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7 February 2008

Online at <https://mpra.ub.uni-muenchen.de/7046/>
MPRA Paper No. 7046, posted 07 Feb 2008 20:04 UTC

***Ancien régime* of Japan's foreign aid policy:
Main characteristics of Japan's aid administration system before its reforms**

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Abstract

In Japan, the aid administration system was very complicated. Although there were more than ten government agencies involved in Japan's ODA program, the aid administration had been dominated by three ministries and one agency – the Ministry of Foreign Affairs (MOFA), the Ministry of Finance (MOF), the Ministry of International Trade and Industries (MITI) and the Economic Planning Agency (EPA) before the organisational structural reforms took place in 2001. On the other hand, under the ancien régime of Japan's aid policy, there were three main aid-implementing institutions in Japan. The oldest is Japan's Export-Import Bank (Eximbank). It played a prominent part in Japan's economic co-operation during the 1950s. The second institution is the Japan International Co-operation Agency (JICA), which is mainly in charge of technical co-operation projects. The Overseas Economic Co-operation Fund (OECF) provides bilateral loans to developing countries. This paper made an attempt to identify the main characteristics of Japanese aid administrative system before the aid administrative reforms. This is mainly because the ancien régime had strongly influenced and had shaped the forty-years of Japanese aid giving history before the bureaucratic restructuring took place. Nevertheless, despite the recent changes the basic problems of Japanese aid giving-mechanism, such as inter-ministerial conflicts and rivalries, remain same as before.

1. Introduction

In Japan, the aid administration system was very complicated. Orr (1993a: 26) points out that though there were more than ten government agencies involved in Japan's ODA program, aid administration had been dominated by three ministries and one agency - the Ministry of Foreign Affairs (MOFA), the Ministry of Finance (MOF), the Ministry of International Trade and Industries (MITI) and the Economic Planning Agency (EPA).

On the other hand, there were three main aid-implementing institutions in Japan. The oldest is Japan's Export-Import Bank (Eximbank). It played a prominent part in Japan's economic co-operation during the 1950s. The second institution is the Japan International Co-operation Agency (JICA), which is mainly in charge of technical co-operation projects. The Overseas Economic Co-operation Fund (OECF) provides bilateral loans to developing countries (Furuoka, 2006).

Orr (1993a: 26) calls them the "Four Senior Players", and other ministries the "Junior Players" of Japan's ODA administration. Orr asserts that junior players are not considered formal participants in Japan's aid policymaking, their influence is insignificant and they have limited access to information on the ODA program.

An aid officer from a "Junior Player" ministry admits that though his ministry has been engaged in ODA activities, without specialists on economic development or political conditions in the recipient countries, the ministry has to rely on MOFA when holding negotiations on ODA programs (Furuoka, 2006).

In April 2001, there were changes within Japanese bureaucracy. The MITI absorbed the EPA and became the Ministry of Economy, Trade and Industry (METI) while the MOF and MOFA retained same structures. Also, in 1999, the Japan Export-Import Bank (Eximbank) and Overseas Economic Co-operation Fund (OECF) merged into a new entity, the Japan Bank for International Co-operation (JBIC).

This paper describes the organisational structures of Japan's foreign aid policy before the aid administrative reforms because the *ancien régime* had strongly influenced and had shaped the forty-years of Japanese aid giving history before the bureaucratic restructuring took place.¹ Despite the recent changes inter-ministerial conflicts and rivalries remain.

2. The Ministry of Foreign Affairs (MOFA)

The MOFA has always played a central role in Japan's ODA policy (see Figure 1 for organizational structure of the MOFA). As Hirata (1998: 314) put it, "(The) MOFA is the most prominent ministry concerned with Japan's aid. It not only participates in decision-making on loan aid through the four-ministry system, but also takes responsibility for Japanese grant aid". The Japan International Co-operation Agency (JICA), an important aid-implementing agency, is under the MOFA's jurisdiction. The MOFA is in charge of coordinating ODA activities between the ministries that have their own budgets for economic assistance. Rix claims that the MOFA's traditional ineffectiveness in domestic politics round is not matched by the realities of foreign aid policy. The MOFA often plays an important role in decision-making of Japan's ODA policies (Rix, 1980: 87).

¹ The detailed discussions on a history of Japan's foreign aid policy, see Furuoka (2007a).

Within the MOFA, the Economic Co-operation Bureau is in charge of bilateral ODA, while multilateral ODA is the responsibility of the Multilateral Co-operation Department under the Foreign Policy Bureau. There are seven divisions under the Economic Planning Bureau: 1) Aid Policy Division, 2) Research & Programming, 3) Multilateral Co-operation, 4) Technical Co-operation, 5) Development Co-operation, 6) Loan Aid, 7) Grant Aid, under the Economic Co-operation Bureau, and three sub-divisions: a) Overseas Disaster Assistance, b) Non-Governmental Organizations Assistance, c) Evaluation.

Hiroyasu Kobayashi, an aid officer in the MOFA, maintains that the MOFA has successfully carried out inter-ministry coordination, although Japan's ODA budget in FY 1996 was divided between nineteen ministries and agencies. He points out that, firstly, the MOFA gets the largest share of total the ODA budget (about 50 percent), followed by the MOF (about 40 percent). Secondly, the remainder (10 percent of the ODA budget) - the part mainly spent on technical co-operation - is divided between the other seventeen government offices. Technical co-operation is carried out by JICA, an aid- implementing agency under the MOFA's control (*Kokusai Kaihatsu Janaru*, April 1995: 89-91).

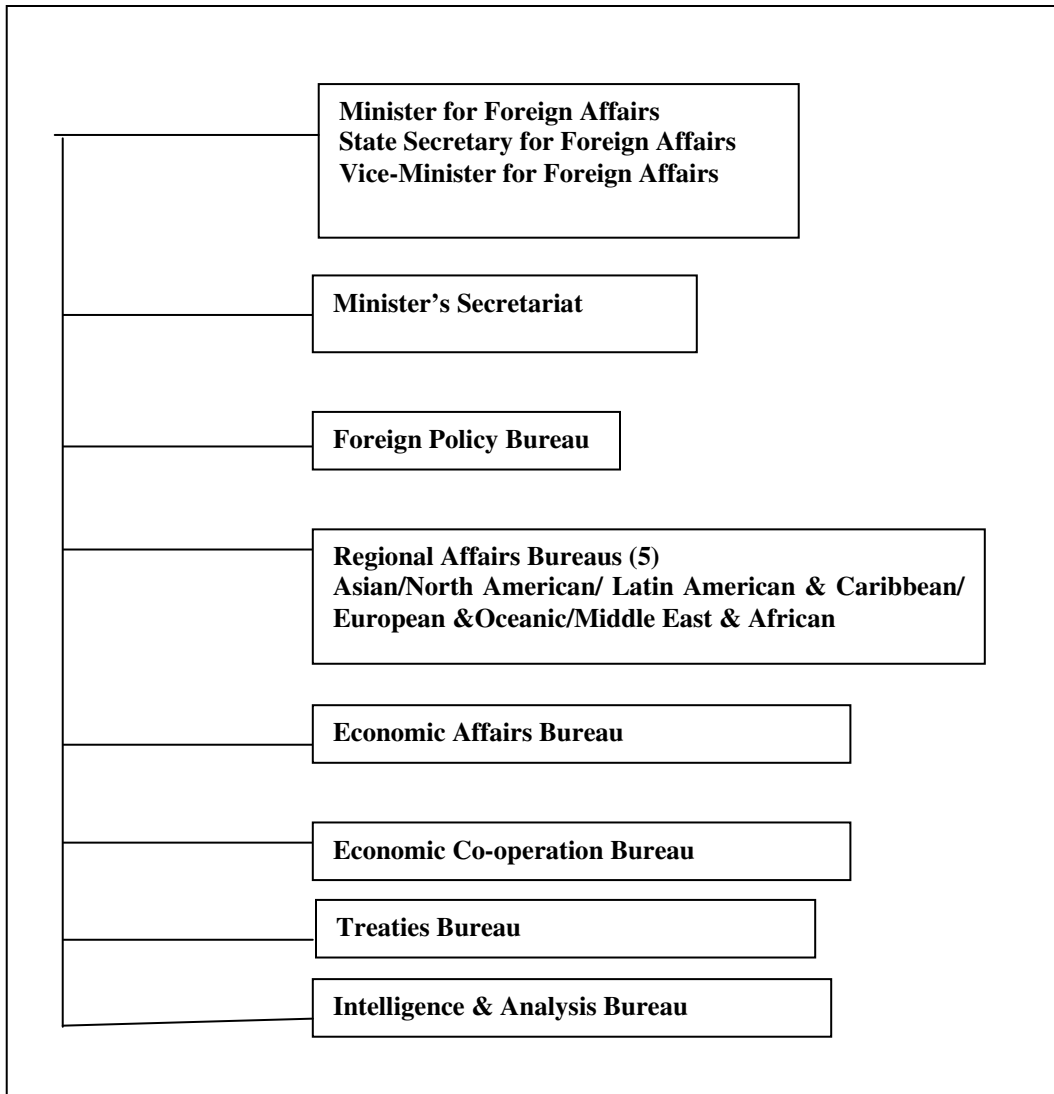


Figure 1: Organization Chart of the MOFA
Source: Furuoka (2006)

Another important function of the MOFA is to be Japan's "window" on the world. This makes the MOFA susceptible to foreign criticisms and pressures. Orr (1993b: 7) observes that the MOFA is usually more in accord with what Western countries regard as foreign aid. Hirata adds that the MOFA is the most sensitive of all ministries to foreign pressure on its aid policy. "It (the MOFA) tried to respond to the external demands on Japan's aid

policy” (Hirata, 1998: 314). On the other hand, this role is a source of the MOFA’s strength. According to Rix, the power of the MOFA sprang from its management of Japan’s foreign relations. For a long time the Ministry has been the official channel for all Japanese aid activities, “a function it jealously guards” (Rix, 1980: 87).

Despite its international recognition, the MOFA has almost no means of influencing Japan’s domestic politics. Ahn (1998: 49) asserts that the MOFA cannot enjoy “social backing” for its policy, because the popular support of foreign policy issues is neither frequent nor clear-cut. Hirata claims that the MOFA’s position in domestic politics is vulnerable because it lacks a constituency. She also points out that due to its weak domestic position, the MOFA uses foreign pressure (*gaiatsu*) as an argument to its own advantage. “(The) MOFA often tries to persuade other ministries that the *gaiatsu* on the Japanese government is so high that the government has to comply with it. By successfully playing the *gaiatsu* card, the ministry can strengthen its own domestic position” (Hirata, 1998: 315).

3. The Ministry of Finance (MOF)

Bureaucrats are the elite of Japanese society, and the MOF’s officers are regarded by the Japanese as the elite’s *crème de la crème* (see Figure 2 for the organizational structure of the MOF).

Alan Rix maintains that in Japan, the aid administration lays in the hands of the national bureaucracy, a system bound by tradition and myth. The popular literature in Japan

would have it that a career in the MOF is the pinnacle of personal achievement. Thus, the image of the MOF among the general public is often equated with supremacy in policy-making. However, Rix points out that these ideas of pretension to elitism do not by themselves bring power in government. In foreign aid, for example, the MOF is one among many, although “admittedly its control of budgets gave it principal leverage in inter-ministry discussions” (Rix, 1980: 87).

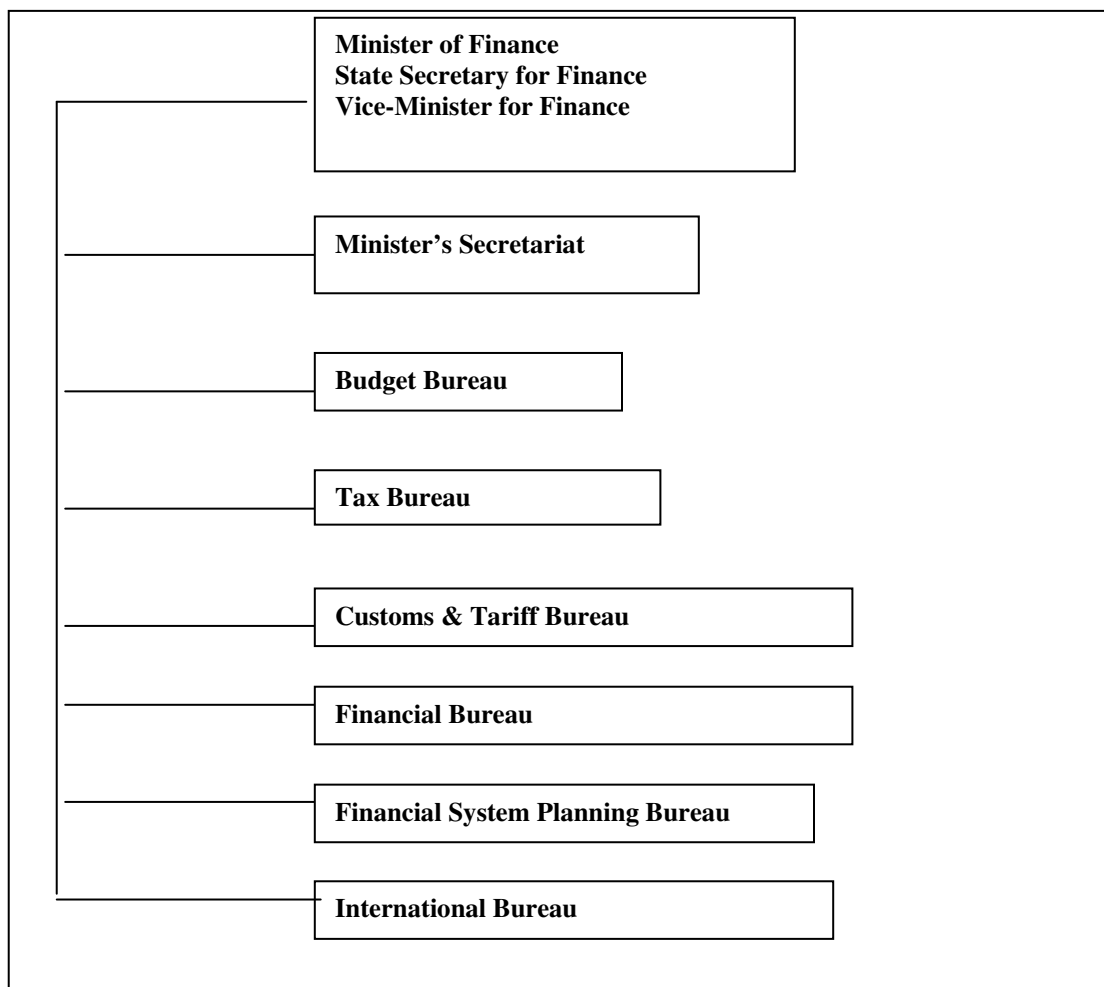


Figure 2: Organization Chart of the MOF
Source: Furuoka (2006)

Orr (1993b: 8) asserts that the source of the MOF's influence sprang from its control of the budget and the ministry maintains a considerable influence over Japan's ODA policy by controlling the final steps of the creation of the foreign aid budget. Hirata (1998: 318-319) maintains that the MOF views ODA as mainly related to its impact on Japan's national budget. Unlike the MOFA, the MOF does not formulate ODA policy from the framework of foreign policy, and thus does not find it urgent to respond to international pressures to improve the quality of Japan's aid.

The MOF acts as a "banker" of Japan's aid programs. The ministry is reluctant to provide grants and prefers to give loans instead. Orr (1993b: 8) claims that the MOF's preference for loans over grants stems from the fact that its rival, the MOFA, has much more control over grants. Hirata (1998: 320) offers two reasons to explain this trend, 1) loans imply repayment and thus cost less money for Japan in the long run, and 2) loans are under the MOF's jurisdiction. She criticizes such an attitude because it creates obstacles to the MOFA's efforts to implement aid projects in the social sector, which are usually financed through grants. Also, the MOF prefers to give aid through Multilateral Development Banks because it has sole control over this aid.

4. The Ministry of International Trade and Industries (MITI)

MITI is one of the most powerful ministries that control the destination of "Japan Inc." It plans and manages Japan's industrial policies (see Figure 3 for organizational structure of MITI).

Within MITI, the Economic Co-operation Department under the International Trade

Policy Bureau plays an important role in aid policy. There are three divisions and one office under the Department: 1) the Economic Co-operation Division, 2) the Technical Co-operation Division, 3) the Regional Co-operation Division, and 4) the Financial Co-operation Office.

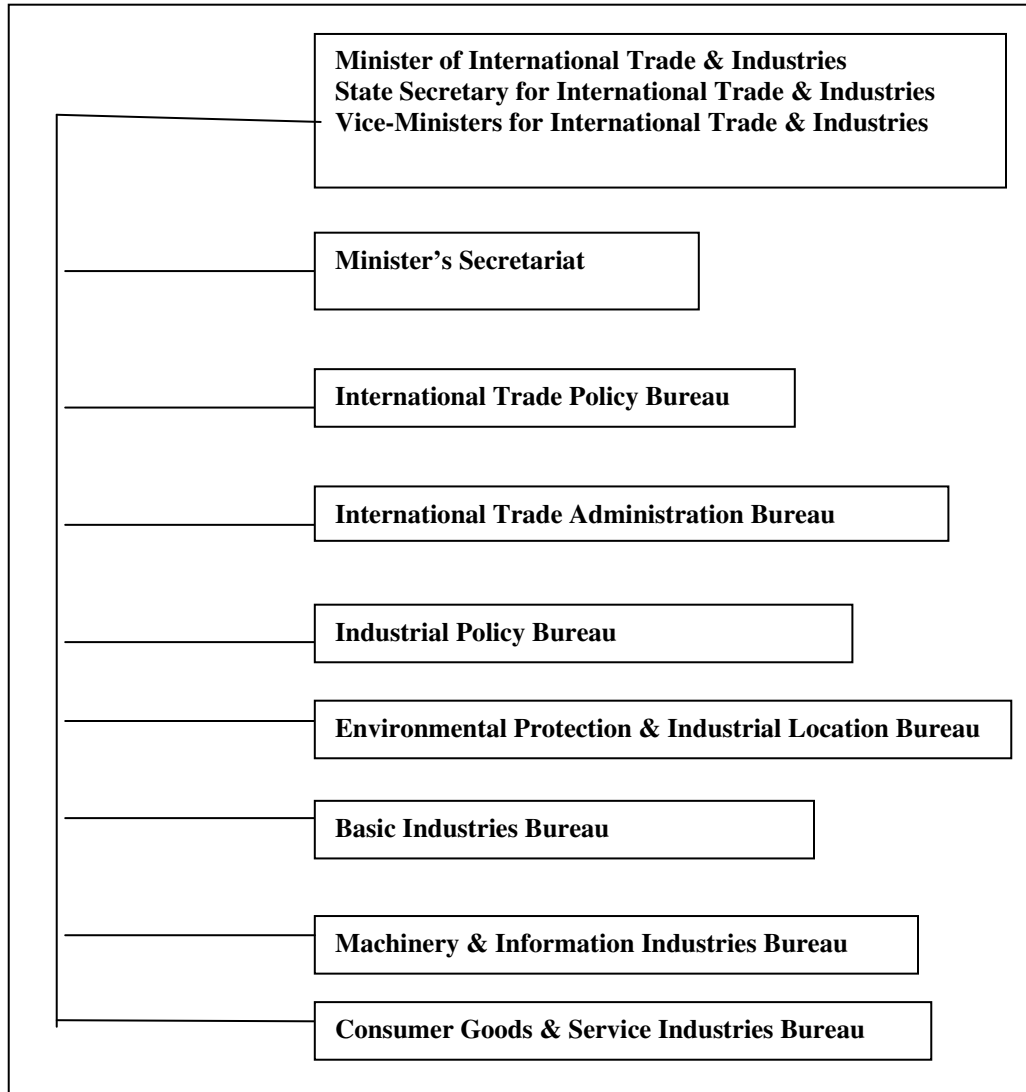


Figure 3: Organization Chart of MITI
Source: Furuoka (2006)

The Economic Co-operation Division is in charge of coordinating overall administrative affairs in the department, while the Regional Co-operation Division is responsible for regional forums, such as the Asian Pacific Economic Co-operation (APEC) and the Asia-Europe Meeting (ASEM).

Chalmers Johnson vividly described the leadership role of MITI in Japan's economic development in his book "*MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-1975*". Johnson argues that the real equivalent of MITI in the US is not the Department of Commerce but the Department of Defence, which by its very nature and functions shares MITI's strategy. He points out that the MITI-led Japanese industrial policy is similar to that surrounding the domestic expression "military-industrial complex" referring to a close working relationship between government and business to solve the problem of national defence (Johnson, 1982: 21).

MITI acts as a "Commercial Officer" in Japan's ODA program. Its main concern is Japan's economic development and it aspires to use foreign aid as a tool for Japan's economic growth. Rix asserts that MITI has become one of the largest and most powerful domestic ministries due to its control and direction of Japan's post-war industrial and trade growth. As he put it, "This strength spilled over into aid policy at several points, especially as loans are given to industrial and resources projects" (Rix, 1980: 89).

MITI's emphasis on the commercial elements in the ODA programs contradicts the MOFA's efforts to improve the quality of aid. As a result, serious conflicts arise between

these two powerful ministries. Orr (1993b: 8) asserts that MITI represents Japanese companies' interests and pursues commercial gains. MITI also opposes the MOFA's efforts to increase amounts of foreign aid. Hirata reminds that MITI was very concerned about the fact that Japanese companies could not win bids for Japan's ODA programs. "MITI has recently begun to advocate the revitalization of the tied aid policy to allow only Japanese firms to participate in projects financed through Japan's foreign aid" (Hirata, 1998: 321).

MITI's influence has been weakening recently. According to Orr (1993b: 8), no one would deny that in the 1960s Japan's aid was unabashedly designed to promote country's exports, and MITI led the charge. However, the Ministry has lost a lot of its power with the evolution of Japan's ODA. Hirata (1998: 320) agrees that MITI had a dominating influence in aid administration in the 1960s and in the early 1970s, when Japan's ODA was purposely designed to promote Japan's external trade and investment. However, its influence gradually declined over the years as the focus of Japan's aid broadened from economic concerns to include political and strategic factors.

5. The Economic Planning Agency (EPA)

As the brain behind Japan's economic policy, the EPA (see Figure 4) maps out economic plans and analyses their macro-economic implication. Rix (1980: 89) points out that although the EPA is the architect of economic plans, it is a minor player within the bureaucracy.

The EPA has been guiding economic policy since the 1950s, and has allied foreign aid loosely with exports and investment goals.

Within the EPA, the First and the Second Economic Co-operation Divisions are in charge of economic co-operation. They are responsible for planning and co-ordination of ODA policies and programs. The First Economic Co-operation Division is also in charge of supervising the Overseas Economic Co-operation Fund (OECF) and represents the EPA in inter-ministerial meetings.

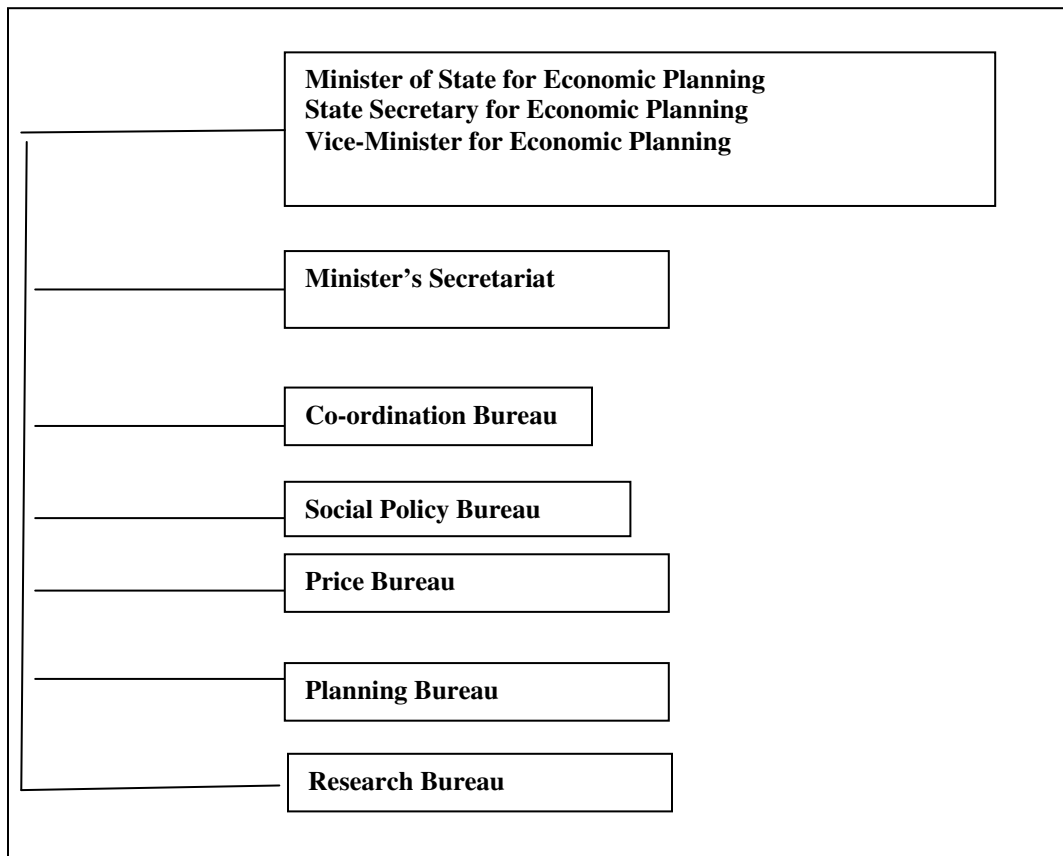


Figure 4: Organization Chart of the EPA

Source: Furuoka (2006)

The EPA is a “minor player” among the four influential government agencies engaged in Japan’s ODA and it does not have much clout in ODA policymaking. According to Orr (1993a: 53), the agency has resigned itself to a minor position. Other powerful ministries, especially the MOF, have a strong influence on the EPA.

The agency supports the expansion of ODA from the point of economic implications. As Robert Orr (1993b: 9) put it, “The EPA, in general, tends to favour the Ministry of Finance. One of the reasons is because the Ministry of Finance has many of its top ranking officers seconded to the EPA”.

6. Japan’s Export-Import Bank (Eximbank)

The Export-Import Bank (Eximbank) was established in 1950 with the aim of promoting international trade. In the beginning, the Bank only gave loans to trade-related companies in Japan. However, its commitments have gradually expanded and the Bank started to finance foreign projects, such as the Sumatra Oil Project and the Alaska Pipe Project in 1953. The Eximbank was the main agent for bilateral loans from 1958 to 1975, when the OECF undertook the provision of almost all Japanese bilateral loans (*Kokusai Kaihatsu Janaru*, February 1995: 103-105).

According to Hiroshi Hoda, the President of the Eximbank, demarcation between the Eximbank and the OECF is clear. The Eximbank is a governmental banking institution that gives commercial loans to paying projects, while the OECF is an ODA implementing agency that gives Yen Loans to development projects, including projects where there may be no reimbursement (*Kokusai Kaihatsu Janaru*, February 1995: 101).

Hoda describes the role of the Eximbank. In the 1960s, the main task of the Eximbank was to give loans to mega-projects in developing countries that were aimed at the development of natural resources, such as petroleum or coal. After the “oil crisis” in the 1970s, the Eximbank started giving loans for development of alternative natural resources, such as natural gas and uranium. In the 1980s, following the increasing Japanese direct investment, the Eximbank extended support to the Japanese multinationals’ activities. Nowadays, the Bank is shifting its focus from supporting Japanese firms to helping developing countries. The Bank intends to do this through co-operation with international financial organizations, such as the World Bank and the IMF (*Kokusai Kaihatsu Janaru*, February 1995: 98-99).

Eximbank’s new task is the distribution of untied loans. During the financial crisis in Latin America in the 1980s, the Japanese government declared that it would provide US\$65 billion to help stabilize those countries’ financial systems.² The Eximbank was charged by the Japanese government to undertake this task (*Kokusai Kaihatsu Janaru*, February 1995: 107).

7. The Japan International Co-operation Agency (JICA)

The first organization in charge of technical co-operation, the Association for Asian Industrial Co-operation, was founded by MITI in 1953. The association received

² The detailed discussions on Japan’s aid policy, especially aid sanction policy, toward Latin American countries, see Furuoka (2007b).

technical trainees from Indonesia and Thailand³ and dispatched industrial specialists to Taiwan. In 1962, this task was undertaken by the newly established Overseas Technical Co-operation Agency (OTCA). In 1974, the OTCA and Japan Emigration Service merged into a single agency – the Japan International Co-operation Agency (JICA) - that was put in charge of technical co-operation (*Kokusai Kaihatsu Janaru*, May 1992: 134).

A serious inter-ministry conflict arose during the setting up of JICA. Each ministry demanded that a new aid-implementing agency was put under its jurisdiction. JICA was established as a compromise between the ministries. Rix (1980: 49-55) describes the establishment of JICA as a “scrap and build” process. He points out that JICA’s final shape was unexpected, the result of a hurried attempt to resolve an impasse over a rival budget proposal where in the final outcome the discussion centred on the merits of combining the existing agencies rather than on the benefits of JICA.

Before JICA was created there had been several calls for establishing a central aid agency. In 1967, Foreign Minister Takeo Miki announced that such an agency was being considered. However, the MOFA hesitated to set it up as it preferred the existing *status quo*. In 1972, the Ministry of Agriculture and Forestry (MAF) requested the MOF to establish a new agency – the Overseas Agricultural Co-operation Agency (OACA) -for the development of agriculture in developing countries. At the same time, another ministry, MITI, requested funds to set up a new agency – the Overseas Trade Development Co-operation (OTDC) - for the development of international trade.

³ Indonesia and Thailand had become important recipients of Japanese foreign aid since then. The detailed discussions on Japan’s aid policy, especially aid sanction policy, toward Indonesia and Thailand, see Furuoka (2007c).

Apparently, each of the three ministries strived to secure control over Japan's aid policy. When the issue reached a serious impasse, Prime Minister Kakuei Tanaka intervened and personally held negotiations with the ministries involved (*Kokusai Kaihatsu Janaru*, May 1992: 133-135).

According to Rix (1980: 49-55), the political bargaining forced a hurried compromise and left no room for considering implications for future policy. For example, the Japanese government decided to scrap the OTCA that was performing its duties well. The agency became a victim of political circumstance and the decision to dismantle it cannot be considered a genuine attempt to improve Japan's technical assistance.

Mitsuya Araki, the editor of the *Kokusai Kaihatsu Janaru*, argues that JICA's "vertical cleavage" organization reflects its history. Under JICA's scheme, both MITI and the MAF independently carry out their own technical co-operation. Each ministry seconded their officers to JICA, thus securing control over technical co-operation (e.g. MITI for industrial co-operation, the MAF for agricultural co-operation) (*Kokusai Kaihatsu Janaru*, August 1998: 6-7).

Orr (1993a: 57-59) maintains that JICA's organizational problem is an excessive number of non-JICA officers from various ministries. Due to the MOFA's jurisdiction over JICA, the President of JICA is normally appointed from among former top ranking officers of the MOFA. However, each divisional head is seconded from the various ministries, often from MITI or the MOF. Out of 18 divisions in JICA, MITI and the MOF secured three

positions each of divisional head.

8. The Overseas Economic Co-operation Fund (OECF)

The Overseas Economic Co-operation Fund (OECF) was established in 1961. Since 1975, it has been distributing almost all Japanese bilateral loans. The OECF was formed after the Asian Development Fund in the Eximbank was reorganized by Prime Minister Kishi Nobusuke. Thus, the OECF shared responsibilities and was in partnership with the Eximbank in the early stages of the organization's development.

According to Alan Rix, the creation of the OECF was the first official step toward an aid policy that tried to support the Less Developed Countries' (LDC) development interests. "The OECF provided a mechanism ostensibly separate from export promotion, offering loans at an interest rate well below that available from the Export-Import Bank" (Rix, 1993: 23).

The arrangement for the administrative control of the OECF posed difficulties and caused frictions because it came within the power of all of the three rival ministries (the MOFA, the MOF and MITI) that were already managing Japan's aid relations. To avoid having the OECF associated too closely with any of the above-mentioned ministries, the responsibility of managing the Fund was given to the EPA. This means that the OECF was placed under a domestically weak agency. At the same time, officials from other ministries entered the Fund in strategic policy positions. The OECF was emasculated from the start and was made subordinate to bureaucratic interests rather than to those

objectives of international development that were stipulated in the OECF law (Rix, 1980: 35).

The OECF's loans are given and reimbursed in Japanese currency. If the Japanese Yen is weak, the recipient countries are less burdened when they return loans. There are criticisms that the appreciation of the Japanese Yen has brought difficulties to aid recipients. Akira Nishigaki, the president of the OECF, responded to the criticisms by reminding that although the OECF's loans are financed from the government budget, the money partly comes from the Japanese people's savings. That is why the loans should be reimbursed in the same amount of Japanese currency (*Kokusai Kaihatsu Janaru*, June 1995: 82-85).

Nishigaki and Shimomura (1993: 48-49) reviewed the budget structure of Japan's ODA and pointed out that the OECF was financed through the Fiscal Investment and Loan Program (FILP). This is a huge amount of money that is sometimes referred to as a "special account" (*tokubetsu kaikei*) in Japan's budget. Orr (1993b: 3-4) notes the fact that FILP derives its funds from postal savings and points out that the consequence of the Ministry of Finance's dependency on FILP for the OECF funding is that the aid process tends to favour loans over grants, because loans allow for repayment to the millions of postal savers involved.

9. Conclusion

Throughout more than forty years of Japan's ODA history, the country's aid administration has been not developing in a systematic manner. Japanese aid administration had been dominated by three ministries and one agency – the Ministry of Foreign Affairs (MOFA), the Ministry of Finance (MOF), the Ministry of International Trade and Industries (MITI) and the Economic Planning Agency (EPA).

On the other hand, under the *ancien régime* of Japan's aid policy, there were three main aid-implementing institutions in Japan. The oldest is Japan's Export-Import Bank (Eximbank). It played a prominent part in Japan's economic co-operation during the 1950s. The second institution is the Japan International Co-operation Agency (JICA), which is mainly in charge of technical co-operation projects. The Overseas Economic Co-operation Fund (OECF) provides bilateral loans to developing countries.

This paper made attempted to identify main characteristics of Japan's foreign aid administration system before its reforms. This is because the *ancien régime* of Japan's aid administration had shaped the forty-years of Japanese aid giving history before the bureaucratic restructuring took place. Nevertheless, despite the recent changes the basic problems of Japanese aid giving-mechanism, such as inter-ministerial conflicts and rivalries, remain same as before.

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