build up Beijing's technical capabilities in project evaluation and management of large projects to a relatively high level.

What are the negative effects on China's economy of Japan's ODA? In the absence of detailed studies, one can only point to such effects in aid programmes to other developing countries from a range of donors. Possible disadvantages for China include acceptance of higher than market prices for the goods and services imported from Japan; higher than usual costs associated with maintenance of imported Japanese equipment; prioritizing aid projects in favour of lower quality sectors of commercial interest in preference to higher quality non-commercial sectors, such as education and health. It cannot be assumed that all of these negatives are at play in Japan's aid programme in China, but there must be a reasonable probability that China has not benefited as greatly from Japan's aid as it might have if a greater proportion of it had been spent in education and social areas and if less of it had been spent on importing very expensive Japanese goods and services.

Chinese Perceptions of Political and Economic Impacts of Japan's ODA

How then have Chinese leaders and the citizenry judged the impact in China of Japan's aid? Positive sentiments about it certainly mix with some quite entrenched views that

detract from feelings of gratitude on the economic front. The dominant view appears to be that the aid clearly benefits China's economy; that it also benefits the Japanese economy; that Japan owes it to China; and that the aid has been an important symbolic gesture of contribution and international friendship.

Moving beyond considerable satisfaction within China at Japan's special place as an aid donor, the positive benefits to the economy from the loans have been assessed by Chinese sources both in sector specific terms (infrastructure for energy development and transport) and in overall national development terms as an important contribution. Chinese sources have included among the national impacts such as outcomes as easing of transport bottle-necks, growth in foreign trade, increased technology imports and introduction of more efficient management practices from overseas. There is an awareness in China though that as time has gone on, the relative impact of Japan's aid has diminished. This declining relative impact has been exacerbated by the change in Japan's priorities away from infrastructure to environment and agriculture, which some Chinese sources see as making less of a contribution to the country's economic development and comprehensive strength.

In the next decade or so, only a small percentage of China's population outside the government will remember the Japanese aid programme. While major cities in most provinces of China will continue to benefit from Japanese aid programmes, the visibility of these programmes to the vast majority of the Chinese people who live outside the major cities has been insubstantial. Few will be able to name a single aid project supported by Japan. Statistics of the sort often cited by Chinese leaders to suggest that Japan was the primary source of Japan's ODA will have increasingly less impact. And such estimates are not an accurate reflection of Japan's share of net ODA

flows to China from all sources in more recent times. According to the data maintained by the Development Assistance Committee of the OECF, Japan's share of net ODA flows to China accounted for 10-15 per cent for most of the 1990s, although in 1998 it was as high as 30 per cent share. Many Chinese officials see the Japanese aid programme as benefiting Japan at least as much as it benefits China. One fairly balanced commentary identified the benefits for Japan as ensuring long-term supply of energy sources; an opportunity to occupy the China market; and greatly increased trade that revitalized Japan's economy.

The view that Japan owes the aid to China is deeply entrenched and has two main foundation. This first is that many in China also see the aid as reparations for war damages, even though these were foresworn by China in the 1950s. The public record does not register any direct evidence that Japan and China explicitly agreed in 1978 or 1979 that the aid package would substitute for China holding to the line of surrendering any claim to reparations. Many senior officials in Japan and China deny that any such agreement was made and sought a written reaffirmation of China's oral pledge in the 1950s not to seek reparations. In May 1989, Deng Xiaoping made a very strong statement in this connection: "In terms of death toll alone, tens of millions of Chinese people were killed by the Japanese. If we want to settle the historical debt, Japan owes China the large debt". Such an understanding seems credible given the high domestic political cost within China of 'forgiving' Japan for its massive plunder and devastation of China over more than a decade up to 1945.

The second foundation of the view is that it is the obligation of richer countries to provide such assistance to all developing countries. In this context, the importance to Japan-China political relations of Japan's decision to provide official development

assistance was substantial. Japan was the first non-communist country to offer substantial development assistance to the People's Republic of China and Japan fought for and secured the agreement of its OECD partners to admit China to the organization's Development Assistance Committee as a 'developing country'. Yet the agreement on aid underscored then, as now, the huge disparities in the levels of development of the two countries. The aid almost certainly carries with it the tendency in inadequacy or jealousy, and for people in Japan to treat the aid with condescension founded in the luxury of far more comfortable circumstances.

In spite of consistent official rhetoric to the contrary, China's leaders do not see the Japanese loans as 'charity' or as a particularly strong offering of friendship. China must repay Japan's ODA loans in full, even though at concessional rates of interests.

From its acceptance of the first foreign aid, China has sought to establish firm control over the most important decisions. Yet there is evidence that China has been willing to go along with some of the sector preferences of Japanese governments. At the operational level, for each set of loans, China has formally proposed a series of projects to Japan with a request for a certain value of loans, which Japan has then considered. This is a normal practice for Japan's ODA programme globally. All projects considered by Japan for development assistance funding are made by the recipient country to the Japanese embassy. But there is room to consider how much discussion goes on between Japan and its aid recipients before a formal request is made to Japan. China's central planning mechanisms, through five-year plans, have enabled it to easily identify projects for Japanese development assistance. Moreover, since China's decision to accept foreign aid did not mean the end of the strong self-reliant dispositions among its political leaders, its government officials have been forced to work hard to control the

allocation of foreign aid funds. Yet, even for China, the selection of projects by it for presentation to the Japanese embassy have clearly been based on a judicious estimation of where common interests could best be served without undue political controversy. The types of projects, if not the specific ones, have been discussed in high level meetings between the Japanese and Chinese Governments prior to formal requests being made by China.

This is not a substantial body of evidence on how often or in what manner Japan turns around a strong set of preferences by recipient countries, but there is clear evidence that it can happen, and that even in China's case it has happened. after China nominates selected projects to the Japanese embassy, the formal selection process involves protracted negotiations with Japan's Overseas Economic Cooperation Fund (OECF), which is supervised by an inter-agency group including the Foreign Ministry, Ministry of Finance, Ministry of International Trade and Industry, and the Economic Planning Agency. Evaluation by these Japanese agencies is very intense and Japan reserves the right for all initial feasibility studies to be undertaken by Japanese consultants.

Japan has not always approved China's choices, either for organizational or political reasons. In preparing for the first batch of loans, Japan rejected two out of eight projects put up by China and China experienced considerable delays in achieving approvals of the other six. For this reason, disbursements of aid fell short of announced commitments for loan packages in the first multi-year period. Japan originally promised some ¥510 billion for FY1979-83 but only ¥330 billion was committed for seven projects which, according to the OECF, were completed on an 'almost satisfactory' basis, an euphemistic way of saying less than satisfactory. This lag carried over through the second loan period, which was a promised ¥470 billion covering

sixteen projects for Japan's FY1984-89. After the second loan period, there was an eighteen month gap from May 1989 to November 1990 in approvals by Japan because of its freeze on relations in response to the Tiananmen Square repressions. This meant that for much of two years, there were no new project approvals, although previously approved money continued to flow and planning continued. By the end of the third loan period, which was ¥81. billion for fifty-two projects in FY1990-9, Japan had delivered all of the aid promised in the three packages.

For its part, OECF has consistently sought to influence the selection of projects according to its own policy interests. In the first decade, projects favouring transport to Japan of energy resources and transport from Japan of traded goods received high priority. Some analysts believed that since most of the loans have been spent on large-scale construction projects, with almost one third going to rail construction in the first three loan periods, this may reflect the fact that the construction industry is one of the most powerful political lobby groups in Japan. But development of this infrastructure was also one of China's highest priorities for such loans, since private investors were not likely to be interested in developing infrastructure because of the lack of a mechanism in 'socialist' China that provided for returns on such investment. China sought Japanese support for power projects because of the multiplier effect on China's development goals of greater efficiencies in that sector and for transportation projects because of their contribution to trade in energy resources, one of the few areas where China enjoyed a comparative advantage. China also reaped some benefits in terms of energy availability for some of its major cities closer to the coast.

Thus, marked shifts in the targets of the ODA loans have occurred on several occasions. In 1988, rail development began to take a noticeably lower share, and in 1990, projects

in the interior of China began to receive a much larger share. Greater attention to environmental alleviation, particularly in respect of water quality, occurred as early as 1988.

China's strong influence on the project choices to be assisted under Japan's aid programme, and the personal intervention of China's senior leaders in these choices, can be inferred indirectly from the sharp changes that occurred in some sector allocations between the third and fourth loan periods. The choices for the fourth loan period were made around 1994, when the power of the post-1989 CCP leadership under Jiang Zemin and Li Peng had been quite firmly consolidated, while the choices for the third loan period were made or at least set fairly firmly in train prior to June 1989. The sharp drop off in interest in support for agricultural development in the fourth loan period is somewhat curious given that this sector took a 14 per cent share in the third loan period and went to 1 per cent in the fourth. There is room to believe that the leadership became seized with urban stability but it is equally likely that the Prime Minister, Li Peng, who had very strong connections in the power industry, saw this sector as even more urgently in need of support, because of its multiplier effect on economic performance, than it had been regarded in previous periods. Even so, in a situation where China has massive development needs, and where substantial development funds are available elsewhere, there has probably been little political cost to China in accommodating donor preferences.

At times, China's leaders have regarded repayments on the Japanese loans as something as a burden. When the yen began to appreciate in value against both the US dollar and the Chinese currency after 1990, one effect was to drive up the amount of those currencies China had to find to repay the loans. What had been low-interest loans

therefore lost their appeal as aid, with the appreciation of the yen exceeding the size of the concession offered by Japan on interest rates. This issue was a sensitive topic in bilateral relations for much of the 1990s. Japan has been unsympathetic, however, to a call by China for a further easing of the terms of Japanese loans to compensate for the effects of yen appreciation. Japan's response was that China could 'cope' with the situation according to the principles of the market. By 1998, the exchange rate problem was alleviated somewhat as the yen depreciated to its lowest value against the US dollar in eight years. Exchange rate variations are not the only concerns, with China's annual repayments at the beginning of fiscal 1996 being as large as ¥40 billion.

Japan's position in multilateral development agencies, especially the Asian Development Bank but also the World Bank, is probably as important to China in political terms as bilateral aid from Japan has been. Indeed, China is the main recipient of Asian Development Bank's loans, which Japan now clearly dominates.⁷⁰ The Chinese Government certainly courts the Japanese officials from the Asian Development Bank as assiduously as it courts most foreign donors, but it is doubtful that Chinese officials see a Japanese face to the ADB in any ways that affect positively on bilateral relations. On the other hand, any effort by Japan to use the ADB to impose specifically Japanese policy interests on China's programmes or loan schedule would be met with considerable resistance from other ADB members and would arouse a sharp reaction from China. In fact, as mentioned above, one of the critiques made in Japan of its development assistance is that it doesn't have a Japanese face and the government has moved to reduce multilateral aid more than bilateral aid.

⁷⁰ Greg Austin & Stuart Harris, "Priorities and Outcomes for Japan and China in the Aid Relationship", *Japan and Greater China, Political Economy and Military Power in the Asian Century*, (London, 2001), p.182

As a matter of fact, the volume of training of Chinese personnel by Japanese agencies or firms associated with the aid programme has been regarded in China as important, but the most important effect of this on the Chinese economy has been indirect given the small numbers of Chinese people involved relative to the size of the country. Japan through its aid programme has played an important part in breaking down barriers between China and the outside world. The aid programme provided many more opportunities for interaction between Japanese people and a number of Chinese people in privileged positions in the government and Communist Party. This has certainly fostered a gradual acceptance by them that they had little to fear and much to gain from such interaction with foreigners, outcomes that have in turn fostered the process of further opening and liberalization of China. While such opening and liberalization has not conformed to the wishes and desires of all of China's leaders and has contributed to the undermining of communism as an ideology that some had warned about in opposing foreign aid, most in the Chinese Government regard with pride and satisfaction the process of opening up and modernization, and more regard foreign aid programmes and foreign governments as having played a positive part in that.

Thus Japan's aid programme probably made its biggest contribution to China's development in the 1980s by providing international confidence to China's open door and economic modernization policies. The improvement of some of China's rail links and ports using Japanese loans, and the Japanese engineering and planning expertise associated with them through the tied portion of these loans, provided important boosts to the perception at home and abroad that China was serious about modernization and that it was prepared to take the political risk of at least some penetration of its society by the outside world to achieve the goal. But by providing loans with a tied portion, Japan provided China with an important draw card for private investment from Japan and, as a

consequence, from private sector firms from other countries who were anxious to compete with Japanese firms in China. The commitment by Japan in 1979 to ODA loans to China may have served as something of a wake-up call to business interests in other major economic powers that if they too did not find ways to engage with the Chinese economy, then Japanese commercial interests would get some advantages. For China, this competitive element was useful because as much as it valued the move by Japan to provide aid, it did not see Japan as an exclusive source and was very keen to attract other countries into the development of the Chinese economy. Over the twenty years of Japan's ODA programmes, direct foreign investment from Hong Kong and Taiwan has been more substantial than total ODA from all sources so this has been more significant as an engine of economic growth than ODA.

Japan's Political Goals and Influence

It is possible to identify a number of political or security considerations that underpinned Japan's offers of ODA to China. Some relate specifically to China, while others relate more to Japan's global posture.

For the first decade, the two sets of goals were not for the most part in conflict. By the 1990s, it became apparent that the China aid programme – as important as it had seemed in political and security terms as a means of enhancing Japan's relations with China – was less important to Japan than other security considerations, such as maintaining alliance solidarity with the United States and appeasing domestic sentiment about China's behaviour on human rights, nuclear testing and military posture.

There were four China-specific political goals of Japan's aid to China that had emerged either by 1979 or not long after: to foster a friendly disposition in China towards Japan

to overcome suspicions and animosities created by the Fifteen Year War, the Korean War, and the Cold War; to prop up China's continued tilt to the United States and its allies in their global confrontation with the Soviet Union and the Soviet bloc; to help maintain political stability in China; and to support China's policy of opening up and reform, launched in 1978. There was little expectation in Japan that the aid programme would deliver any more specific forms of political influence over Chinese leaders of the sort that the United States and Soviet Union were vigorously pursuing in the Third World through their military and economic aid packages. Japan's aid programme to China supported Japan's global ambitions in several ways: as an indicator of its willingness to meet its responsibilities as a wealthy, developed state to contribute foreign aid to poorer countries; as an indicator that in taking a lead among the developed countries in aid to China, Japan could exercise both regional and global leadership; and as an indicator that Japan's role as a 'civilian' great power, which lacked the political will to engage in military diplomacy, could be a credible one.

From the outset, the aid programme has also been subject to pressures arising outside the Japan-China relationship. For example, in 1979 the United States complained that Japan was using its aid in an attempt to monopolize the China market; and the Soviet Union, Vietnam and South Korea complained that Japan's aid would contribute to China's strategic capacities. The Japanese Government responded with a statement of principles to assuage these suspicions: first, to cooperate with the United States and other friendly countries in development assistance to China; second, to balance aid to China with aid to other Asian countries, particularly in ASEAN; and third, to avoid loans to defence-related sectors.

China has remained a high priority for Japan in its bilateral aid programme, but ASEAN as group is more important to Japan than China. China received more 8.9 per cent of the value of all Japanese bilateral ODA, including grant aid, in the two years 1995 and 1996⁷¹ and some 11.7 per cent of the value of all Japanese ODA loans between 1966 and 1997.⁷² Thus while in some years China has figured more prominently than any other single country, in other years it has not. The higher per head level of aid to a variety of Southeast Asian, Middle Eastern and South Asian countries probably provides a better indication of how Japan views the balance of its strategic interests in China compared with the value of development of strong ties with a large number of other countries.

In the twenty years of the aid programme, Japan's strategic goals have been modified as the international strategic environment and domestic political sentiment in Japan have changed. The shifting ground of Japan's motivations for providing ODA to China have been revealed in a series of political shocks in the past decade, and these have intensified over time to the point where some in the Japanese parliament no longer support the ODA programme to China and want it to end. The first serious threat to continued Japanese aid to China came after the Tiananmen Square Incident on 4 June 1989. After some initial reluctance to join its G7 partners in applying sanctions on China, Japan did so to show solidarity with its partners in common opposition to the actions of the Chinese Government, or to avoid being isolated from its alliance partners. Japan's actions included a suspension of the current aid programme and a freeze on an already agreed ODA loan of ¥810 billion due to be offered in 1990. In August 1989, Japan lifted the suspension applying to existing ODA loans, and in December 1989 released new grant aid for a television broadcasting project and a hospital project. By

⁷¹ DAC on-line data base, DAC Home Page

⁷² OECF Press Release, "The 25th Anniversary of the Normalization of the Diplomatic Relations between Japan and china", 12 September 1997

May 1990, Japan announced that it would honour its promise for the next ODA loan of ¥810 billion but that the time was not yet right to let the money flow. This was very well received by China's leaders.

Business interests were arguing for an early end, as were a number of foreign policy analysts who saw Japan as having a special requirement to maintain friendly relations with China, even it had meant that Japan would be ahead of its major allies in resumption of ties. Japan came under immense international pressure, including from the United States, not to break ranks. Even as Japan seemed to be breaking ranks by sending a semi-official delegation of scholars in August for meetings with senior Chinese officials at Vice Foreign Minister level, the delegation stipulated that any improvement in ties with Japan would depend on signs of improvement in relations between the United States and China. But behind the scenes, Japan was also trying to stake out a position of leadership in the international community, and in the case of the sanctions on China, it sought to portray itself as the bridge-builder between the G7 and China. Whatever the historical record, the conventional wisdom among Chinese specialists in subsequent years has been that Japan was significantly less demanding of China as a result of the Tiananmen incident than that United States and other G7 members.

Having restored full ODA ties with China only in late 1990, the Japanese Government in 1992 imposed a new set of conditions on its provision of ODA, a move partly in response to domestic pressures, and partly in response to pressure from the United States which had been dissatisfied with Japan's underlying attitudes to the Tiananmen incident in 1989. The ODA principles declared that Japan would henceforth condition its aid to countries which were developing weapons of mass destruction, spending

excessively on their armed forces, exporting arms to conflict areas, or abusing human rights. There is a view that the ODA principles may be sufficiently vague to allow flexibility or that the Japanese Government was not committed at all to them, that they represented statements the government had to make to placate domestic constituencies. But the actions of the Japanese Government in its China policy have been shaped substantially by these principles even if important ministries have been reluctant to apply them in the case of China.

Japan expressed these principles in universal terms, but it is likely that trends in China were an important stimulus for development of the new policies. China was the only developing country at that time which Japan acknowledged as producing nuclear weapons, but Japan may have also had an eye on India and Pakistan, both of which were recipients of Japanese ODA. According to some analysts, the decision to link military spending to receipt of ODA funds was made by Japan in order to exert more influence on regional affairs after the US government announced in 1990 a phased drawdown of US forces based there a more modest US role as a security balancer to take stock of China's new wealth accumulated through almost fifteen years of high economic growth. The talk of a 'rising China' as a challenger state to Japan, to the United States or to international order became commonplace. The implementation of the ODA principles would have posed a threat to the future of the aid programme in China but Japan took no immediate public action.

A number of political incidents after 1992 intensified domestic pressure on the Japanese Government to curtail or suspend aid to China in accord with the ODA principles. In October 1994, Japan's Deputy Foreign Minister had reacted to a second Chinese nuclear test after the introduction of a moratorium by three other nuclear weapon states by

saying that China's tests could influence Japan's aid policy towards China. In that event, Japan decided to lend only one third of the amount requested by China and announced in late December 1994 the new loan of only ¥580 billion. In August 1995, in response to China's second nuclear test in that year, Japan suspended grant aid to China, exempting humanitarian aid. This move by Japan was relatively mild compared with the measures demanded by important political groups in the country, including the Liberal Democratic Party's coalition partner, Sakigake, which had demanded suspension of the soft loans. The Foreign Ministry is reported to have argued against the suspension. Some indications of the seriousness with which Japanese agencies involved in ODA policy viewed nuclear proliferation can be found in the initiation of an ODA-funded global project to train people from developing countries.

In March 1996, when China used military exercises and the 'test' launch of ballistic missiles close to Taiwan to intimidate its voters in the Presidential election and its political parties, calls for suspension of ODA loans became even more strident. The suspension of grant aid put in place in August 1995 was not lifted until March 1997.

At the same time as Japan was expressing disquiet with China's nuclear policies, the Japanese Government was looking to change the method of disbursement for ODA loans to China to bring it into line with the practice in Japan's ODA to other countries. In announcing the fourth loan package in 1994, Japan made minor adjustments in the disbursement conditions both in terms of the duration of the period and value. The new approach probably resulted from a variety of factors, some political and some simply bureaucratic.

There were important political considerations. Since the five-year period was a special concession unique to China, it may have been, like the loans themselves, a partial offset for China's willingness to forgo war reparations. The move in 1994 to normalize the period was probably a sign that Japan felt it had paid its dues for the war. Japan may also have wanted to put China on notice that the leverage inherent in not having made a pledge for five years could be exercised at the three-year mark. But Japan's desire to change the manner and volume of aid disbursement in China is not necessarily attributable completely to changes in political attitudes to China. Other developing countries are making claims on Japan's soft loans and are critical of the special attention China has received. Moreover, the richer provinces of China are now in a position to apply for normal commercial loans from Japan's Export-Import Bank rather than at the concessional rates. Beginning in 1995, Japan set in place new policies, such as trade insurance and more flexibility in Exim Bank loans, to encourage its private sector to take up some of the demand for infrastructure investment that its ODA could not meet or that it did not want to continue to meet.

The low point in the Japan-China aid relationship came in 1997 when the Policy Research Committee of the government party in Japan, the LDP, recommended suspension of the aid if China did not act more responsibly – according to the Japanese definition. By then, even the Ministry of Foreign Affairs, one of the key supporters in the government of the aid programme, had come to accept that Japan had not been able to purchase much political influence with its aid programme. In particular, the burst of cheque-book diplomacy pursued by Japan through its global programme after 1994 to win support for its permanent membership of the UN Security Council was seen as having failed. Even commercial interests in Japan, represented by Keidanren, were expressing misgivings about the aid programme because the initial commercial

opportunities that had fallen to Japanese companies from the aid projects had been drying up. By 1998, a report by the Japan International Cooperation Agency (JICA) was recommending that aid programmes to China should give more attention to health, education and social welfare than economic development. The goal of helping China advance its market economy remained in place, but the report suggested this could be better achieved through a focus on eliminating poverty, *reducing regional differences*, and protecting China's environment and food supply. Some supports for the reforms of the financial system were also identified as useful goals.

Assessing the degree of influence that arises from a foreign aid programme is a notoriously difficult problem. There are differing views on this aspect of Japan's foreign aid relationships. Some suggested that Japan's aid programme creates considerable leverage over recipient governments. In the case of the aid programme in China, one study concluded that by tying its aid to purchase of Japanese goods and services, Japan uses its aid to China as a 'Trojan horse' which has enabled Japan to entangle China in a 'vicious cycle of dependence' that gives Tokyo leverage with which to extract economic concessions. Others argued that Japan has not sought strategic leverage with its aid programme, or has not in general been able to transfer its aid policies into political influence.

For most of the time since 1979, Japan's ODA to China has continued to serve the strategic needs of Japan with respect to diversification of resource supply and the opening of markets, and in contributing to an advance in China's prosperity. The picture with respect to the internal stability and strategic orientation of China is more mixed. The general economic advance of China, to which Japan contributed, has promoted rapid change. While Japan had been *relatively comfortable with China's new*

prosperity for the most part, the brutality of the Tiananmen incident gave many in Japan considerable pause for thought. China's continued military spending and nuclear testing, and its military intimidation of Taiwan in 1995 and 1996 led to a belief that while Japan's aid may have fostered prosperity in China, it had not fostered a more accommodating international posture. By the mid-1990s, few in Tokyo believed that its ODA to China was contributing to Japan's security. Many felt that by providing ODA to China while it continued its military programmes, Japan was actually subsidizing China's military posture. A 1995 report to the government by a large group of experts concluded that the 'wisdom of continuing yen credits in their present form can be questioned for a variety of reasons.'⁷³

Japan may have succeeded in some respects for a while in meeting one of the prime motivations of development assistance, that is to foster friendly attitudes in China towards Japan, but as discussed, this achievement was as short lived as I was thinly-based in terms of its visible social impact in a country of one billion people.

Japan appears to have judged that access in China is not influence and that it has not been able to acquire any consistent political leverage there through its aid programmes. In very small countries, such as those in the South Pacific, Japan has clearly been able to buy support for certain of its international gambits through provision of aid since these countries are excessively dependent on foreign aid, Japanese aid in particular, and many of the leaders respond quite readily to Japan's cheque-book diplomacy. However, there is room to doubt Japan's ability to use aid to obtain influence over larger countries, such as China, for which Japan is just one source of development funds and for which development assistance is a small percentage of total fixed asset investment.

⁷³ Japan Forum on International Relations, *The Policy Recommendations on the Future of China in the Context of Asian Security*, Tokyo, January 1995, pp.23

It would appear that Japan failed to 'win' China's support for its bid for permanent membership of the UN Security Council in spite of the high levels of aid. Japan may not have been seeking such direct influence from the aid programme to China, but it has certainly used its aid programme to buy votes among small South Pacific states on fisheries issues. What the aid programme did probably influence was the way in which China expressed its opposition, which was not outright rejection, but a politely expressed deferral. For China, finding polite ways to reject Japan's political overtures is low-cost way of coping with such pressures, but there is probably a limit to Japanese tolerance of lack of responsiveness by China to Japan's diplomatic gambits. The refusal by China to support unreservedly Japan's UN bid may explain in part the more questioning approach to Japan's ODA relationship with China that has been revealed in several prominent advisory reports for the government and in more negative public commentary about the aid programme. By 1997, according to a Japanese official working in Japan's UN mission, recognition within Japan that the bid for a permanent seat on the Security Council was probably doomed did contribute to the push to cut back on ODA, though this was not necessarily directed at China.⁷⁴

⁷⁴ Greg Austin & Stuart Harris, "Priorities and Outcomes for Japan and China in the Aid Relationship", *Japan and Greater China, Political Economy and Military Power in the Asian Century*, (London, 2001), p.193