

CHAPTER IV
THE POLITICS OF FOREIGN AID IN JAPAN'S ODA POLICY
TOWARDS CHINA

The Politics of Foreign Aid

The term “foreign aid” can only be properly applied to actions taken by people or institutions in one country towards people or institutions in another country which help, or are at least intended to help, the latter.

In the late 1950s, an increasing number of people and institutions in an increasing number of countries – in Africa, Asia and Latin America – came to expect and to receive resources or assistances from institutions in the richer and developed countries. These resources were of many different kinds, and they were intended to support, and came to be seen as necessary for, many different kinds of endeavour.

Most of the endeavours which appeared to be supported – such as the maintenance of national security, the political consolidation of a regime, the promotion of some aspect of national welfare or sectional interest – were endeavours which had long been regarded as lying within the field of government action. Similarly, the transfer of resources or “aid”, a name that was used in the early 1960s to describe the resources transfer between nations, for a wide range of purposes, had long been a feature of international relations.

In the early 1960s, a new language came into common use to describe that part of the traffic which took the form of a flow of resources. The name given to the resources themselves, lumped together in a single category and isolated from other aspects of the

traffic, was “aid”. The name given to the endeavours that they supported or could be made to support, lumped together and isolated from other aspects of the activity of governmental institutions, was “development”. The name given to the countries in which the institutions that received the resources were located, lumped together and isolated from the countries from which the resources came, was “underdeveloped countries”, with variants such as “developing countries”, “less developed countries”, and, most aggregative of all, “the Third World”.

The Politics of Japan’s Foreign Aid

Japan as a Recipient

Japan’s first involvement with foreign aid was as a recipient. Faced with a nation reduced to ashes by the end of World War II, the first and foremost mission of the Japanese Government was to reconstruct. From 1945 to 1951, Japan received assistance under the Government and Relief in Occupied Areas (GARIOA) and Economic Rehabilitation in Occupied Areas (EROA) plans through which the United States funneled funds for postwar reconstruction. The Japanese Government used the GARICA-EROA funds to purchase food, pharmaceuticals, and other necessities for its people as well as to procure raw materials for industry. From 1946 to 1951, Japan received US\$2 billion worth of credits from the EROA fund.

Furthermore, from 1953 (when the Tonegawa Dam was built) to 1966 (when the Tomei Expressway opened), Japan received funding in the amount of US\$880 million from the World Bank for major projects, mainly infrastructure projects such as the construction of the No. 4 Kurobe Dam for hydroelectric power generation, the Tokaido Shinkansen (superexpress bullet train line), and the Tomei/Hanshin expressways linking industrial regions in Tokyo, Nagoya and Kobe. Japanese postwar reconstruction owed much to

assistance from abroad. Japan completed its repayment of these funds to the World Bank in 1990.

ODA as War Reparations

While still a recipient of foreign aid itself, Japan began providing development assistance in the form of war reparations to other countries in Asia. Pursuant to the San Francisco Peace Treaty of 1951, Japan was required to pay war reparations to twelve countries in East Asia to compensate for damages inflicted on them during World War Two, a condition to be met before it could rejoin the international community. In November 1954, Prime Minister Yoshida Shigeru signed the first agreement on reparation and economic cooperation with Burma. Subsequently, Japan entered into reparations agreement with the Philippines in 1956, Indonesia in 1958, and quasi-reparations (grants in lieu of formal reparation commitments) with Laos and Cambodia in 1959. Until Japan completed its payment of reparations to the Philippines in July 1976, reparations to East Asian countries constituted the central aspect of its economic cooperation overseas.

This background of Japanese aid has had a strong bearing on subsequent developments. The destinations of Japanese ODA and the focus of infrastructure development are symbolic. Asia has consistently been the top destination of ODA even in the 1990s, although the share has gradually declined in the 1990s. In 1970, Asia received the remarkable share of 98 per cent of all Japanese ODA.

From Reparations to Export Promotion

Japan's first foreign aid to developing countries was provided in the form of multilateral aid through its participation in the Colombo Plan for Cooperative Economic and Social

Development in Asia and the Pacific in October 1954. The Colombo Plan was originally launched in 1950 in Colombo, Ceylon (now Sri Lanka) in order to facilitate economic and technical cooperation among the member countries of the British Commonwealth of Nations. Subsequently the recipient areas of this aid programme were expanded. In 1955, Japan provided US\$100,000 for technical cooperation under the Colombo Plan. Since then, technical cooperation has remained an important element of Japanese ODA.

In 1958, Japan's Prime Minister Nobusuke Kishi signed Japan's first agreement to give yen loans to India, again in the form of multilateral aid, through the World Bank Consortium for India. Yen loans also began playing an important role in Japanese ODA, but more a form of bilateral aid.

Providing aid in the late 1950s was a hard political decision to make, since Japan could not yet satisfy its own financial needs. The rationale used during this time period was that war compensation could be based not only on reparation agreements but also take the form of yen loans and technical cooperation. In February 1957, Prime Minister Kishi elaborated upon the Japanese philosophy of foreign aid in his foreign policy speech as follows: "First of all, Japan's aid to Asian countries which are in the midst of their respective nation building will enhance the national welfare of those countries. Secondly, reparation and economic cooperation towards these countries will eventually secure a new export market for Japanese industries and will ultimately contribute to the Japanese economy."⁷⁵ Thus, giving aid was explained as war reparation, repaying indebtedness through postwar reconstruction and export promotion.

⁷⁵ Akiko Fukushima, "Official Development Assistance as a Japanese Foreign Policy Tool", ed. Inoguchi Takashi and Purnendra Jain, "Japanese Foreign Policy Today", (New York, 2000), pp. 156

From Export Promotion to Interdependence Rationale

Japan continued to expand its ODA and in 1964, the amount totaled US\$100 million. In 1976, Japan became the second largest donor.

In the 1960s and 1970s, Japanese ODA grew not only in quantity but also in quality. These were also decades when Japan came under severe criticism as it achieved rapid economic growth under the protective umbrella of the security provided by the U.S.-Japan security treaty and the free trade policies introduced by the Bretton Woods system. Criticism about Japanese ODA came from peer donors. It was criticized as being too commercial and highly tied, aimed directly at export promotion of Japanese goods. Tied aid means that recipients are limited to procuring equipment and services from companies of the donor nation, and is often used by donors who are not very competitive in the international market. Japan's export promotion rationale backfired overseas as Japan's aid was seen as being too commercially oriented. In response to this criticism, Japan started to untie its ODA, enabling recipients to use suppliers and contractors of any nationality instead of only Japanese. Japan revised the legislation of the OECF and the Export Import Bank of Japan to allow these organizations to make untied loans in 1972.

The export promotion rationale for Japanese ODA started to crumble with the growth of such untied aid, at least in the direct sense, although there is no denying that economic growth of developing countries will, ultimately, provide markets for Japanese goods and services.

In the 1970s, interdependence, in place of export promotion per se, became Japan's main aid rationale. This notion of interdependence was clearly reflected in the 1970s

MITI annual report on economic cooperation, which described Japan's relations with the less developed economies (LDCs) as having "an importance not seen in relations with advanced nations. Whether or not the LDC economies can show healthy growth has a serious bearing on our own country... We cannot afford to neglect friendly economic relations with the LDCs. Our position is that Japan's economic cooperation is not simply an international responsibility but an unavoidable requirement for the smooth management of our own economy."⁷⁶ Ancillary to these major rationales were regional stability, bilateral leverage, promotion of political stability in recipient countries, and improved relations with other donor countries.

This interdependence rationale was further enhanced after the oil crises in 1973-74 when OPEC countries declared an oil embargo that drove home the message of interdependence. The case was truly serious for Japan, which lacks domestic oil resources. Ministry of International Trade and Industry of Japan's annual report in 1976 on economic cooperation identified economic interdependence between Japan and the developing countries as its aid rationale.⁷⁷ Supply security of resources and raw materials became an important element of the aid rationale, particularly in the eyes of MITI in the post oil-crisis period. This change in aid rationale subsequently changed the geographical distribution of Japanese ODA, spreading gradually more widely to non-Asian regions, particularly to the Middle East.

Tool for Global Positioning

After the oil crisis in the 1970s, the concept of a global role was developed as comprehensive security with the goal of adopting a comprehensive approach to diverse sources of threat. The security concept included military and non-military threats

⁷⁶ Ministry of International Trade and Industry, *Keizai kyoryoku no genjo to mondaiten* [Economic Cooperation: Present Situation and Problems] (Tokyo: Trade Industry Survey Committee, 1971), pp.116

⁷⁷ *Ibid*, pp.182

ranging from military attack, disruption of resources supplies, pollution, natural disasters, crime, and terrorism. As a result, Japan started to diversify its ODA to those related to basic human needs, including education, health, housing, public services and human resources development.

Japanese ODA's Commercial Nature

One of the most common criticisms of Japan's ODA is that it seems calculated only to serve the country's economic interests, through collusion with corporations and consultants, and ends up actually contributing to the suppression of human rights and destruction of the environment in recipient countries. "Half of the aid money returns to the Japanese economy through trading companies,"⁷⁸ said one critic. Although provided on the basis of recipients' requests, such applications are sometimes prepared by trading companies and "fed" to developing country government. Another criticism is that Japan is aiding countries that have natural resources important to its needs, but offers little or no assistance to less-developed countries that do not have commodities for export, as in the case for example of Ethiopia, which exports little more than coffee to Japan.⁷⁹

ODA as a tool of Japan's foreign policy in China

Over the past five decades, Japan initially received from and subsequently provided economic assistance to the developing world. The amount of Japanese aid over the years has surged commensurate with the recovery and growth of the Japanese economy, making Japan the top world donor since the 1990s. Same as other powers, the Japanese

⁷⁸ Atsushi Kusano, *Itcho-nisen-oki, en no yukue [When Has 1 Trillion and 200 Billion Yen of ODA Money Gone]*, (Tokyo, 1993), pp. 5

⁷⁹ Akiko Fukushima, "Official Development Assistance as a Japanese Foreign Policy Tool", ed. Inoguchi Takashi and Purnendra Jain, "Japanese Foreign Policy Today", (New York, 2000), pp.168

Government has not provided aid for charity reasons but with a purpose, most notably as a foreign policy tool.

As Japan's economy developed and as her international position as an economic power grew, foreign aid became an instrument not simply for supporting the rehabilitation of Japanese economic activities, but began to become an important instrument as well for an embryonic foreign policy that was cautiously seeking ways to express Japan's evolving international economic, political, and security aspirations and responsibilities. In the 1950s and through most of the 1960s, Japanese foreign policy stayed well under an umbrella of security provided by the United States. There could be important differences between Japan and the United States – the Vietnam War was one illustration – but by and large Japan assumed that on matters related to the fundamental international well-being of Japan, U.S. policy guidelines and security guarantees could ultimately be relied on. In this context, ODA policy was more likely to be an extension of Japan's reconstruction strategy, a strategy which included reconstructing economic relations between Japan and the rest of Asia, than the harbinger of any fundamental alternative views of international order.

For the case of China, since the start of Japan's official China aid programme in 1979, Japan has used foreign aid as a key diplomatic instrument in dealing with China, which is probably the most difficult country for Japan to deal with, yet also its most important neighbour. Japan's goals have been to steer China in an economically sustainable, socially stable and political liberal direction.

Two Japanese foreign aid sanction cases in China, which were first suspension in 1989 after the Tiananmen Square Incident, and second case was in response to China's

nuclear testing in 1995, have vividly illustrated that the Japanese Government has established extension and suspension of its foreign aid as a multiple-use foreign policy tool.

Indeed, the Japanese Government's suspension of its foreign aid to China twice in the past 12 years also indicated the importance of Japanese domestic politics and its public opinion in supporting the government's unilateral foreign policy actions, as foreign aid becomes an important policy tool aiming to enhance the security environment for Japan. However, both of these conclusions go beyond the conventional theoretical understanding of Japan's foreign policy-making, which has emphasized Japan as a reactive state with single-minded pursuit of its economic interests.

Case Study One - The Tiananmen Square Incident and Japan's Aid Suspension from June 1989 to July 1990

The Japanese Government declared 'what amounted to a temporary freeze on its massive economic assistance program to China' on 7 June 1989, three days after the killing of demonstrators by the Chinese military in Tiananmen Square. In comparison with West European countries and the US, which unequivocally denounced the Chinese Government's actions, and immediately suspended arms sales and high-level official visits to China, the Japanese Government's response was delayed and ambiguous. Senior Japanese officials all emphasized that its suspension of aid was only a temporary freeze and a practical 'response' to the chaos in China, but it was not a 'sanction'.

At the same time, the Japanese Government was concerned about pressure and criticism, domestically but more particularly from abroad, on its 'soft' position on China. International pressure was mounting and, by 12 June, the Bush Administration was

informally consulting with Japan and Western European countries on the formation of a unified front to impose economic sanctions on China. The Japanese Government was obliged to follow the Western countries' lead in order to avoid being isolated and to circumvent US antagonism, with which Japan had experienced a series of intense trade disputes during the previous few years.

Domestic reactions in Japan towards the incident also influenced the decisions of the Japanese Government. Some Diet members, including a number from the governing Liberal Democratic Party as well as some from the Japan Communist Party joined in the criticism of the Japanese Government's inaction against the Chinese Government.⁸⁰

Nevertheless, the Japanese Government's relatively 'conciliatory' and cautious approach to dealing with China continued to be visible at the Paris Summit one month after the incident. At the summit, Japan's Foreign Minister Hiroshi Mitsuzuka emphasized the need for a cautious stance among G-7 members to avoid isolating China, which could be highly destabilizing for Asia. The absence of any mention of 'joint sanctions against China' in the Paris Summit declaration was a clear endorsement of Japan's position at the summit. The Japanese Government shared the concern of the business community about the shortage of capital flows to China due the suspensions of private loans and other lending by bilateral donors and international financial institutions such as the World Bank and Asian Development Bank.⁸¹

As the height of the crisis passed, frequent high-level discussions took place between Japan and the US in relation to lifting the ban on economic assistance to China from the

⁸⁰ Saori N. Katada, *Why did Japan Suspend Foreign Aid to China? Japan's Foreign Aid Decision-making and Sources of Aid Sanction*, Social Science Japan Journal, University of Tokyo, 2001, Vol. 4, No.1, pp. 39-58

⁸¹ *Ibid*

fall of 1989 through spring of 1990. Japan's freeze on some ongoing loans was lifted as early as August 1989. A major earthquake hit China in October, prompting the World Bank to supply humanitarian aid for disaster relief, and, soon after, the Japanese Government released new grant aid of US\$35 million in December 1989 for improvements to a Beijing television broadcasting station and a Shanghai hospital. The pressure from the US remained strong during these months. US National Security Adviser Brent Scowcroft came to Tokyo in December 1989 to dissuade Japan from restoring credit too quickly. While maintaining its posture of collaboration with the US line on economic sanctions, the Japanese Government facilitated visits by various Japanese political and business figures to China from August 1989.⁸²

Finally on 26 June 1990, Japan's Prime Minister Toshiki Kaifu announced that Japan was planning to resume aid discussions with China and to activate its US\$5.4 billion yen loan aid package for the period of 1990-1995. Japan officially announced a unilateral resumption of aid at the Houston Summit on 9-11 July of the same year.⁸³

The Ministry of Foreign Affairs of Japan's annual publication, *The Diplomatic Bluebook*, comments that "Japan decided to act on Asia-Pacific issues on its own initiative and responsibility". The Chinese Government appreciated the 'good will' shown in Japan's conciliatory stance and role as a bridge between the Western powers and China.

Japan's unilateral lifting of aid sanctions against China looks on the surface like a case of Japan acting independently and proactively, but the Japanese Government's behavior throughout this case matched the stereotype. The Japanese private sector supported the government's soft stance on China, wishing to restore normality to business relations as

⁸² *Ibid*

⁸³ *Ibid*

quickly as possible. Facing strong peer pressure from fellow donors, the Japanese Government was forced to weigh domestic pressure against pressure from the international community. Furthermore, the unilateral lifting of aid sanctions came only after most of the other major donor countries began to ease restrictions, despite their rhetoric.

Case Study Two: Protests against China's Nuclear Testing, August 1995 to March 1997

In a strong reaction against China's nuclear tests conducted in May 1995, the Japan's Foreign Ministry threatened to 'compress' the grant aid portion of Japan's foreign economic assistance to China if China failed to commit to the ban on nuclear testing. At that point, however, the Ministry did not specify the amount or which projects might be affected by such 'compression', insisting on a 'flexible' response to the changing situation. A Ministry official emphasized that such action should not be understood as a 'sanction'. Nevertheless, Japan's political commitment was apparent when senior Japanese Government's four guiding principles for providing foreign aid that was adopted in 1992. Tokyo was also aggravated by the fact that China's nuclear test came only days after China had expressed support for the indefinite extension of the Nuclear Non-Proliferation Treaty. It also came straight after a visit to China by Japan's Prime Minister Tomiichi Murayama, during which he requested the Chinese Government to seriously consider stopping nuclear testing following the examples of other nuclear powers.⁸⁴

Tokyo did not take concrete action against China until August of the same year, when China conducted a second nuclear weapons test. At a meeting on 30 August, a top official from MOFA officially informed the Chinese ambassador to Tokyo that Japan

⁸⁴ *Ibid*

would suspend its grant aid to Beijing in protest against the repeated nuclear testing. The Japanese Government reiterated that the suspension of grant aid (excluding humanitarian aid, which was exempted from the suspension) would not resume until Beijing foreswore any further nuclear tests. In addition, the Japanese Government announced a policy of 'caution' in extending new yen loans to China. Although grant aid is a relatively small portion of Japanese aid to China – US\$78 million compared with US\$1.4 billion of concessional loans for the Fiscal Year 1994 – the aid suspension decision itself shocked the Chinese Government, which stated that Tokyo's decision was 'unwise and had thrown cold water on relations between the two countries'. Japanese China-watchers commented that, despite the relatively small amount of money involved, the Chinese Government was much more disturbed by this unilateral grant aid suspension than by the measures taken in 1989-1990.⁸⁵

The 'compression' of grant aid was a unilateral action by the Japanese Government. Although there was criticism of China's nuclear testing from the Western powers, including the US, there was no coordinated multilateral effort to pressure China. Instead, this strong Japanese reaction came from within. The public, politicians and bureaucrats all reacted negatively to China's nuclear testing, and this strengthened the government's hand. Failure to act against China's nuclear testing could have undermined the credibility of Japan's foreign aid policy stance. Moreover, the Japanese business community accepted the suspension of grant aid. For example, in June of 1995, the Chairman of Japan Trade Association supported the Japanese Government's decision to 'suspend grant aid, but continue yen loans' to China.⁸⁶

⁸⁵ *Ibid*

⁸⁶ *Ibid*

The grant aid suspension was later lifted at the time of Japan's Foreign Minister Yukihiko Ikeda's visit to China in March 1997. A recommendation to resume grant aid had already been made by MOFA in the fall of 1996 in recognition of China's decision to stop nuclear testing and to sign the United Nations' Comprehensive Nuclear Test Ban Treaty.⁸⁷

Japan's top donor position is a common factor in the two cases. Coming a long way from her position as a small and narrowly mercantilistic aid donor in the early 1970s, Japan became the world's largest aid donor in 1989, her aid almost double the US figure that year. The demise of the Soviet Union and the end of Cold War tension has been reflected in the aid policies of the US and other donors. US foreign aid was drastically cut from a peak of US\$11.7 billion in 1992 to US\$7.3 billion in 1995, although its level recovered in 1996 to US\$9.06 billion. Declining foreign aid can partly be attributed to the partisan shift towards a Republican majority in the 1994 congressional election, and the austerity of US budgets in the first half of the 1990s. Nevertheless, the loss of a Cold War security rationale also had a significant impact.

In this international environment of declining foreign aid, Japanese motives for aid giving attracted increasing attention in the 1990s. MOFA's October 1996 ODA White Paper emphasized that ODA is an important instrument for pursuing Japan's national interests. The paper states that, as well as addressing the problems of poverty, global environment population explosion, ODA can also protect the high living standards of the Japanese people by improving the welfare of people in developing countries. In an age when Japan is so dependent on the developing world for energy and food as well as export markets for its manufactured goods (accounting for over 50 per cent of the total),

⁸⁷ *Ibid*

the stability and prosperity of developing countries enhances the welfare of Japan. This official acknowledgement of the national interest motive shows a shift in Japan's foreign aid posture compared with the early stage of aid giving in the 1970s. There are signs of increased government confidence in the approach of aid. The mercantilistic practice of tying aid to Japanese exports has diminished significantly. Moreover, Japan's major aid recipients in East and Southeast Asia have made impressive economic progress in the past two decades, although the 1997 Asian financial crisis was a setback. For China, Japan has been by far the largest aid donor since the mid-1980s, even surpassing multilateral development institutions such as the International Development Association (the soft credit window of the World Bank), and the Asian Development Fund (the soft credit window of the Asian Development Bank). Except for the two years 1990 and 1991, the Japanese Government provided more than half of China's bilateral ODA from 1979 to 1998 (more than 60 per cent in years 1993 and 1994) with major European donors such as Germany and France trailing far behind. Japanese foreign aid accounts for more than one-third of overall (bilateral and multilateral) ODA to China.

Japan's two aid suspensions to China took place in this environment where Japan is by far the largest aid donor. Admittedly, 1989 was Japan's first year as a global top donor and thus the government may not have had as much confidence as in 1995. Nevertheless, Japan's dominant position as the major aid donor to China has been consistent.