

ESSAYS IN INTERNATIONAL FINANCE

No. 196, March 1995

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FROM RECIPIENT TO DONOR: JAPAN'S OFFICIAL  
AID FLOWS, 1945 TO 1990 AND BEYOND

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SHINJI TAKAGI



INTERNATIONAL FINANCE SECTION

DEPARTMENT OF ECONOMICS  
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PRINCETON, NEW JERSEY

## ESSAYS IN INTERNATIONAL FINANCE

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*International Finance Section*

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## ABBREVIATIONS

ADB	Asian Development Bank
ADF	Asian Development Fund
AfDB	African Development Bank
AfDF	African Development Fund
AOTS	Association for Overseas Technical Scholarship
ASEAN	Association of Southeast Asian Nations
CSP	Civilian Supply Program
DAC	Development Assistance Committee
DAG	Development Assistance Group
EBRD	European Bank for Reconstruction and Development
EIB	Export-Import Bank of Washington (or the United States)
EPA	Economic Planning Agency
EROA	Economic Rehabilitation in Occupied Areas
ESAF	Enhanced Structural Adjustment Facility
Eximbank	Export-Import Bank of Japan
FILP	Fiscal Investment and Loan Program
GARIOA	Government and Relief in Occupied Areas
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDB	Inter-American Development Bank
IDC	International Development Center
IMF	International Monetary Fund
JDB	Japan Development Bank
JETRO	Japan External Trade Organization
JICA	Japan International Cooperation Agency
JOCV	Japan Overseas Cooperation Volunteers
JPC	Japan Productivity Center
LARA	Licensed Agencies for Relief in Asia
MDB	multilateral development bank
MITI	Ministry of International Trade and Industry
MOF	Ministry of Finance
MOFA	Ministry of Foreign Affairs
ODA	official development assistance
OECD	Organisation for Economic Co-operation and Development
OECF	Overseas Economic Cooperation Fund
OEEC	Organisation for European Economic Co-operation
OJEIRF	Occupied Japan Export-Import Revolving Fund
OTCA	Overseas Technical Cooperation Agency

SCAP	Supreme Commander of the Allied Powers
UN	United Nations
UNDP	United Nations Development Programme
UNEPTA	United Nations Expanded Programme of Technical Assistance
USAID	United States Agency for International Development



## FROM RECIPIENT TO DONOR: JAPAN'S OFFICIAL AID FLOWS, 1945 TO 1990 AND BEYOND

### 1 Introduction

During the years from 1945 to 1990, Japan transformed itself from being a recipient of foreign aid to becoming, along with the United States, one of the world's two largest donor countries. The process was steady and remarkable. Japan began to provide limited amounts of foreign aid in the 1950s, mostly in the form of reparations and related payments, although it remained a net recipient well into the 1960s. By 1970, however, Japan had become the fifth-largest donor in terms of the U.S. dollar value of its official development assistance (ODA); its disbursements were exceeded only by those of the other G-5 countries—France, Germany, the United Kingdom, and the United States. In 1989, Japan temporarily replaced the United States as the largest donor of ODA disbursements.

This essay documents the transformation of Japan from recipient to donor, discusses current issues, and examines the outlook for Japan's foreign aid in the 1990s. It concentrates on the volume, composition, and direction of Japan's foreign-aid flows and the vehicles used to provide them; it does not discuss the political process by which they have been determined.<sup>1</sup> By their very nature, official aid flows are not easily susceptible to rigorous economic analysis; they reflect the political decisions of national authorities, which may not always correspond to the rational maximizing behavior of economic agents. Nevertheless, the information on Japanese aid flows contained in this essay may provide an additional dimension to the discussion of Japan's international economic relations, as well as to the analysis of recent Japanese capital flows.

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<sup>1</sup> There is a large literature on the decisionmaking process; see, for example, Rix (1980, 1993), Yasutomo (1986), Orr (1990), and Koppel and Orr (1993).

According to the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD), a flow of financial resources qualifies as ODA if (1) it is provided by official agencies to developing countries or multilateral institutions, (2) its main objective is to promote economic development and welfare in developing countries, and (3) the terms are concessional in the sense that the grant element is at least 25 percent of its total.<sup>2</sup> Although keeping in mind this operational definition of ODA, this essay will take a somewhat broader view of official aid flows, particularly when discussing Japan's experience during the early postwar period.

The discussion is organized as follows. Section 2 provides an overview of Japan's aid flows from 1945 to 1990, using the balance-of-payments statistics. Section 3 discusses Japan's experience as an aid recipient, focusing on U.S. aid and official loans. Section 4 examines the beginnings of Japan's role as a donor country, from the mid-1950s through the mid-1960s. The emergence of Japan as a net donor and the rapid expansion of Japanese ODA are traced in Section 5. Institutional and qualitative aspects of Japan's official aid are examined in Section 6. Issues and prospects are discussed in Section 7, and concluding remarks are contained in Section 8.

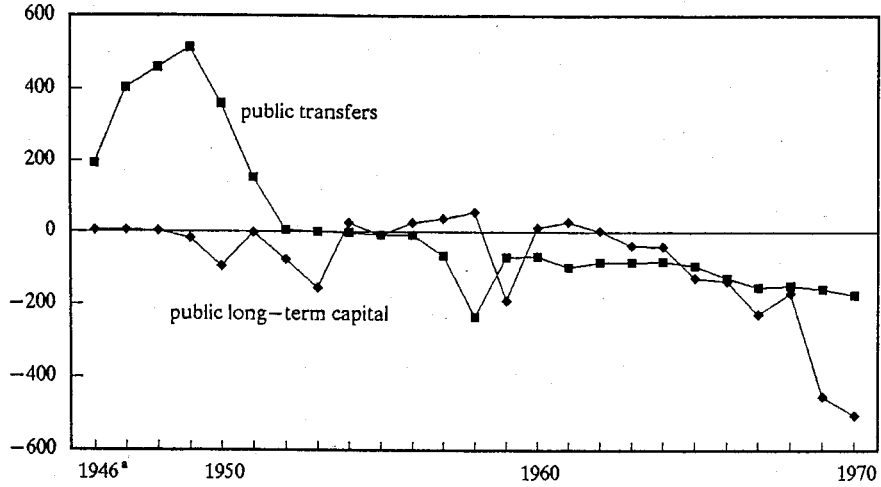
## **2 An Overview of Japanese Aid Flows, 1945-1990**

It may be useful at the outset to provide an overview of Japanese aid flows by referring to the annual balance-of-payments figures for 1945 through 1990 (see Figures 1 and 2). Grants and loans are treated differently in the balance-of-payments statistics. A grant appears as an official unrequited transfer within the current account; a loan appears as an official long-term capital flow within the capital account. Hence, the sum of the official transfer account and official long-term capital can be taken to approximate official aid outflows or inflows; it will be an approximation, not an exact figure, because both of the accounts include official financial flows unrelated to foreign aid.

Roughly speaking, the period from 1945 to 1990 can be divided into four subperiods of differing lengths. The first, comprising the second half of the 1940s, was a period of economic rehabilitation, during which Japan received a significant net inflow of official transfers. The

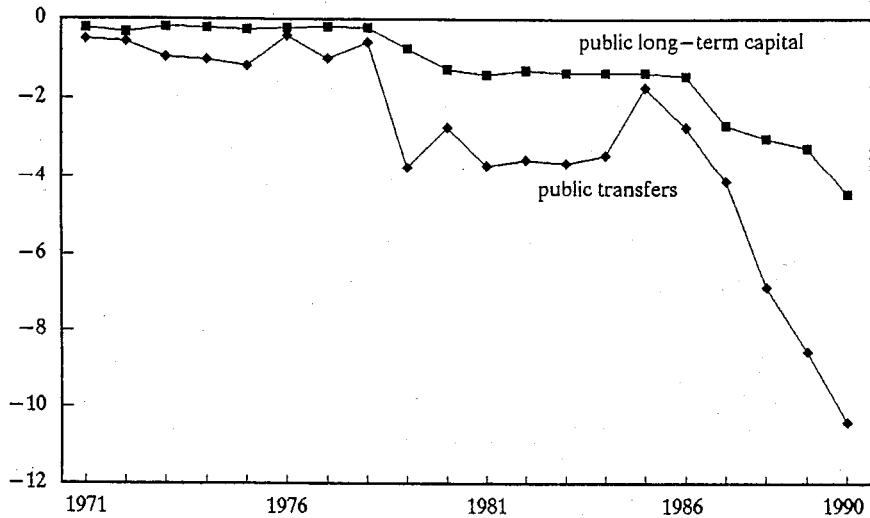
<sup>2</sup> The grant element of an outright grant is 100 percent, whereas that of a loan at a market interest rate is zero. For issues relating to the definition and measurement of the grant element, see Leipziger (1984).

FIGURE 1  
 JAPAN'S OFFICIAL AID FLOWS, 1945-1970  
 (in millions of U.S. dollars)



SOURCE: MOF, *Fiscal and Financial Statistics Monthly*, various issues.  
<sup>a</sup> September 1945 through December 1946.

FIGURE 2  
 JAPAN'S OFFICIAL AID FLOWS, 1971-1990  
 (in millions of U.S. dollars)



SOURCE: MOF, *Fiscal and Financial Statistics Monthly*, various issues.

second, comprising the first half of the 1950s, was marked by economic reconstruction and recovery, when inflows of official resources consisted mainly of loans, and inflows of official transfers all but ceased. In the third subperiod, from the mid-1950s to the mid-1960s, Japan began to make grants of its own, mostly in the form of reparations and related payments. Japan made some official loans as well, however, so that there were significant two-way flows of official long-term capital during these years. The fourth and final subperiod, starting in the mid-1960s and continuing through 1990, was characterized by consistent net outflows of official resources, which grew rapidly in size. Let us look more closely at these four subperiods.

From the end of World War II through 1949, Japan ran large deficits in its balance on goods and services, and these were financed mainly by transfer payments from abroad. Capital flows were insignificant relative to the transfer payments. Almost all of the transfers and long-term capital flows came from official sources, notably from the United States. Private flows were small, consisting mostly of food and other commodities coming from U.S. charitable organizations, such as those that operated under the Licensed Agencies for Relief in Asia (LARA).

The trade balance began to improve in 1950, at the start of the second subperiod, but there was still a net inflow of transfers to Japan from 1950 through 1956. Public transfers all but ceased after 1951, however, and the balance on public transfers moved into deficit in 1954; from 1952 through 1956, almost all transfers were private.

Capital flows began to increase during this second subperiod, and there were outflows as well as inflows. In fact, the balance on official long-term capital was in deficit in some years; there were large outflows in 1952 and 1953, associated with Japan's capital subscriptions to the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD). There was also a large inflow in 1953, however, when Japan drew about \$124 million under an IMF standby agreement.

In the third subperiod, the balance on unrequited transfers remained consistently in deficit, due mainly to an increase of official transfers. Japan began to pay reparations and make other payments associated with the settlement of the war. Japan also began to provide technical assistance to developing countries. With regard to long-term capital flows, the balance was often in surplus in the late 1950s and early 1960s; Japan was still a net importer of long-term capital. In June 1957, moreover, Japan drew an additional \$125 million from the IMF. There were significant two-way flows during this subperiod, however,

and the size of gross capital outflows began to increase, sometimes producing a deficit in the balance. In fact, the balance on official capital flows moved permanently into deficit in 1963.

During the final subperiod, beginning in the mid-1960s, Japan became a significant net exporter of public financial resources, in terms of both unrequited transfers and long-term capital. Transfer payments increased sharply in 1979 and again in 1980. These developments coincided with the final two years of Japan's First Medium-Term ODA Target, which had pledged Japan to double the actual size of its ODA between 1977 and 1980. The net outflow of long-term capital flows grew sharply in 1965 and continued to increase thereafter. Foreign borrowing by the public sector all but ceased after 1967. Nevertheless, the share of the public sector in total long-term capital flows declined during this period, especially after 1980, when there was a rapid increase in both inflows and outflows of private capital. In 1989, the peak year for long-term capital outflows, the increase in the private sector's long-term foreign assets, at \$192 billion, was more than twenty times the increase in the public sector's assets, at \$8 billion. These developments reflect the considerable easing of restrictions on cross-border capital flows (Takagi, 1994).

### **3 Japan as an Aid Recipient**

#### *Economic Assistance during the Immediate Postwar Period*

World War II came to an end on August 15, 1945, when Japan unconditionally surrendered to the Allied powers, accepting the terms of the Potsdam Declaration. Japan was placed under the military government of the Supreme Commander of the Allied Powers (SCAP), which ruled the country through the Japanese government. Japan was to remain under Allied (or more aptly American) rule until it regained sovereignty under the terms of the San Francisco Peace Treaty, which took effect on April 28, 1952.

Japan was in total ruins when the war ended. According to the estimates of the Economic Stabilization Board, the country had lost 42 percent of its national wealth during the war, and manufacturing production had fallen to less than 10 percent of the 1935-1937 average (EPA, 1957). Inflation ran rampant, ranging from 60 to 130 percent a year, depending on the index used, from the end of the war through early 1949. In 1949, however, an economic stabilization program was implemented with U.S. support, and the price level sharply fell by

some 60 percent from the spring of that year to the summer of 1950. Furthermore, significant economic recovery began to take place as a result of the special procurement orders for Japanese goods placed by the U.S. military after the outbreak of the Korean War in June 1950.

During this period of economic rehabilitation, Japan received considerable aid from the United States. Initially, that aid was limited to the minimum required for preventing disease and social unrest. In fact, until the spring of 1946, virtually no food was provided under the Civilian Supply Program (CSP) administered by the U.S. Army (MOF, 1976). At the start of the 1947 U.S. fiscal year (July 1946-June 1947),<sup>3</sup> however, the United States established the Government and Relief in Occupied Areas (GARIOA) program, in order to provide food to Japan and Germany. GARIOA funds were then used to supply food, petroleum, fertilizers, and medical supplies, with the aim of preventing starvation, disease, and social unrest. Beginning with the 1949 U.S. fiscal year (July 1948 to June 1949), the United States established an Economic Rehabilitation in Occupied Areas (EROA) program to provide the industrial raw materials and machinery needed for economic rehabilitation. The provision of official U.S. aid to Japan continued until the end of June 1951.

Because most of the assistance provided in the immediate postwar period was administered by the occupation forces, it is difficult to obtain the exact and separate figure for the amount of U.S. aid received by Japan during that period. According to one estimate, it was about \$3 billion, a small, though significant sum when compared with the \$120 billion in total foreign aid provided by the United States from 1940 to 1958 (MOF, 1976). Separate figures are available, however, for the GARIOA and EROA programs, and they show that Japan received about \$2 billion under the two programs, including funds expended for administration (see Table 1).

Comparing these figures with the balance-of-payments figures, we find that U.S. aid received from 1945 to 1951 accounted for practically all of the transfer payments Japan received from abroad. These transfers were, indeed, large enough to finance nearly 40 percent of Japan's

<sup>3</sup> Unless otherwise specified, "fiscal year" refers to the Japanese fiscal year, which begins on April 1, ends on March 31 of the following year, and is designated by the year of its beginning month. It should be noted that the U.S. fiscal year (designated by the year of its ending month) moved to an October 1-September 30 basis in October 1976, with the three-month period from July 1 to September 30, 1976, being designated as the transition quarter.

TABLE 1  
U.S. ASSISTANCE TO JAPAN UNDER GARIOA AND EROA, 1946-1951  
(in millions of U.S. dollars)

U.S. Fiscal Year	GARIOA	EROA	Administration	Total
1946	92.6	—	—	92.6
1947	287.3	—	12.7	300.0
1948	351.4	—	19.9	371.3
1949	426.2	97.5	25.5	549.2
1950	237.4	188.0	19.2	444.6
1951	182.6	—	15.0	197.6
Total	1,577.5	285.5	92.3	1,955.3

SOURCE: MOF, *Mikaeri Shikin no Kiroku*, 1952.

critical imports during this period. Furthermore, they did double duty. When the Dodge Plan was introduced in April 1949,<sup>4</sup> the SCAP created a U.S. Aid Counterpart Fund Special Account within the Japanese national budget, into which were paid the yen proceeds from sales of goods provided with U.S. assistance. During the three-year period from April 1949 to March 1952, a total of \$845 million (¥304.2 billion) was paid into that account, which was then used to finance industrial-investment projects (MOF, 1952).

There was, however, some uncertainty regarding the terms of U.S. assistance to Japan during this period. In the spring of 1946, during Congressional hearings on GARIOA appropriations, U.S. officials testified that U.S. budgetary expenditures on assistance to Japan would become Japan's liabilities. This position was communicated to the Japanese government in a SCAP memorandum of July 1946, which said that the repayment terms would be specified at a later date (Shoji Keizai Kenkyukai, 1963). There was thus an implicit understanding between the U.S. and Japanese authorities that at least some of the U.S. assistance would give rise to liabilities for Japan. As early as October 1952, moreover, the U.S. government approached the Japanese government to initiate formal negotiations on the repayment of Japanese obligations under the GARIOA and EROA programs.

<sup>4</sup> Joseph Dodge, a Detroit banker, came to Japan in February 1949 as financial advisor to the SCAP and implemented an economic stabilization program to curtail inflation (see Schonberger, 1989, and Hamada and Kasuya, 1993). The two main pillars of the program were: (1) generating a surplus in the consolidated budget of the central government and (2) introducing a unified exchange rate of ¥360 to US\$1.

After a series of negotiations and a substantial lapse of time, it was agreed in 1962 that, of the \$1.95 billion provided under GARIOA and EROA, Japan would repay \$490 million. Over the next fifteen years, Japan paid about \$580 million to the United States in principal and interest. The payments were made from the interest earnings accumulated in the Industrial Investment Special Account, which replaced the U.S. Aid Counterpart Fund Special Account in fiscal 1953. According to the protocol accompanying the repayment agreement, the funds repaid by Japan were to be used primarily to finance U.S. economic assistance to developing countries; \$25 million, however, was specifically earmarked for educational and cultural exchange programs between Japan and the United States, including the Fulbright educational exchange and the U.S.–Japan Friendship Commission.

#### *Official Loans in the 1950s and 1960s*

In 1952, soon after regaining sovereignty, Japan joined the international financial community by becoming a member of the IMF and the IBRD (World Bank). In 1953, Japan received its first three loans from the World Bank, totaling \$40 million (see Table 2). They were used to import turbo generating units for three electric power companies. In that same year, Japan also concluded its first standby agreement with the IMF, under which it made a drawing of £44.3 million (equivalent to \$124 million). In subsequent years, Japan concluded two more standby arrangements with the IMF, one in June 1957 and the other in January 1962. No drawing was made under the 1962 program, which turned out to be Japan's final standby arrangement. Beginning in 1956, Japan also received long-term loans from the U.S. Export-Import Bank (EIB).<sup>5</sup>

The World Bank and the EIB provided Japan with a significant amount of capital in the years before 1960, accounting for more than 60 percent of the total capital flow to Japan during that period (MITI, 1990). The loans went mainly to the electric-power and steel industries. Almost all of the World Bank loans were made to the Japan Development Bank (JDB), a government financial institution, which borrowed on behalf of private companies. This arrangement was made because

<sup>5</sup> Japan had already received short-term trade credits from the EIB for the import of U.S. raw cotton. From May 1948 to December 1950, a \$60 million credit line was maintained for this purpose with several U.S. banks, including the EIB; it was secured by the Occupied Japan Export-Import Revolving Fund (OJEIRF), sometimes called the Gold Pot (Borden, 1984; Schonberger, 1989). From November 1951 to July 1955, the EIB authorized five cotton credits totaling \$260 million in favor of the Bank of Japan.



TABLE 2  
 OFFICIAL LOANS TO JAPAN, 1953-1970  
*(in millions of U.S. dollars;  
 numbers of loans in parentheses)*

Year Authorized or Contracted <sup>a</sup>	World Bank	U.S. Export- Import Bank
1953	40.2 (3)	—
1954	—	—
1955	5.3 (1)	—
1956	32.4 (3)	17.4 (2)
1957	7.0 (1)	55.9 (8)
1958	164.0 (7)	57.9 (6)
1959	54.0 (3)	20.2 (2)
1960	53.0 (3)	24.3 (3)
1961	132.0 (3)	92.2 (7)
1962	—	62.8 (6)
1963	75.0 (1)	90.0 (3)
1964	75.0 (2)	42.4 (4)
1965	125.0 (3)	69.3 (7)
1966	100.0 (1)	58.7 (5)
1967	—	91.1 (6)
1968	—	102.8 (6)
1969	—	145.2 (8)
1970	—	11.6 (2)
Total	862.9 (31)	942.0 (75)

SOURCE: MOF, *Fiscal and Financial Statistics Monthly*, monthly issues.

NOTE: Some loans are recorded as private loans.

<sup>a</sup> Year may not always correspond to that in which loan was disbursed.

the World Bank requires a government guarantee, and it was thought inappropriate to bestow such a guarantee directly on borrowing by a private company. The EIB loans were guaranteed by the JDB or by one of the large Japanese commercial banks.

After 1957, the World Bank eased its lending terms and expanded the scale of its lending to Japan, which became for some time the second-largest borrower from the World Bank (India was the largest). Beginning in about 1960, however, the World Bank began to tighten its terms of lending to Japan, because Japan had begun to demonstrate its

ability to borrow in international financial markets. The World Bank's loans were directed almost exclusively to Japan's Public Highway Corporation and its National Railway, for the building of expressways and a high-speed rail system, respectively. All in all, the World Bank made thirty-one loans to Japan, totaling \$863 million, from 1953 through 1966. In terms of cash flows, Japan was a net borrower from the World Bank through 1968; thereafter, the cash flow turned negative, and it remained negative until July 1990, when the final payment was made on the last loan contracted in 1966.

#### **4 Japan Becomes a Donor**

##### *Reparations and Quasi Reparations*

Japan's career as a donor country began with the payment of reparations and quasi reparations to its victims in World War II. The first reparations agreement was concluded with Burma in 1954. Although recognizing the obligation of Japan to make reparations, the San Francisco Peace Treaty of 1952 had left the amounts and forms to be determined in bilateral negotiations. Many countries, including all the major powers, renounced their claims to reparations from Japan. Formal reparations were claimed by only four countries: Burma, the Philippines, Indonesia, and South Vietnam (see Table 3). Of these four, moreover, the Philippines and South Vietnam were the only countries with which Japan signed bilateral agreements under the terms of the San Francisco Treaty. The bilateral agreements with Burma (which did not sign the treaty) and Indonesia (which signed but did not ratify the treaty) were concluded separately.

Nevertheless, Japan agreed to provide economic assistance to eight additional developing countries as a form of settlement for World War II: Thailand, Laos, Cambodia, Korea, Singapore, Malaysia, Micronesia, and Mongolia. Although these countries had renounced their claims to formal reparations, the funds Japan provided were in the spirit of reparations, so they are usually called "quasi reparations" in Japan.<sup>6</sup> Reparations and quasi-reparations payments constituted a significant portion of Japanese aid flows in the early 1960s, although they amounted,

<sup>6</sup> In addition, Japan made small payments to some industrial countries for war-related damages (see Baisho Mondai Kenkyukai, 1963). Among these countries were the Netherlands (about ¥3.6 billion), Spain (about ¥2 billion), Switzerland (about ¥1.1 billion), Sweden (about ¥500 million), and the United Kingdom (about ¥500 million). Most of these payments were made between 1955 and 1961.

TABLE 3  
JAPAN'S REPARATIONS AND QUASI-REPARATIONS PAYMENTS  
(in millions of U.S. dollars and billions of yen)

Recipient	Amount		Payment Period	
	U.S. Dollars	Yen	From	To
Reparations				
Burma	200.0	72.0	Apr 1955	Apr 1965
Philippines	550.0	190.2 <sup>a</sup>	Jul 1956	Jul 1976
Indonesia	223.0	80.3	Apr 1958	Apr 1970
South Vietnam	39.0	14.0	Jan 1960	Jan 1965
Total	1,012.0	356.6		
Quasi reparations <sup>b</sup>				
Thailand				
Original	15.0	5.4	Jul 1955	May 1959
Revised	26.7	9.6	May 1962	May 1969
Laos	3.0	1.0	Jan 1959	Jan 1965
Cambodia	4.5	1.5	Jul 1959	Jul 1966
Burma	140.0	47.3 <sup>c</sup>	Apr 1965	Apr 1977
Korea	300.0	102.1	Dec 1965	Dec 1975
Singapore	—	2.9	Sep 1967	Mar 1972
Malaysia	—	2.9	Sep 1967	May 1972
Micronesia	—	1.8	May 1972	Oct 1976
Mongolia	—	5.0	Aug 1977	Aug 1981
Total		179.6		

SOURCES: Baisho Mondai Kenkyukai, *Nihon no Baisho*, 1963; MOF, *Fiscal and Financial Statistics Monthly*, various issues; MOF, *Kokusai Kin-yukyoku Nenpo*, annual issues.

NOTE: Figures are rounded and may not add to totals.

<sup>a</sup> The planned amount, before the appreciation of the yen, was ¥198 billion.

<sup>b</sup> Includes grants only; excludes loans under bilateral treaties.

<sup>c</sup> The planned amount, before the appreciation of the yen, was ¥50.4 billion.

on average, to only one-fifth of one percent of gross national product (GNP), and they never exceeded 2.1 percent of the general-account budget (Cohen 1967; Hasegawa 1975).

The two special cases of Burma and Thailand should perhaps be discussed briefly. Burma received both reparations and quasi reparations because of the special clause in the 1954 treaty between Japan and Burma. Burma was the first country to conclude a reparations treaty with Japan, and it insisted that the treaty include a clause giving

Burma the right to renegotiate the amount of reparations in the light of the amounts that Japan would pay other countries thereafter. Burma invoked that clause in 1959, requesting that payments to Burma be raised to maintain balance with the amounts being paid to Indonesia and the Philippines. In response, a separate economic-cooperation treaty was concluded with Burma in March 1963, in which Japan agreed to extend \$140 million in grants.

Thailand concluded two separate treaties with Japan because it was dissatisfied with the terms of the first economic-cooperation treaty, signed in 1955. Thailand was not a wartime enemy, and the treaty was meant to settle claims arising from the “special yen” account that Thailand had maintained at the Bank of Japan in order to receive payments from Japan for supplies procured locally by the Japanese Imperial Army. The original treaty called for the payment of ¥5.4 billion in sterling and the extension of ¥9.6 billion in loans. The loan agreement was not executed, however, because the Thai authorities thought that Thailand, a creditor of Japan in terms of yen claims, should not be converted into a debtor by accepting yen loans from its own debtor. Therefore, a separate economic-cooperation treaty was signed in 1962 to extend ¥9.6 billion in grants over eight years.<sup>7</sup>

Reparations payments totaled approximately ¥356 billion (about \$1 billion), and grants provided under bilateral economic- and technical-cooperation agreements totaled about ¥179 billion. In addition, some of the treaties provided for official or private loans. For example, the 1954 agreement with Burma promised that Japan would provide \$20 million in private loans,<sup>8</sup> in addition to the \$200 million grant. Similarly, the agreement with the Philippines called for the provision of \$250 million in private loans and credits, in addition to the \$550 million grant. The agreement with Indonesia promised \$400 million in private loans and investments as well as the cancellation of Indonesia’s trade debt of \$177 million. These and other payments helped to promote Japanese exports to these otherwise reluctant markets (Hasegawa, 1975).

#### *Technical Assistance*

Japan’s technical-assistance program began on a limited scale in 1952, when Japan contributed \$80,000 to the United Nations Expanded

<sup>7</sup> In order to settle the claims arising from a similar wartime arrangement with French Indochina, Japan paid France about ¥1.7 billion in pound sterling and U.S. dollars in March 1957.

<sup>8</sup> The loan agreement was not executed, however, because of the Burmese coup d’état in the fall of 1957.

Program of Technical Assistance (UNEPTA), a predecessor of the United Nations Development Program (UNDP). More significantly, in October 1954, Japan became a donor member of the Colombo Plan for Co-operative Economic Development in South and South-East Asia. The Colombo Plan had been adopted in 1950, at a meeting of the foreign ministers of the British Commonwealth, to coordinate economic and technical-assistance activities in the Commonwealth countries. Membership was subsequently expanded to include non-Commonwealth countries. Japan's membership was secured with the support of the United States, which believed that Japanese participation would promote Japanese exports to the region and thus help to complete the postwar recovery of the Japanese economy (Borden, 1984).

Because the Colombo Plan was based on intergovernmental consultation and had no supranational authority, the provision of aid had to be negotiated bilaterally. Japan's contributions were made exclusively in the form of technical assistance. Japan began receiving trainees from Colombo Plan countries in fiscal 1954 and began dispatching experts in fiscal 1955, predominantly in the fields of agriculture and fisheries. Moreover, Japan sought to apply the "Colombo formula" to nonparticipating countries by devising a Near East and Africa Plan and a Central and South American Plan in fiscal 1957, and by adding a Northeast Asia Plan in fiscal 1960.

By 1960, Japan had thus established a technical-assistance program that was able to accept trainees from, and send experts to, almost all the developing countries. In 1962, it established the Overseas Technical Cooperation Agency (OTCA) to administer its technical-assistance programs. Throughout the 1960s, however, technical assistance remained less than 5 percent of total aid flows from Japan.

### *Official Loans*

Japan concluded its first government-to-government loan agreement in February 1958, agreeing to lend India ¥18 billion (\$50 million) in support of India's Second Five-Year Plan (see Table 4). In August of that year, moreover, Japan agreed to participate in a five-country World Bank consortium on India (consisting of Canada, Japan, the United Kingdom, the United States, and West Germany) and undertook to provide an additional \$10 million.<sup>9</sup> In 1960, Japan joined a World Bank consortium on Pakistan (consisting of the same five countries)

<sup>9</sup> This amount was designated as credit, rather than as a long-term loan, and so is not shown in Table 4.

TABLE 4  
 JAPAN'S OFFICIAL LOANS TO DEVELOPING COUNTRIES, 1958-1965  
 (CONTRACTUAL BASIS)  
 (in millions of U.S. dollars)

Year of Contract	Country	Amount	Implementing Agency
1958	India	50.0	Eximbank
1959	South Vietnam	7.5	Eximbank
	Paraguay	3.8	Eximbank
1961	India	95.0	Eximbank <sup>a</sup>
	Pakistan	20.0	Eximbank <sup>a</sup>
1962	Brazil	17.5	Eximbank
1963	Pakistan	55.0	Eximbank <sup>a</sup>
	India	65.0	Eximbank <sup>a</sup>
1964	India	60.0	Eximbank <sup>a</sup>
	Pakistan	30.0	Eximbank <sup>a</sup>
1965	Brazil	32.6	Eximbank
	Taiwan	150.0	OECD
	Korea	200.0	OECD
	India	60.0	Eximbank <sup>a</sup>
	Iran	17.0	Eximbank <sup>a</sup>
	Chile	6.2	Eximbank
	Argentina	10.2	Eximbank

SOURCE: MOF, *Fiscal and Financial Statistics Monthly*, various issues.

<sup>a</sup> Cofinancing with commercial banks.

and agreed to provide a total of \$105 million to Pakistan. During the late 1950s and the first half of the 1960s, almost all of Japan's loans were extended to these two countries.

## 5 Japan as a Major Donor

### *Japan as a Developed Country*

In 1960, Japan took two measures that were symbolic of its increasing importance as a donor country. First, Japan became one of the nine members of the Development Assistance Group (DAG), in March 1960, immediately after the establishment of the DAG in January of that year. It is significant that this took place even before Japan joined the OECD, within which the DAG was reconstituted as the DAC in

the fall of 1961.<sup>10</sup> Second, Japan joined the International Development Association (IDA), a World Bank affiliate, in December 1960, three months after the IDA was founded, and contributed \$33.5 million to the total capital of \$1 billion.

Toward the middle of the 1960s, moreover, Japan became a net donor, at just about the time it began to identify itself as a developed country. In 1964, Japan accepted the obligations of Article VIII of the Articles of Agreement of the IMF, and it became a member of the OECD. It also played the leading role in the establishment of the Asian Development Bank (ADB) in 1966. Japan's initial contribution to the ADB was \$200 million, equal to that of the United States. Thereafter, Japanese ODA and other official capital flows began to expand rapidly.

#### *The Expansion of Foreign Aid from 1965 to 1990*

Also toward the mid-1960s, Japan began to make grants that were unrelated to reparations and quasi reparations (see Table 5). Reparations and quasi reparations had accounted for 96 percent of the total grants extended in 1961; by 1966, that share had fallen to 53 percent, and by 1974, it had fallen to 14 percent. From the middle of the 1960s, moreover, Japan rapidly expanded its concessional loans and began to provide an even larger amount of other official financing.

In April 1965, Japan agreed to provide a total of \$150 million to the Republic of China (Taiwan) in support of its Fourth Four-Year Plan. In June 1965, Japan established diplomatic relations with the Republic of Korea (South Korea) after years of tough negotiations, and it agreed to provide \$200 million in concessional loans and more than \$300 million in private credits (in addition to quasi reparations amounting to \$300 million). In May 1966, Japan undertook to provide a \$30 million bridging loan to support Indonesia during a balance-of-payments crisis. In September 1966, moreover, it hosted the first meeting of the Inter-Governmental Group on Indonesia, committed an additional \$50 million in new credits, and pledged \$10 million more in grants. These and subsequent loans made Indonesia and Korea two of the largest recipients of Japanese ODA loans from the late 1960s into the 1970s.

By 1970, the U.S. dollar value of Japanese ODA, including both grants and loans, had reached \$458 million a year, making Japan the

<sup>10</sup> The DAG was formed initially by the member countries of the Organisation for European Economic Co-operation (OEEC). When the OEEC was reconstituted as the OECD to include non-European countries, the DAG became the DAC. The fifth and final meeting of the old DAG was held in Tokyo in July 1961.

TABLE 5  
 JAPAN'S RESOURCE FLOWS TO DEVELOPING COUNTRIES, 1961-1990  
 (in millions of U.S. dollars)

	Official Development Assistance (ODA)							Total Flow <sup>a</sup>
	Bilateral			Multi- lateral	Total ODA	Other Official Flows		
	Grants	(Repar- ations)	Loans				Total	
1961	67.8	(65.0)	27.7	95.5	8.6	104.1	2.8	376.7
1962	74.6	(67.0)	5.0	79.6	8.6	88.2	-1.4	297.3
1963	76.7	(62.0)	51.5	128.2	9.4	137.6	2.7	320.1
1964	68.7	(57.8)	37.5	106.2	9.7	115.9	—	360.7
1965	82.2	(62.8)	144.1	226.3	17.5	243.8	—	600.8
1966	104.7	(55.6)	130.0	234.7	50.6	285.3	230.9	669.0
1967	138.4	(81.7)	202.2	340.6	44.7	385.3	259.4	855.3
1968	117.0	(46.4)	190.5	307.5	48.8	356.2	322.1	1,049.3
1969	123.4	(41.3)	216.2	339.6	95.9	435.6	375.8	1,263.1
1970	121.2	(18.2)	250.3	371.5	86.5	458.0	693.6	1,824.0
1971	125.4	(21.8)	306.7	432.1	78.7	510.7	651.1	2,140.5
1972	170.6	(34.6)	307.2	477.8	133.3	611.1	856.4	2,725.4
1973	220.1	(66.9)	545.1	765.2	245.8	1,011.0	1,178.9	5,844.2
1974	198.6	(27.5)	681.8	880.4	245.8	1,126.2	788.9	2,962.3
1975	201.7	(29.1)	648.7	850.4	297.3	1,147.7	1,369.4	2,890.1



TABLE 5 (continued)

Official Development Assistance (ODA)										
Bilateral										
	(Reparations)		Loans	Total	Multi-lateral	Total ODA	Other Official Flows	Total Flow <sup>a</sup>		
	Grants	(20.0)								
1976	184.9	(20.0)	568.1	753.0	352.0	1,104.9	1,333.4	4,002.6		
1977	236.7	—	662.6	899.3	525.2	1,424.4	1,622.6	5,534.9		
1978	383.4	—	1,147.6	1,531.0	684.4	2,215.4	2,152.6	10,703.5		
1979	560.2	—	1,361.0	1,921.2	716.3	2,637.5	210.1	7,555.6		
1980	652.6	—	1,308.2	1,960.8	1,342.9	3,303.7	1,478.0	6,765.9		
1981	810	—	1,450	2,260	911	3,171	3,023	12,231		
1982	805	—	1,562	2,367	656	3,023	2,791	8,768		
1983	993	—	1,432	2,425	1,336	3,761	1,954	8,040		
1984	1,064	—	1,363	2,427	1,891	4,319	743	16,049		
1985	1,185	—	1,372	2,557	1,240	3,797	-302	11,619		
1986	1,703	—	2,143	3,846	1,788	5,634	-724	14,578		
1987	2,221	—	3,027	5,248	2,207	7,454	-1,808	20,462		
1988	2,908	—	3,514	6,422	2,712	9,134	-639	21,423		
1989	3,037	—	3,741	6,779	2,186	8,965	1,544	24,133		
1990	3,020	—	3,920	6,940	2,282	9,222	3,470	19,057		

SOURCES: MOF, *Fiscal and Financial Statistics Monthly*, various issues; MITI, *Keizai Kijoryoku no Genjo to Mondai*, 1975.

<sup>a</sup> Includes private flows not explicitly listed in table.

fifth-largest donor country, after the United States, France, West Germany, and the United Kingdom. It overtook the United Kingdom in 1972, and its annual ODA exceeded \$1 billion in 1973. By the end of the 1970s, the volume of Japanese ODA had nearly tripled, owing to the continued provision of loans to major Asian countries, the addition of aid to countries in Africa, Latin America, and the Middle East, and the appreciation of the yen against the U.S. dollar.

A new era in Japan's foreign-aid program began in 1980, when the People's Republic of China (China), which had previously declined financial assistance from foreign countries, concluded an ODA loan agreement with Japan. China had launched an ambitious modernization program, which led it to change its stance gradually in the late 1970s. The Chinese government approached the Japanese government in August 1979 with a request for a concessional loan of almost ¥1.4 trillion to finance major infrastructural projects, such as hydroelectric power plants and railroads. Japan agreed to extend a ¥50 billion loan, signing the formal agreement in April 1980.<sup>11</sup> Japan thus became the first nonsocialist country to provide concessional assistance to China. In subsequent years, Japan provided significant amounts of concessional credit as well as a smaller amount of grant assistance, and it was by far the largest supplier of development capital to China among the DAC countries.

In 1977, Japan announced the first in a succession of medium-term ODA targets (to be discussed in Section 7), and this internationally declared commitment led to a further expansion of Japanese ODA. It surpassed West Germany in 1983, France in 1986, and, temporarily, the United States in 1989, when Japanese ODA reached almost \$9 billion. Although it fell short of the U.S. amount in 1990, the reversal was mainly attributable to a clustering of one-time U.S. subscriptions to international organizations and to the depreciation of the yen against the dollar. In 1991 and 1992, Japan again exceeded the United States in terms of total ODA, and it is expected that Japanese ODA will be at least roughly comparable to that of the United States well into the 1990s.

#### *Multilateral Assistance*

The recent expansion of Japanese ODA has involved Japan heavily in the funding of the multilateral development banks (MDBs). This involvement is partly a reflection of Japan's rising stature within the

<sup>11</sup> Japan had earlier agreed to provide trade credits to China on commercial terms.

hierarchy of member countries (see Table 6). In addition to being a member of the IBRD, the IDA, and the ADB, Japan was one of the original members of the African Development Fund (AfDF), established in 1973, and became a full member of the African Development Bank (AfDB) in 1983. Japan also joined the Inter-American Development Bank (IDB) in 1976. Japan's increased support of these institutions was accomplished through (1) larger capital subscriptions, which are reflected in increased voting shares, (2) larger contributions to periodically funded programs, such as IDA replenishments, (3) cofinancing arrangements with Japan's official lending institutions, and (4) the permitting of freer access by the MDBs to private-sector funding in the Japanese bond market. In 1984, Japan became the second-largest shareholder in the IBRD and the second-largest contributor to IDA. At the end of 1990, Japan ranked first in terms of capital subscriptions to the ADB (along with the United States), the Asian Development Fund (ADF), and the AfDF; by that time, moreover, it was ranked second at the IBRD and IDA.<sup>12</sup>

TABLE 6  
JAPAN'S RELATIVE POSITION VIS-À-VIS MAJOR MULTILATERAL DEVELOPMENT BANKS,  
1960-1990  
(percent share of total; rank in parentheses)

Date	IBRD	IDA	ADB	ADF	IDB	AfDB	AfDF
Established	1945	1960	1966	1976	1959	1964	1973
Japan joined	1952	1960	1966	1976	1976	1983	1973
1960	3.3 (8)	3.9 (7)	—	—	—	—	—
1965	3.1 (8)	3.4 (7)	—	—	—	—	—
1970	3.3 (7)	3.3 (7)	—	—	—	—	—
1975	4.0 (5)	7.3 (4)	18.8 (1)	48.5 (1)	—	—	11.3 (2) <sup>a</sup>
1980	5.8 (5)	9.9 (4)	16.9 (1)	44.9 (1)	0.9 (12)	—	15.7 (1)
1985	6.9 (2)	15.5 (2)	16.6 (1) <sup>b</sup>	47.1 (1)	1.1 (11)	4.6 (5)	14.5 (1)
1990	9.0 (2)	19.2 (2)	15.0 (1) <sup>b</sup>	37.0 (1)	1.1 (11)	4.9 (4)	14.2 (1)

SOURCES: MOF, *Kokusai Kinyukyoku Nenpo*, annual issues; World Bank and IDA, *Annual Report*.

NOTE: Figures are for end of year, except for some IBRD and IDA figures, which are for end of June.

<sup>a</sup> Tied with West Germany.

<sup>b</sup> Tied with the United States.

<sup>12</sup> Japan was also tied for second place as a shareholder in the European Bank for Reconstruction and Development (EBRD), along with France, Germany, Italy, and the United Kingdom.

In addition, Japan's annual contribution to the UNDP, which is funded by voluntary contributions, rose from about 4 percent of the total in the early 1970s to 8 and 9 percent in the late 1980s. Japan also made a significant contribution to the IMF's Enhanced Structural Adjustment Facility (ESAF), which was established in 1987; in addition to providing 43 percent of the capital, Japan provided almost 16 percent of the total funding for the "subsidy" portion of the ESAF.

Japan's official lending institutions have entered into cofinancing arrangements with the World Bank, the IDB, the ADB, and the AfDB. The Export-Import Bank of Japan (Eximbank) cofinanced a World Bank loan to Mexico as early as 1966; it cofinanced an IDB loan to Brazil in 1972; and it cofinanced an ADB loan to the Philippines in 1975. The Overseas Economic Cooperation Fund (OECF) has also made frequent cofinancing arrangements with the IDB, ADB, and AfDB. On a number of occasions, moreover, Japan has made direct loans to the MDBs.

The internationalization of the previously closed Japanese capital market has coincided significantly with the increased willingness of the Japanese authorities to permit borrowing by the MDBs in the Japanese bond market. In the summer of 1970, the ADB approached the Japanese authorities to discuss the possibility of issuing yen-denominated bonds in the Japanese capital market. Although the Japanese capital market was relatively undeveloped at that time, the government agreed to allow the ADB to raise ¥6 billion by issuing seven-year bonds at a 7.4 percent coupon rate. This was, in fact, the very first foreign issue of yen-denominated bonds in the Japanese capital market during the postwar period. Because the terms of issue were not fully reflective of market conditions, however, 80 percent of the ADB issue was purchased by Japanese financial institutions.

Six months later, in June 1971, the World Bank raised ¥11 billion in ten-year bonds at a 7.75 percent coupon rate. Because the issuing terms more or less reflected prevailing market conditions, only about a third of this issue was purchased by Japanese financial institutions. This was, in effect, the first truly public offering of foreign bonds in the Japanese capital market. The ADB and World Bank issues thus began the process of opening up the Japanese capital market. In subsequent years, the IDB, the AfDB, and several foreign governments raised funds in the Japanese bond market.

All in all, the ADB floated twenty-three public or private issues of yen-denominated bonds from 1970 through 1990, raising a total of ¥496 billion. The World Bank floated fifty-two issues from 1971

through 1990, raising ¥1,778 billion. During the same period, the IDB floated nineteen issues, raising ¥433 billion, and the AfDB floated eight issues, raising ¥205 billion. From 1985 to 1990, moreover, the World Bank raised an additional \$1.15 billion by floating eight issues of dollar-denominated bonds in the Japanese market.

## **6 Institutional and Qualitative Aspects of Japanese Aid**

### *The Major Institutions*

The administration of multilateral assistance is relatively uncomplicated. Almost all of Japan's capital subscriptions and contributions to the MDBs are made through the Ministry of Finance (MOF), and contributions to United Nations (UN) programs are made through the Ministry of Foreign Affairs (MOFA). The administration of bilateral assistance is more complicated, because several ministries and agencies are involved in the planning and execution of bilateral aid projects.

An overwhelmingly large portion of the bilateral program, however, is conducted by three public-sector agencies, the Eximbank, the OECF, and the Japan International Cooperation Agency (JICA). The Eximbank is in charge of providing commercial credits and other non-ODA loans. The OECF is in charge of ODA loans. The JICA is the main implementing agency for grants and technical assistance. Although many other public-sector agencies are involved in international economic cooperation (some are mentioned below), they are comparatively insignificant.

The Eximbank was originally established in 1950, as the Export Bank of Japan. It was meant to assist domestic firms seeking to export plants and capital equipment. In April 1952, the bank was allowed to finance private-sector imports as well, and its name was changed accordingly. In August 1953, it was allowed to finance foreign investment by Japanese firms, in addition to Japanese exports. Finally, in 1957, it was permitted to extend direct loans to foreign governments and corporations.

As the Japanese foreign-aid program expanded in the late 1950s, the Eximbank became its principal implementing agency. In March 1959, it made its first loan to a foreign government as part of the government-to-government agreement between Japan and India concluded in 1958. In subsequent years, the Eximbank extended similar loans to Pakistan, Paraguay, and South Vietnam. The terms of these and other loans resembled those of World Bank loans. Because the Eximbank is funded by borrowed resources, mainly postal savings deposits, it could not respond effectively to the increasing international call for softer terms.

From 1965, therefore, the responsibility for making concessional loans with interest rates lower than 4 percent was given to the OECF.

The establishment of the OECF can be traced to the ¥5 billion endowment of a special account, called the “Southeast Asian Development Cooperation Fund,” within the Eximbank in July 1958. In 1957, Japan had sought to demonstrate its support for economic development in Asia by proposing the creation of a Southeast Asian Development Fund, to which it hoped that many countries, including the United States, would contribute. Resources from the general account of the national budget were used to establish the special account at the Eximbank, in preparation for the eventual creation of the Southeast Asian Development Fund. The plan never materialized, however, because it failed to attract support from the international community, notably from the United States. The resources set aside in the Eximbank account were therefore used in December 1960 to create the OECF, which began operations in March 1961.

Initially, the OECF made loans to Japanese firms engaged in projects in developing countries. In 1965, however, it began to join the Eximbank in making direct loans to foreign governments. Its first government-to-government loans were to Korea and Taiwan, and these were followed by loans to Malaysia, Thailand, and Afghanistan. In July 1975, the OECF was given sole responsibility for administering ODA loans, in order to differentiate its functions clearly from those of the Eximbank. The terms of OECF loans can be softer than those of Eximbank loans, because the OECF’s capital comes from the general account, which does not require a market rate of return; the Eximbank’s capital comes from the Industrial Investment Special Account, which does require a market rate of return. In addition, the OECF is legally bound by a lower borrowing limit than the Eximbank, relative to its capital base. Nevertheless, at the end of March 1991, the balance of OECF loans outstanding was roughly equal to the *sum* of the corresponding figures for the ADB, IDB, and AfDB. Currently, the OECF extends ODA loans under the coordinated supervision of the Economic Planning Agency (EPA), the Ministry of Foreign Affairs (MOFA), the Ministry of Finance (MOF), and the Ministry of International Trade and Industry (MITI). This is known as the “Four-Ministry Regime.”

The Japan International Cooperation Agency (JICA) was established in 1974 by merging the services of the OTCA, the Japan Emigration Service, and part of the Japan Overseas Development Corporation. The establishment of the JICA was, in fact, the outcome of a political compromise arising from an initial attempt to create a single aid-

implementing agency (Rix, 1980). The JICA is in charge of technical cooperation, including the dispatch of young professionals under the Japan Overseas Cooperation Volunteers (JOCV) program, and it has also assumed from the MOFA an increasing amount of the work related to financial grants. The JICA is supervised exclusively by the MOFA, although that ministry consults with others in their respective areas of expertise.

Other ministries and government affiliates are involved in the activities of the OECF and JICA. They provide specialists and expertise needed for loan evaluation and for technical assistance. Those that are explicitly involved in technical assistance include the Japan External Trade Organization (JETRO), the International Development Center (IDC), the Association for Overseas Technical Scholarship (AOTS) and the Japan Productivity Center (JPC).

Once some of the activities of a particular government affiliate are classified as ODA, that affiliate is considered to be an aid-implementing agency. As a result, the ministry that supervises the affiliate is counted as an aid-related ministry. Because ODA-related expenditures have been exempted from the strict budgetary ceilings of recent years, various ministries have vied for shares of ODA-related expenditures. In fiscal 1990, as many as eighteen ministries and agencies had budgetary items classified as ODA, although about 90 percent of the ODA budget was still channeled through the MOF and MOFA.

#### *The Funding of Foreign Aid*

Japan's ODA budget is funded from (1) the general account of the national budget, (2) the Fiscal Investment and Loan Program (FILP), and (3) interest payments and repayments of principal on previous ODA loans, as well as carryovers from previous years, under the special accounts of the central government budget. Each year, the government publishes two types of ODA budgets: the ODA budget in the general account, and the overall ODA budget. Table 7 shows the ODA budgets for the fiscal years 1973 through 1990; the sixth column shows the overall ODA budget, with the general-account budget in parentheses in column seven. The difference between the two figures corresponds to the amount of funding available from sources other than the general account, mostly funds made available through the FILP.

The FILP can be described as a government-supervised program for investing funds deposited in the postal savings system in activities that have high policy priorities but are also capable of yielding an adequate

TABLE 7  
 JAPAN'S ODA BUDGETS, 1973-1990  
 (in billions of yen)

Fiscal Year	Grants			Loans	Total ODA	(General- Account Portion) <sup>a</sup>
	Bila- teral	Multi- lateral	Total			
1973	55.7	47.2	102.9	231.1	334.0	(128.8)
1974	68.1	85.5	153.6	280.6	434.2	(167.6)
1975	70.8	83.3	154.1	283.0	437.1	(188.7)
1976	64.5	106.0	170.5	295.6	466.1	(201.2)
1977	74.5	154.0	228.5	334.9	563.4	(215.8)
1978	109.2	187.4	296.6	361.6	658.2	(263.4)
1979	155.4	202.1	357.5	397.6	755.1	(325.4)
1980	184.5	248.0	432.4	431.6	864.0	(382.6)
1981	214.9	241.0	455.9	477.0	932.9	(425.4)
1982	240.7	229.7	470.4	528.8	999.2	(471.1)
1983	268.9	177.9	446.8	588.1	1,034.9	(504.3)
1984	281.1	451.6	732.7	653.6	1,386.3	(543.9)
1985	314.4	301.7	616.1	733.7	1,349.8	(586.4)
1986	342.3	302.0	644.3	752.8	1,397.1	(623.2)
1987	365.6	299.1	664.7	735.6	1,400.3	(649.2)
1988	393.7	317.2	710.9	789.7	1,500.6	(701.0)
1989	426.1	284.6	710.7	804.5	1,515.2	(755.7)
1990	446.7	326.9	773.5	826.0	1,599.5	(817.5)

SOURCE: MOF, *Kokusai Kin'yukyoku Nenpo*, annual issues.

NOTE: Figures are rounded and may not add up to totals.

<sup>a</sup> Figures for 1973-1987 are general-account expenditures on economic cooperation; those for 1988-1990 are general-account expenditures on ODA. Because of a small definitional difference, the latter slightly exceed the former (for example, for fiscal 1987, the economic-cooperation figure was 682.2).

rate of return. Thus, within the ODA budget, the FILP is used exclusively to fund the lending activities of the OECF and the Eximbank, because they are expected to yield a reasonable rate of return. Resources from the general-account budget are used to fund most of the bilateral grants and technical-assistance programs, as well as contributions to international organizations. Table 7 shows that these two funding flows are roughly similar in size.



### *Characteristics of Japanese Official Development Assistance*

A few words should be said about the composition, quality, and geographic distribution of Japanese ODA.

From 1961 to 1990, ODA constituted a significant and relatively stable part of the total flow of Japanese financial resources to developing countries (see Table 5). In 1990, the share of ODA was 48 percent, with bilateral aid accounting for 36 percent and multilateral aid for 12 percent. Within the bilateral aid flow, loans accounted for about 56 percent, and grants accounted for the rest. The share of grants in total ODA, about 40 percent in 1990, fell far short of the DAC average, which was 77 percent (see Table 8). The grants themselves were almost evenly divided between financial grants (including the provision of goods) and technical assistance.

Japan adheres in principle to the World Bank's guidelines when determining the type of bilateral assistance that is appropriate. In fiscal 1990, countries in which per capita GNP did not exceed \$1,070 were eligible for both grants and loans. Countries in which per capita GNP was between \$1,071 and \$2,200 were eligible to receive only loans and technical assistance. And countries in which per capita GNP was above \$2,201 could receive only technical assistance. In practice, the Japanese government uses its discretion in making the final decision regarding the eligibility of a country to receive ODA from Japan. The terms of the loans, however, are adjusted to reflect the recipient's income level.

Despite the large absolute size of its ODA, Japan's performance measured in relation to its GNP has fallen short of the levels achieved

TABLE 8  
CHARACTERISTICS OF JAPANESE ODA, 1970-1990  
(in percent; DAC averages in parentheses)

Year	DAC Share	GNP Share	Grant Share	Grant Element of ODA
1970	6.7	0.22 (0.34)	39 (63)	67 (84)
1971-1975	8.6	0.23 (0.34)	33.6 (64.8)	65.2 (85.6)
1976-1980	10.5	0.24 (0.35)	44.8 (73.4)	74.4 (89.7)
1981-1985	13.0	0.30 (0.36)	46.5 (77.9)	75.3 (90.6)
1986-1990	17.6	0.31 (0.34)	47.3 (79.6)	77.2 (92.2)
1990	16.7	0.31 (0.34)	39.8 (77.2)	74.8 (94.1)

SOURCE: MOF, *Kokusai Kinyukyoku Nenpo*, annual issues.

NOTE: Figures for 1971 to 1990 are simple five-year averages.

in recent years by most other DAC countries. The GNP share of Japanese ODA has displayed an upward trend; it rose from 0.23 percent in the early 1970s to 0.31 percent in the late 1980s (see Table 8). Yet the 1990 figure of 0.31 percent, although higher than that of the United States, was well below the UN's 0.7 percent target figure and far below Sweden (0.97 percent) and the Netherlands (0.94 percent).

The grant element of Japanese ODA also fell short of levels achieved by other major donors and of the DAC average. In 1990, for example, the Japanese grant element was under 75 percent of total ODA, compared to 100 percent for Sweden and Australia and to just over 94 percent for the whole DAC group. It should be noted, however, that donor countries with higher grant elements tend to have higher shares of "tied" aid, reflecting in part the typical practice of tying grant aid to purchases of goods or services from domestic suppliers. Currently, Japanese ODA loans are untied in principle, and foreign firms have in fact received commodity and service orders amounting to as much as 70 percent of Japanese ODA loans in recent years (Nishigaki and Shimomura, 1993). In 1990, nearly 70 percent of Japan's total ODA was untied, compared with 59 percent for the United States and zero for the United Kingdom.

Much of Japan's ODA goes to Asian countries (see Table 9). About half of the Asian total, moreover, has gone to the members of the Association of Southeast Asian Nations (ASEAN). Needless to say, the geographical distribution of ODA usually reflects special historical or political relations between donors and recipients. Thus, in the late

TABLE 9  
GEOGRAPHICAL DISTRIBUTION OF JAPANESE ODA, 1970-1990  
(in percent)

Year	Middle		Africa	Latin		
	Asia	East		America	Europe	Oceania
1970	98.3	3.3	2.3	-4.0	-0.2	—
1971-75	89.3	1.0	5.0	2.3	1.3	0.4
1976-80	67.7	5.5	16.8	7.7	0.7	0.5
1981-85	67.9	2.2	15.1	8.7	1.4	0.8
1986-90	62.9	2.3	16.1	7.8	2.9	1.4
1990	59.3	1.5	15.4	8.1	6.9	1.6

SOURCE: MITI, *Keizai Kyoryoku no Genjo to Mondai*, annual issues.

NOTE: Because of geographically unidentified flows, detail may not add to 100; figures for 1971 to 1990 are simple five-year averages.

1980s, France and the United Kingdom allocated over 50 percent of their aid to Sub-Saharan Africa, and the United States allocated over 40 percent of its aid to strategically important countries in the Middle East and North Africa and over 20 percent to the neighboring countries of Latin America and the Caribbean. One should not be surprised to find that much of Japanese ODA has gone to Asian countries.

The share of Asia, however, declined steadily during the period from 1970 to 1990. It exceeded 98 percent in 1970, declined quickly to 60 to 70 percent during the late 1970s and the 1980s, and fell below 60 percent in 1990. The ten largest cumulative recipients of Japanese ODA loans were, nevertheless, all Asian countries at the end of fiscal 1990 (see Table 10). The picture for Japanese grants is similar, although

TABLE 10  
LARGEST RECIPIENTS OF JAPANESE ODA THROUGH END OF FISCAL 1990  
(CONTRACTUAL BASIS)  
(in percent)

Rank	Loans			Grants		
	Country	Billions of Yen	Percent of Total	Country	Billions of Yen	Percent of Total
1	Indonesia	1,920	17.7	Bangladesh	174	8.4
2	India	1,056	9.7	Thailand	136	6.5
3	China	993	9.2	Indonesia	113	5.4
4	Philippines	954	8.8	Philippines	112	5.4
5	Thailand	833	7.7	Pakistan	111	5.3
6	Korea	646	5.9	Burma (Myanmar)	98	4.7
7	Pakistan	540	5.0	Nepal	75	3.6
8	Malaysia	468	4.3	Sudan	64	3.1
9	Bangladesh	423	3.9	China	62	3.0
10	Burma (Myanmar)	403	3.7	Egypt	51	2.4
11	Egypt	397	3.7	Tanzania	50	2.4
12	Sri Lanka	267	2.5	India	47	2.3
13	Turkey	188	1.7	Kenya	44	2.1
14	Kenya	129	1.2	Zambia	38	1.8
15	Mexico	105	1.0	Senegal	35	1.7
16	Brazil	104	1.0	Vietnam	31	1.5
17	Jordan	99	0.9	Bolivia	31	1.5
18	Nigeria	65	0.6	Niger	26	1.2
19	Taiwan	62	0.6	Zaire	24	1.2
20	Ghana	61	0.6	Laos	23	1.1
	Others	1,139	10.5	Others	738	35.4
	Total	10,852	100.0	Total	2,083	100.0

SOURCES: MITI, *Kokusai Kyoryoku no Genjo to Mondaiten*, 1991; MOF, *Kokusai Kinyukyoku Nenpo*, 1991.

the ordering is somewhat different, and some African countries have been among the largest recipients. The difference reflects the fact that the income ceiling for receiving grants is below that for receiving loans.

## 7 Issues and Prospects

### *Japan's Aid Philosophy*

The philosophy as well as the character of Japan's foreign-aid program reflect three ODA guidelines established over the years. First, the request for assistance must come from the recipient country, after it has formulated and prioritized its own development program. Second, the recipient country must bear the local-currency component of the program's cost. Finally, no conditionality will be imposed on the recipient. In Japan, these guidelines are described collectively as the principle of "self-help," meaning that Japan will help only those countries that are willing to help themselves.

The principle of self-help is both a strength and weakness of the Japanese aid program. It is a strength to the extent that it expresses Japan's respect for the economic and political sovereignty of other nations. Moreover, as a practical matter, foreign assistance can only be expected to yield lasting benefits if the recipient is willing and able to use it productively. In applying the principle of self-help, the Japanese authorities have tended to stress the economic rather than the social needs of the recipient, which helps to explain why a large proportion of Japanese aid has been earmarked for the construction of economic infrastructure in higher-income countries. The principle of self-help has also been invoked to justify the high proportion of loans in Japanese ODA. The nature of Japanese ODA thus differs from that of other DAC countries, the philosophies of which may have more affinity with Christian philanthropic precepts.

The principle of self-help can also be a weakness. Because many developing countries lack human resources, the requirement that recipients design their own projects or programs has hindered the Japanese government's efforts to expand the volume of ODA in line with its commitments. It has also created room for the private sector to enter the planning phases of many ODA projects, entry that has sometimes resulted in wasteful projects being "proposed" to recipient countries by Japanese companies pursuing profits for themselves. Similarly, the requirement that recipients bear the local costs of projects has also interfered with the timely execution of programs having large

local-currency components, such as irrigation and regional-development schemes.<sup>13</sup>

To take a cynical view, the principle of self-help was not an ideal chosen deliberately by calculating Japanese policymakers to govern Japan's contribution to the international community. It is, instead, a name given to an outcome, a euphemism for the way circumstances have shaped the administration of the Japanese foreign-aid program. In large measure, the principle of self-help, including the principle of political noninterference, has been adopted to cope with the shortage of aid-related staff in Japan (discussed below) and to rationalize the predominantly economic motives that have characterized the Japanese program. This last point leads us to consider why Japan is interested in giving assistance to developing countries.

#### *Motives for Giving Aid*

In the past, official statements of the Japanese government have stressed humanitarian considerations and Japan's dependence on other countries as the two principal reasons for giving economic assistance to developing countries. More recently, the government has related Japan's aid giving to: (1) Japan's status as an economic superpower, (2) its status as the world's largest creditor or surplus country, (3) its economic dependence on other countries, (4) its dedication to peace, and (5) its status as the only non-Western developed country (MOFA, 1989). Although these official reasons may indeed explain or justify some aspects of Japan's aid program, they can hardly be the basic motives for giving aid.

There is little doubt that the main rationale for Japan's foreign-aid program was initially economic; it was meant to promote Japan's exports of plant and equipment, to assist Japanese firms to engage in overseas investment, and to secure stable supplies of raw materials. Even reparations and quasi reparations were used by the Japanese government to promote Japanese exports to Asian countries that were otherwise reluctant to buy from Japan following World War II.

The very first of MITI's annual reports on economic cooperation (MITI, 1958) explicitly identified export promotion and the securing of raw materials as the principal reasons for giving aid. Furthermore, it justified the first loan to India as necessary to compete with the marketing efforts of other major industrial countries.

<sup>13</sup> In recent years, the Japanese government has financed a designated part of local costs, depending on the income level of the recipient, in order to facilitate the execution of projects with large local-currency components.

In the 1970s, the traditional separation of politics and economics began to weaken. The oil crisis of 1973 made Japan aware of its vulnerability to international political developments. As a result, Japan decided for the first time to use foreign aid as a diplomatic tool; it dispatched a high-level mission to the Middle East with a pledge of aid. In the late 1970s, Japan began to place even heavier emphasis on the political dimension of foreign aid, invoking the notion of “comprehensive national security” (Yasutomo, 1986). This politicization of Japanese aid resulted from a series of external crises, including the invasions of Afghanistan and Cambodia, the Iranian crisis, and the second oil shock. The Japanese government increased ODA to “countries bordering areas of conflict,” such as Pakistan, Thailand, and Turkey. The government also began to use ODA as a diplomatic weapon, by reducing or withholding aid to such countries as Afghanistan, Angola, Cambodia, Cuba, Ethiopia, and the Socialist Republic of Vietnam.

At the same time, with an increasingly visible role in the world economy, Japan became more conscious of the need to smooth out frictions in international economic relations. The rapid increase of Japanese ODA, particularly after the early 1980s, was motivated by a desire to counter the criticism of Japan’s growing current-account surplus and of its low level of defense spending. It was in this context that Japan began, in 1977, to announce a succession of medium-term ODA targets (see Table 11). Because Japan’s ODA loans are currently untied, narrow commercial interest can no longer be considered to be the dominant motive for giving aid. Instead, foreign aid is being used increasingly as a passive means of fending off foreign criticism of Japan in the international economic domain.

Japan has recently become more assertive politically in its aid policy; it has, for example, set certain conditions as prerequisites for receiving Japanese aid. In April 1991, Japan announced that it would pay more attention, although not exclusive notice, to the records of recipient countries with regard to (1) defense spending, (2) the development and production of weapons of mass destruction, (3) the export and import of weapons, and (4) the promotion of democracy, the introduction of market mechanisms, and the protection of basic human rights and freedom. Nevertheless, these so-called “Four Guidelines” still give considerable flexibility and discretion to the Japanese government to determine eligibility and amounts of ODA. Given its historical reluctance to be assertive politically, the Japanese government is unlikely to enforce the guidelines strictly in the coming years.

TABLE 11  
JAPAN'S MEDIUM-TERM ODA TARGETS, 1977-1997

	Date Announced	Period Covered	Target (Outcome)
First Target	June 1977	1978-1982	To double 1977 ODA figure of \$1.42 billion to \$2.85 billion within five years (target revised)
Revised	July 1978	1978-1980	To double 1977 ODA figure within three years (successfully met; 1980 figure was \$3.3 billion)
Second Target	Jan. 1981	1981-1985	To double cumulative ODA amount of \$10.68 billion achieved from 1976 to 1980 to \$21.4 billion for 1981 to 1985 (\$18.1 billion or 84.6 percent of target was met)
Third Target	Sept. 1985	1985-1992	To double 1985 ODA figure of \$3.8 billion within seven years and achieve a cumulative total of at least \$40 billion for the seven-year period from the end of 1985 through 1992 (target revised)
Revised	May 1987	1985-1990	To bring above target date forward by two years (replaced by Fourth Target)
Fourth Target	June 1988	1988-1992	To double cumulative ODA of \$25 billion achieved from 1983 to 1987 to at least \$50 billion for 1988 to 1992 (actual figure was \$49.4 billion)
Fifth Target	June 1993	1993-1997	To achieve actual ODA disbursement of \$70 billion to \$75 billion for the five-year period

*Fiscal Austerity and the Staff Shortage*

In 1970, the UN General Assembly adopted a resolution calling on the industrial countries to increase the size of ODA to at least 0.7 percent of GNP. Japan accepted the target without specifying a date for compliance. In trying to meet the target, Japan faces a serious challenge from its budgetary constraints. Since 1980, the government has made a determined effort to reduce its fiscal dependence on bond issues by placing strict ceilings on the growth of nonobligatory expenditures. Although it was able to avoid issuing general revenue bonds in

fiscal 1990, the government continues to finance capital projects with bond issues, and the outstanding balance of government debt remains high by international standards; it was estimated at 38 percent of GNP at the end of fiscal 1991. It is thus unlikely that the tight fiscal stance of the government will be eased to any considerable degree in the near future.

In the past, the government circumvented its own rules by placing the ODA budget outside the budgetary ceilings. As a result, the ODA budget in the general account was allowed to increase by 2.5 times from fiscal 1980 to 1991, whereas the budget for education and science, for example, was allowed to increase by only 1.2 times. Despite this extraordinary treatment of ODA, the resources of the general account alone have not been sufficient to achieve the quantitative goals of the successive medium-term targets. To make up for the shortfall, the resources of the FILP have also been used to expand the loan component of ODA. In other words, the government has expanded ODA by actively borrowing private-sector funds through the intermediation of the postal savings system.

The government's tight fiscal stance has exacerbated the shortage of officers engaged in aid-related activities; the increase in the number of officers has not kept pace with the rapid increase of ODA in recent years. Although ODA grew by 3.5 times in dollar terms (by 1.7 times in yen terms) from 1981 to 1991, the number of officers engaged in aid-related activities at the MOFA, OECF, and JICA increased by only 1.4 times, from 1,155 to 1,625 (Kusano, 1993). The acuteness of the staff shortage can be illustrated by noting that, although the total number of staff at the United States Agency for International Development (USAID) was about 4,300 in 1991, the number at the JICA and OECF was 1,344 for an operation of similar size (Nishigaki and Shimomura, 1993). In fact, the number of aid-related officers in Japan is roughly comparable to the number in the United Kingdom, which provides less than one-third the assistance that Japan provides (MOFA, 1991). As a result, ODA disbursements per officer are considerably higher in Japan than in other donor countries. The difference is even more pronounced when the comparison is made with the MDBs. In 1990, for example, Japan's OECF administered \$5.6 billion in development loans with a staff of 280, whereas the ADB disbursed \$2.8 billion with a staff of 1,668 (OECF, 1991).

It may be simplistic to conclude from these comparisons that the Japanese ODA program is understaffed; it may well be that some MDBs and the programs of some other DAC countries are less than



efficient. However, the shortage of resources for research and project evaluation is often identified in Japan as a serious flaw of the Japanese program, and the staff shortage, if allowed to continue, could lead to a deterioration in the quality of Japanese aid, if not soon, then in the more distant future.

### *The Outlook*

In the Fifth Medium-Term ODA Target, the Japanese government announced that it intended to disburse \$70 to \$75 billion of ODA during the five-year period from 1993 through 1997. In other words, the target calls for an increase in the dollar value of ODA at an annual average rate of about 10 percent during that period. Assuming that real GNP will grow at an annual average rate of 3 percent, the share of ODA in Japanese GNP will increase from 0.3 percent in 1992 to as much as 0.4 percent in 1997. In order to achieve this target, the ODA budget will need to expand faster than the general-account budget.

In light of the probable fiscal stance of the Japanese authorities during the next few years, the quantitative goal of the Fifth Medium-Term Target seems ambitious indeed. Even if the ODA budget remains outside the budgetary ceilings, it is highly unlikely that it will be allowed to grow at a rate anywhere near 10 percent a year. Therefore, the government will have necessarily to rely on the resources of the FILP to expand Japanese ODA. This option will not be as easy as it was in the past, however. Postal savings deposits, which grew rapidly in the early 1980s, have been increasing more slowly. Furthermore, according to the government's plan, a significant share of FILP resources will have to be allocated to nonconcessional official flows (mainly Eximbank loans), which are targeted to reach \$50 billion during the five-year period from mid-1993 to mid-1998.

Given this fiscal picture, the staff shortage is likely to remain and to shape the future course of Japan's ODA policy during the rest of the 1990s. First, the shortage of staff, particularly for research and project evaluation, will limit the politicization of ODA flows, as well as the further geographic diversification outside of Asia, the region with which Japanese aid officers are already familiar. Japan simply does not possess a sufficiently large number of professionals capable of setting new priorities and selecting new projects in other parts of the world. Thus, despite the recent introduction of political criteria for the allocation of ODA, the principle of self-help will remain the dominant trait of Japanese ODA, and no radical change in the current geographic distribution can be expected.

The staff shortage will also help to perpetuate the high proportion of loans in Japanese ODA, which will be necessitated by the continuing reliance on FILP resources. The average size of a loan-financed project is typically much larger than that of a grant-financed project. Most of the projects eligible for grant financing are social and agricultural, with a relatively small cost component (for example, the construction of schools and hospitals). Loans, by contrast, are typically made for large infrastructural projects (the construction of railroads, highways, and hydroelectric power plants), which are expected to yield a reasonable rate of return. Total ODA disbursements can therefore be increased at lowest cost in scarce human resources by stepping up loans rather than grants. A heavy reliance on loans, in turn, reinforces the concentration of Japanese ODA on the well-to-do ASEAN countries.

Finally, cofinancing arrangements with the MDBs are an efficient way of channeling Japanese resources to developing countries in the absence of adequate Japanese staff for aid-related research and project evaluation. The MDBs have large staffs of qualified professionals capable of evaluating potential projects. For this reason, the Japanese government has recently said that it intends to promote cofinancing arrangements between the OECF (and the Eximbank) and the MDBs during the 1993-1998 period. Multilateral assistance (that is, providing resources directly to MDBs) is another way of conserving scarce human resources. There may be stiff opposition to such a policy, however, because capital subscriptions change the voting shares of member countries, and other donor countries may not be prepared to countenance any significant increase of Japan's role in the governance of the MDBs.

## **8 Conclusion**

This essay has reviewed the transformation of Japan from recipient to donor of foreign aid over the period from 1945 to 1990 and has discussed the issues and prospects facing Japan in the 1990s. Japan's foreign-aid program has expanded in both quantity and quality from its humble beginning with reparations and related payments in the mid-1950s. By the end of the 1980s, Japan was one of the world's two largest donors of ODA in terms of U.S. dollar value.

Despite the recent remarkable expansion in ODA, Japan's program is by no means free of problems. Although Japan is committed to increasing its ODA to meet the UN target of 0.7 percent of GNP, the Japanese government's commitment to fiscal austerity makes it unlikely that the UN target will be met in the near future. As a further consequence of

fiscal austerity, the staff shortage in aid-related officers is also likely to continue. The Japanese program will therefore probably continue to concentrate on Asia, with which the Japanese authorities are already familiar, and to focus heavily on loans, rather than grants, because the former tend to be larger. To overcome the staffing problem, the authorities have also indicated that they will promote cofinancing arrangements with the MDBs.

Although the principal Japanese motive for giving aid has remained mainly economic, diplomatic and other political motives have come increasingly into play over the years. The introduction of political criteria into the allocation of Japanese ODA may mean that Japan will divert some of its aid flows from Asia to other regions, in line with its global foreign-policy objectives. In this connection, a call is often made in Japan to create a single aid agency, comparable to USAID, to administer Japan's aid program in a consistent manner. In assessing the outlook for the Japanese program, however, it is important to remember that institutional arrangements are hard to change in Japan and that the fiscal situation will remain quite tight in the years ahead. There may thus be a moderate expansion of Japanese ODA, but a radical change in the direction, quality, or administration of Japanese ODA is not likely to take place in the near future.

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