

MAKING FOREIGN AID POLICY IN JAPAN

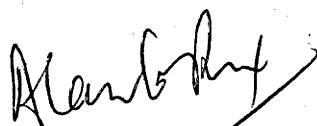
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STATEMENT

I hereby declare that this thesis has not already been accepted in substance for any degree, and is the result of my own independent research.

A handwritten signature in cursive script, appearing to read "Alan G. Rix", with a diagonal line drawn through the bottom of the signature.

(Alan G. Rix)

ABSTRACT

This thesis examines the hypothesis that Japan's aid policy was subject to serious organisational constraints, which prevented a positive response in the 1970s to criticism of her programs. It is a study of the Japanese bureaucratic process, for policy-making was dominated by procedures and, at the same time, it assesses ideas about policy-making in Japan. In analysing foreign aid, it adopts a "policy area" approach to test how a policy is defined within government.

Chapters 1 to 3 examine ideologies and organisational change, and include a study of the creation of the Japan International Cooperation Agency, an aid implementing organisation. They reveal a link between perceptions of aid in Japan and the development of the aid machinery. Chapters 4 and 5 deal, respectively, with the fact that the relationship between aid policy and structures of government was irregular, and with the complex formal and informal procedures for aid policy formulation and management. Chapter 6 details to what extent aid policy is determined by budgeting, while Chapters 7 and 8 fill out the analysis of non-bureaucratic influences on policy introduced earlier in the thesis. Politics is shown to have affected policy, by promoting certain "special" bilateral relationships. The concept of the "aid cycle" (the steady accumulation of aid flows to selected recipients, as implementation narrowed future policy options), demonstrates that bureaucracy was dependent on private enterprise (especially consulting engineers) to induce policy innovation.

The original hypothesis is found to be valid. Internal policy change was inhibited because power was balanced between ministries, political will was erratic, and the affiliation of

officials was to the immediate task of the primary work group. Coordination was therefore unavoidably weak and the only adaptive element reinforced predominant policy "biases" in favour of bilateral capital project aid. These conclusions challenge some widely held beliefs about Japanese policy-making, and Japanese aid in particular.

Finally, the usefulness of the "policy area" approach is confirmed by the fact that foreign aid, as it related to other government concerns, was being continually redefined by policy-makers, and policy represented attempts by participants to adjust contents to changing perceptions of policy limits. This suggests that "policy" should be conceived of as a fluid set of ideas and interpretations, and government as a "map" of interdependent and similarly shifting policy areas.

TABLE OF CONTENTS

	Page
Abstract	iii
List of Tables	viii
List of Charts	xi
Glossary and Abbreviations	xii
Acknowledgements	xv
Introduction	1
1. The Impact of Ideas	3
2. Politics and Policy-Making	8
3. Process and Policy	10
4. Policy Questions	12
1 Official Approaches to the Aid Program	16
Economic Cooperation and Trade	17
Yen Loans: Extending Horizons	21
Japan and the DAC	25
The 1960s: An Expanding Japanese Role	29
The Turn of the Decade	38
Crisis and Recession	42
Conclusion: Ideas and Policies	44
2 The Growth of the Aid Bureaucracy	46
The Early Years: Reparations and Exports	47
The Advisory Council and the OECF	53
Completing the Structure	62
Restructuring the MFA and MITI	70
A Central Aid Agency	75
Conclusion: Aid and Administrative Change	80

	Page
3 "Scrap and Build": The Origins of the Japan International Cooperation Agency	83
Bureaucratic Conflict and Politics	83
Politicians and the Decision	91
The Decision: Two Issues	96
Drafting the JICA Legislation: Conflict and Compromise	99
The Diet Debates	107
Choosing Personnel	110
The New Agency	112
Conclusion: JICA and Policy-Making	114
4 Aid and the Governmental Process	117
Aid Within Government	118
Aid and the Ministry Environment	119
Aid Within Ministries	125
Aid and Bureaucratic Behaviour	132
Advisory Bodies	137
Political Parties and the Diet	146
Conclusion: Organisation, Politics and Policy	151
5 Ministries and the Policy Process	153
Bilateral Capital Grants	158
Multilateral Aid	164
Technical Assistance	170
Government Bilateral Loans	176
Conclusion: Aid Policy Coordination	183
6 Budgeting for Foreign Aid	188
Aid Flows and the Budget	189
Budget Requests	200
Request and Response	212
Mood Building	221
The Final Phase	224
Conclusion: Did Aid Equal Budgeting?	228

	Page	
7	Bilateral Aid Relationships	232
	Bilateral Loans and Aid Policy	232
	Viewing Bilateral Relationships	242
	(a) International Effort and Aid Giving	242
	(b) Broader Policy Perspectives	247
	(c) The Minor Politics of Aid	253
	(d) The Information Gap	260
	Conclusion: Aid Allocation and the Aid Cycle	268
8	Surveys, Projects and Consultants	271
	Surveys for Projects	271
	JICA and Surveys	278
	The Engineering Consultants' Industry	282
	Nippon Kōei Company Limited	283
	Consultants in 1976	289
	Arranging Surveys	295
	Design and Construction Supervision	304
	Conclusion: Consultants and the Aid Cycle	308
	Conclusion	311
	Japanese Aid Policy: The Donor's Dilemma	311
	Policy-Making in Japan	314
	The Policy Area Approach	318
		(Volume 2)
	Notes	325
	Appendix 1: Rankings in the Japanese Government	401
	Appendix 2: Interviewing	402
	Bibliography	407

LIST OF TABLES

	Page
1-1 The net flow of financial resources from Japan to developing countries and multilateral agencies, 1960-1976	30
1-2 Geographical distribution of net flows of financial resources from Japan to developing countries	33
4-1 Staff of aid divisions in main ministries, 1965-1975	128
4-2 Foreign Ministry Economic Cooperation Bureau: actual staff numbers as of 1 April 1976	130
6-1 Official flows as percentage of total Japanese economic cooperation, 1965-1975	190
6-2 Economic cooperation budget, according to DAC categories, 1965-1975	194
6-3 Budgetary sources of official aid funds, 1965-1975	195
6-4 Increases in budget categories for official flows, 1965-1974	197
6-5 Shares of various policy categories in the budget's General Account, 1965-1975	198
6-6 Economic cooperation budget: changes in ministry shares, 1965-1975	201
6-7 Total budget request and economic cooperation budget request per ministry FY1975-FY1977: request divided by previous year's allocation	214
6-8 Economic cooperation budget FY1975 and FY1976: sizes of allocations and requests	216

		Page
6-9	Economic cooperation budget FY1975 and FY1976: allocation divided by previous year's allocation	218
6-10	Economic cooperation budget 1975 and 1976: allocation divided by previous year's allocation, by ministry	219
6-11	Budget General Account: MOF Draft and Government Draft allocations for various categories, 1965-1975	225
6-12	Budget allocations for OECF and Export-Import Bank, 1965-1975: MOF Draft and Government Draft	227
7-1	Number of new recipients of Government bilateral loans, 1957-1975	234
7-2	Geographical distribution of accumulated value of Japanese Government loans committed up to November 1976	236
7-3	The ten main recipients of Japanese Government loans committed up to November 1976	237
7-4	Geographical distribution of Japanese Government loans: accumulated value of commitments up to selected years	239
7-5	The ten main recipients of Japanese Government loans: accumulated value of commitments up to selected years	240
7-6	Gross receipts of ODA by, and Japan's ranking as a donor to, selected developing countries, 1969-1972	241
8-1	Trends in development survey budget, 1962-1974	273
8-2	Number of development survey teams sent, 1962-1974	274
8-3	Number of development survey teams sent, by region, 1962-1974	276

	Page	
8-4	Geographical distribution of development survey expenditure, 1954-1974	277
8-5	MITI assistance to Engineering Consulting Firms Association, 1964-1976	293
8-6	Selected consultants: stages of various development projects undertaken	306
A-1	Number of persons interviewed, by affiliation	405
A-2	Rank of Government bureaucrats interviewed	406

LIST OF CHARTS

	Page
2-1 Administrative organisation for aid: Ministry of Foreign Affairs	49-50
2-2 Administrative organisation for aid: Economic Planning Agency	55
2-3 Administrative organisation for aid: Ministry of Finance	64
2-4 Administrative organisation for aid: Ministry of International Trade and Industry	66-7
4-1 Japanese aid administration: formal outline	121
4-2 The structure of Japan's aid administration 1976: the main ministries	123
5-1 Economic cooperation: structure and process	154-7
6-1 Sources of budget funds for official aid	192

GLOSSARY AND ABBREVIATIONS

(Throughout the thesis, Japanese names are presented with the surname first. This is done also for Japanese authors of English language works).

ADB	Asian Development Bank
Advisory Council	Advisory Council on Overseas Economic Cooperation
AID	United States Agency for International Development
AMA	Administrative Management Agency
<u>bu</u>	department (within a ministry)
DAC	Development Assistance Committee of the Organisation for Economic Cooperation and Development
DAG	Development Assistance Group
DSP	Democratic Socialist Party
ECAFE	Economic Commission for Asia and the Far East
ECFA	Engineering Consulting Firms Association
<u>enjo</u>	aid
EPA	Economic Planning Agency
Eximbank	Export-Import Bank of Japan
FAO	Food and Agriculture Organisation
GDP	Gross Domestic Product
GE	grant element
General Account	General Account (<u>ippan kaikei</u>) of the Budget
GNP	Gross National Product
IBRD	International Bank for Reconstruction and Development (World Bank)
IDA	International Development Association

IDC	International Development Centre of Japan
IGGI	Inter-Governmental Group on Indonesia
IMF	International Monetary Fund
JCP	Japan Communist Party
JEMIS	Japan Emigration Service
JICA	Japan International Cooperation Agency
JODC	Japan Overseas Development Corporation
JOCV	Japan Overseas Cooperation Volunteers
JSP	Japan Socialist Party
<u>ka</u>	division (within a ministry)
<u>kaihatsu enjo</u>	development assistance
Keidanren	<u>Keizai dantai rengōkai</u> or Federation of Economic Organisations
Keizai dōyūkai	Japan Committee for Economic Development
<u>keizai enjo</u>	economic aid
<u>keizai kyōryoku</u>	economic cooperation
Komeitō	Clean Government Party
<u>kyoku</u>	bureau (within a ministry)
LDC	less developed country
LDP	Liberal Democratic Party
LLDC	least developed country
MAF	Ministry of Agriculture and Forestry
MEDSEA	Ministerial Conference on the Economic Development of Southeast Asia
MFA	Ministry of Foreign Affairs

Ministerial Committee	Ministerial Committee on Overseas Economic Cooperation (abolished January 1977)
MITI	Ministry of International Trade and Industry
MOF	Ministry of Finance
MSAC	most seriously affected country
NHK	<u>Nippon hōsō kyōkai</u> or Japan Broadcasting Corporation
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
OECF	Overseas Economic Cooperation Fund
OEEC	Organisation for European Economic Cooperation
OOF	Other Official Flows
OTCA	Overseas Technical Cooperation Agency
PARC	Policy Affairs Research Council (of the LDP)
PCI	Pacific Consultants International
PNG	Papua New Guinea
<u>seirei</u>	Cabinet Order
<u>setchiho</u>	ministry establishment law
<u>soshikirei</u>	ministry organisational ordinance
Special Committee	LDP Special Committee on Overseas Economic Cooperation
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme

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INTRODUCTION

By the late 1970s, Japan was one of the world's main foreign aid donors, and aid was an important component of her economic and foreign policies. She was the largest single contributor of aid funds and services to many developing countries and actively supported aid financing institutions, but was not an influential force in international aid fora. For the twenty years after she embarked on aid programs in the mid-1950s, Japan faced criticism from both recipients and donors for meagre aid flows, protracted decision-making and a too ready association of aid and export policies. The Japanese Government and its agencies were, in turn, slow to respond and by the late 1970s had hardly altered their policy objectives from those of the fifties.

This thesis considers why the Japanese Government did not respond directly to the aid challenge. In order to answer this question, we shall describe how the Government made and implemented foreign aid programs and what effect this had on future policy. Our central argument is that the character of the domestic aid administration decisively affected Japanese aid performance, for aid policies were inseparable from processes. The study concentrates on the bureaucratic aspects of policy-making, which were dominated by three relationships:

1. between ideas circulating in Japan about aid, and aid organisation and processes;
2. between the degree of priority enjoyed by aid within Japanese domestic politics, and the range and pattern of participation in policy-making;

3. between the interaction of officials, agencies and procedures on the one hand, and narrowed aid policy options for the Japanese Government on the other.

These relationships had a direct cumulative impact.

Conflicting perceptions in Japan of aid and its uses encouraged ministries, in the 1950s and early 1960s, to consolidate their influence in the administration of aid and economic cooperation, which all regarded as lying within their own jurisdiction. The result was diffuse structures which produced distinctive processes for different types of aid.

The low priority afforded aid within Japanese politics led to sporadic participation by ministers and a dependence on information and advice from outside Government. Lack of political interest in aid, except in the case of large bilateral loan projects, meant that staffing of aid institutions and administrative reform were given little attention, agencies were overloaded and high level advisory bodies weakened. Structures replaced politics as the major influence on patterns of participation.

Predominantly bureaucratic participation impinged on Japanese policy choices. Budgeting imposed serious constraints on aid flows, and traditions of Japanese Government personnel management, which discouraged aid specialisation, limited the direction and content of flows. Broad policy planning suffered under the weight of coordination difficulties and an absence of policy guidelines led to an emphasis on detail and procedure. Government loans became the centre of policy and, with sections of the technical cooperation program, directed aid flows into a self-reinforcing "cycle" of aid to selected recipients.

Two further problems arise from a study of how Japan made aid policy. One is comparative: whether Japan's case is unique and how other donor systems react to similar problems. Patterns are indeed remarkably consistent and one of the aims of this study is to provide further empirical evidence for comparison of donor structures, budgeting, project development and bilateral ties.

The second question arises out of the relationship between process and policy content and the problem of how "aid policy", wedged as it is between foreign, trade and finance policies in Japan, is actually defined. Our answer, that there is no fixed definition or boundary, is derived from the broad view of aid obtained from a "policy area" approach. This is a middle range method, not limited to analysing a single decision or forced to generalise about social forces.¹

1. The Impact of Ideas

Ideas about aid in Japan, as suggested above, directly influenced the development of the aid bureaucracy, but ideas, to borrow Richard Simeon's words, "do not provide complete explanations".² When institutionalised in ministry approaches to problems, however, they are highly relevant. As Simeon puts it, ideas "are especially important in providing the assumptions which define the problems and limit the range of policy alternatives considered at any point".³ Nevertheless, this influence was felt indirectly in Japan, through institutions and processes.

Ideas helped define the organisational presence of aid. They emerged as conflicting "interests", as in Allison and Halperin's bureaucratic politics paradigm,⁴ although not with the same force as those writers would ascribe to them. Robert Art's argument that the

paradigm "undervalues the influence (or weight) of ... generational mind-sets ... on the manner in which top decision-makers approach foreign policy" is most pertinent,⁵ because one aspect of the "mind-set" relating to aid was the international debate on development assistance problems.

Argument about foreign aid in Japan involved questions which were, naturally enough, common to the aid debate generally. "Foreign aid" is a tricky and sensitive subject. The term can refer to certain economic phenomena (the "explicit transfers of real resources to less developed countries on concessional terms")⁶ which admit of a variety of origins, commercial or official. It can also be defined more narrowly as "government-sponsored flows of resources made available on concessional terms to foreign governments",⁷ where origin and point of receipt are more clearly described. In both cases, foreign aid involves a movement of resources from one country to another in a way designed to assist the latter's development. It is generally accepted, furthermore, that this movement falls within the ambit of government policy to some extent.⁸

"Aid" is also used as a much broader concept, where precision is lost and distinctions between kinds of resource flows are blurred. Here aid is lumped together with other foreign economic policies of governments and their subsidiary agencies. "Foreign aid" as a defined exchange of concessional resources becomes equated with the more encompassing notion of "economic cooperation". In Japan, as we shall see, a precise concept of "foreign aid" was never clearly distinguished from that of "economic cooperation". In this thesis it is accepted that the latter is a far more comprehensive category which includes non-explicit transfers of resources, such as those realised

through trade and tariff policies. The term "foreign aid" is used to refer to official development assistance, or ODA, as defined by the Development Assistance Committee (DAC) of the Organisation for Economic Cooperation and Development (OECD). The DAC definition was usually adhered to by the Japanese Government in the period under discussion. This study is of Japanese official development assistance policy, not of economic cooperation policy, although the two overlap. Since the making of ODA policy affected other flows of assistance, we shall discuss these as they are relevant.

Global efforts towards development in the 1960s and the ensuing debate extended the scope of the aid idea.⁹ Commentators argued about the form which aid should take for development purposes¹⁰ and, later, about the rights and wrongs of foreign aid as an activity of governments.¹¹ The explicit linking of aid and other economic policies in donor countries prompted forceful criticisms of foreign aid in the "aid as imperialism" debate.¹² Discussions of the "new international economic order" went even further, to the point where both developed and developing countries claimed benefits from aid and economic cooperation policies.

Perceptions of aid in Japan were regularly cited as the main influence on Japanese policies and the discussion of those ideas normally led into arguments about causes. Explanations of the nature of Japanese aid assumed that there was a strong consensus regarding aid in Japan, for reparations experience and the imperatives of domestic economic growth dominated Japanese approaches to the subject. The debate in the West about aid had little impact on Japanese policy-makers shaping their own priorities for aid in terms of the home economy. It is important, nevertheless, to realise the

extent to which Japan's aid role was attributed to common perceptions of aid. One writer, Hasegawa Sukehiro, detailed five views of Japanese motivations:

- (a) economic rationalism, advocated by those who saw the nation-state as the focus of the international system;
- (b) non-ideological economic expansion, supported mainly by foreign observers;
- (c) ideological economic expansion, asserted by Marxist scholars in Japan and abroad;
- (d) self-preservation, presented by those who saw an economic need for Japan to pursue aid policies;
- (e) world communalism, put forward by supporters of aid as a step towards a world community.¹³

Views such as these were expressed in assessments of the aid program. John White observed in 1964 that Japanese aid was criticised as "inadequate, wrongly motivated and administered, too narrowly and selectively applied, and out of line with the aid programmes of other donors".¹⁴ The DAC, in its annual Aid Review, always found Japan's aid wanting by comparison with the efforts of other member nations.¹⁵ Japan was constantly called upon to increase grant aid (especially technical assistance), improve the terms and raise the grant element of loans and expand ODA in line with her 1970 undertaking to attain ODA equalling 0.7 percent of GNP. Japan was never, despite DAC pressure, able to meet successive DAC recommendations on terms. Continuous criticism, at home and abroad, had no lasting impact on the way Japanese policy was made.

It appeared to some observers that an effective barrier to change was the widespread agreement both within the Japanese Government and in the country at large about what aid policies should be followed. The whole system, it was thought, was united. Hasegawa, for example, distilled a composite "historical national evolutionist view", according to which aid "is seen as an instrument of Japan's national policy to serve the kokueki, or national interest, of 'secularized postwar Japan'".¹⁶ Edgar C. Harrell suggested that different groups influenced aid policies over the 1950s and 1960s because they agreed about the relationship between foreign aid and domestic economic growth. Priorities were agreed upon, élites made policy, and "a divergence of views, when it surfaced, was generally about a specific project, country emphasis or the structure of aid administration."¹⁷ Other critics of Japanese aid policy supported this "consensus" view and attacked Japan's performance, usually in terms of a "monolithic" approach to Japanese behaviour. Halliday and McCormack's neo-imperialism analysis is the best known of these but it was unable to account for the fact that Japanese foreign aid policies and administrators were never united.¹⁸ Ideas similar to Hasegawa's composite view were common to Japanese decision-makers, although to differing degrees.

Nevertheless, in practice, policy as implemented was not an immutable whole; Japanese foreign aid was of many kinds, some more important than others, but her aid effort embraced no single "aid philosophy", except appeals to the national welfare cast in predictable terms by each ministry. Aid policy was little more than a collection of disparate programs supported by self-serving slogans voiced by any donor. Rather than explaining aid policy with

clichés, however, it is more useful to assume that a certain degree of consensus existed and focus on the persistent disagreements among policy-makers which had, in the long run, a greater impact on policy.

2. Politics and Policy-Making

The influence of social, political, economic and administrative environments on policy is a constant theme in the literature of decision-making. Environments can be both international or domestic, as Frankel argued in the context of foreign policy-making.¹⁹ Recent writers have continued in the same vein with their emphasis on the influence of domestic structures on foreign policy,²⁰ while the concept of environment as a factor in policy-making has been taken to its extreme in the "transnational interdependence" paradigm.²¹ This thesis will assess to what extent environment (especially the political) influenced aid policy in Japan.

Questions of politics are important to most aid donors, not only Japan, although little has been done to identify the comparative aspects of donor policy-making. The fact that policy formulation in donor countries has been so little discussed constitutes a sizeable gap in the literature on foreign aid, for aid policy formulation depends on much more than élite attitudes and initiatives. Studies of donor administrations support the view, stated by Viviani, that "for the most part it is the way in which political responsibility for aid is exercised, together with the way bureaucratic control is located that decisively shapes an aid program."²² Those studies revealed a great diversity of donor structures²³ but Viviani argued that the main factors in donor administration were political responsibility for aid, bureaucratic control of aid and organisational impact on policy.²⁴

Political and organisational aspects are assessed by Judith Tendler in her study of the impact of organisation on the tasks of the United States Agency for International Development (AID). She concluded that political pressures impinged on the organisation as criticism and as incursions by other public agencies into the territory of AID. "Criticism and incursion", she wrote, "affected the agency's performance by changing the AID technician's concept of what he wanted to do".²⁵ In Japan, much of the politics of foreign aid took place within the bureaucracy and low levels of political support for aid reinforced this tendency. Although reduced in the case of aid, politics had a marked effect on policy-making nevertheless.

The link between politics and participation was the subject of a great deal of past research on Japanese policy-making, although the relevance of the relationship to the bureaucratic process was not usually discussed. Japanese scholars often used to take a static institutional approach in their studies of the national bureaucracy. Okabe's Gyōsei kanri (Public administration)²⁶ was typical of the "public administration" style of analysis, whereas Tsuji developed a process paradigm in his work on the ringisei, or circular decision-making system,²⁷ a treatment which was taken further in the 1970s by such scholars as Kawanaka, Kojima and Ide.²⁸ They stressed process rather than structure and, in doing so, came up with some significant conclusions about Japanese policy-making as a whole. Fukui showed in his survey of the literature on policy-making in Japan that the emphasis of earlier writings by Japanese scholars on the power of the LDP or, alternatively, of the ruling élite of party, business and bureaucracy had given way to "a picture of Japanese policymaking

which is characterized above all by fluidity, complexity, and variability, rather than by the regularity, stability, and constancy which the power-elite perspective projects."²⁹

Western scholars contributed much to our understanding of the Japanese policy process, although the multiplicity of case studies chosen for analysis produced policy-making patterns distinguished by issue, policy type and the nature of the participants. While the popular literature, both in Japan and in the West, continued to uphold theories of the élitist dominance by the national bureaucracy over society and over government, a few scholars completed detailed studies of policy-making in which officials actively sought certain policy outcomes, but did not monopolise policy-making in the way some popular writers suggested.³⁰

When we consider how best to approach the bureaucratic process in Japan, it is important to realise that policy was not simply a reflection of prevailing political power structures or of social élite groupings. In this thesis we assess to what extent the Japanese bureaucracy was a locus of policy-making and one possible approach is to adopt the bureaucratic politics paradigm. We shall aim to demonstrate, however, that the organisational process of routine bureaucratic decision-making proved to be of even greater importance.

3. Process and Policy

In arguing that organisational process can help explain Japanese aid policy, we take up an idea put forward by John White in his study of the politics of foreign aid, where he concluded that "the makings of an aid policy lie in the hands of those who actually

administer it."³¹ This raises the question of how aid management procedures channelled bureaucratic politics and affected actual policy content, a subject which has arisen in studies of project administration and development planning in several countries.³² The influence of procedures on policy-making in Japan suggests that the aid administration by itself was one variable in the aid relationship which cannot be ignored.

We are also interested in how the implementation of aid policy limited future policy alternatives. This problem enters the literature in the debate about the developmental impact of aid on recipients,³³ but the effects of feedback on the donor policy process have not been discussed. One reason for this is that, even though feedback is supposedly expressed in policy evaluation by aid donors,³⁴ it is not always easy to define. We shall employ the concept of the "aid cycle" in examining what we describe as "biases" in Japan's aid program.

Policy is derived from the actions of individuals in certain patterns within institutions. The organisational environment and its constraints on actions and interactions in Japan occupy our attention throughout. Standard operating procedures and the implications of these for policy-making - incrementalism, partisan mutual adjustment, "satisficing" as described by Lindblom, March and Simon³⁵ - are as much a part of Japanese as of Western bureaucracies, but are not the only factors at work.

However important the organisational dimension - and it is important - outcomes are also affected by individuals. It is hard to allow as much scope for individual influence as Allison's bureaucratic

politics paradigm suggests, but Heclo and Wildavsky's study of British budget politics displays the full scope of the human drama of organisations.³⁶ Campbell, Fukui and others have begun to analyse relationships between individuals, organisations and policy in Japan;³⁷ the complexity of inter-ministerial jurisdictions and processes of coordination in Japanese foreign aid provides an opportunity to pursue similar themes.

Patterns of participation are the outward evidence of policy-making, but we are not so much interested in ideal types of policy-making processes as in the dynamics of policy and the roots of that dynamism. Crozier perceptively explained these forces in the French case without positing inflexible models³⁸ and Allison and Halperin have both suggested ways of viewing policy-making from the individual's standpoint.³⁹ Heclo provided a weighty account of the social and economic bases of policy in two European countries and, with Wildavsky, took a more socio-anthropological line on financial policy-making.⁴⁰ We shall observe Japanese aid with the benefit of all these perspectives.

4. Policy Questions

A study of Japanese foreign aid policy must confront a basic analytical dilemma. Aid is not a well defined phenomenon but merges with other policies and social processes and is in constant flux as a donor government's policy priorities shift. A real problem for us is how aid policy is defined, what separates it from other government pursuits, how constant are its boundaries. For that reason it is useful to employ a "policy area" approach. We shall

not confine ourselves to elucidating a single decision,⁴¹ or processes in a single ministry,⁴² or the play of politics across a number of government policies.⁴³ Adopting a policy area framework may seem, at first glance, theoretically limiting but this is not so for the following reasons:

- (a) It includes a reasonably well defined, but not a narrow, set of circumstances, where we work across ministries and across several individual policies. We are not restricted to the uniqueness of single decisions nor to the generalisations of system-wide analysis, but can see out to the shape of political power in the system and inwards to the activities of "proximate policy-makers".⁴⁴
- (b) It highlights dynamism and continuity in policy-making, which Heclo emphasised in his assessment of the utility of policy classifications:

These classification efforts by political scientists have been analytic in the sense of seeking to decompose reality into a group of categories ... attention is devoted to categories rather than relationships. Yet behaviour, and particularly behaviour connected with policy, is dynamic; the phenomena at issue are moving events, routines, strategies, and adaptations. The challenge is not to decompose process or content but to find relationships which link the two, not to reify collectivities into individual deciders but to understand the networks of interaction by which policies result.⁴⁵

- (c) We can see how actors and institutions fit into the broader political system. This is not possible in single-decision case studies, where the relationships between the decision and the routine operations of government are ill-defined, especially if the study is of a "crisis" decision.

(d) The policy area approach does not separate policy formulation from implementation and evaluation, for the link is essential to analysis of power in policy processes. Heclo was concerned with this when he noted that "the content of a policy can itself be a crucial independent factor in producing effects on the policymaking process".⁴⁶ His "policy as social learning" model is an excellent, non-mechanistic attempt at linking policy effects and contents⁴⁷ and he succeeded because he chose to study social policy, a diverse area of government in which these were always visible.

The scope of this thesis is more limited but no less challenging. Foreign aid is not such a pressing issue as social policy for governments of advanced industrial countries. It does not arouse comparable domestic political interest. It is, nevertheless, basic to relations with some developing countries and is closely allied to sensitive policy areas such as trade and international finance. The policy area approach provides a framework for testing relationships between stages of the policy process, between policy and the political system and between policies themselves.

The thesis is divided into three parts. The first three chapters look at ideas about aid in Japan and the development of aid organisation. Chapters 1 and 2 trace the growth of the Japanese aid administration and the changing place of aid within national priorities and Chapter 3 analyses in detail one aspect of this development, the creation of the Japan International Cooperation Agency. The second section examines the relationship between national government and politics and the aid bureaucracy. Chapter 4 focuses on structures, while Chapter 5 describes procedures for aid policy formulation and

Chapter 6 the aid budget process. The last section, Chapters 7 and 8, places official aid policy in a broader context which includes bilateral relationships between Japan and particular recipients and the role of private enterprise and domestic politics in the continuing "cycle" of aid policy.

CHAPTER 1

OFFICIAL APPROACHES TO THE AID PROGRAM

The making of foreign aid policy in Japan was always strongly influenced by the thinking of government officials. They were not, as some have argued,¹ united in their views on aid and economic cooperation. They found themselves in conflict about the best form of aid, the direction, size, methods and terms of aid flows, the precise objectives of aid and the nature of relationships between aid and other domestic and foreign policies. The problem for policy-making was whether or not the debate within ministry circles fostered a Government approach to aid.

Official attitudes were formed over five distinct but overlapping periods:

- (a) the years of reparations and tentative technical assistance until the first yen loan was made to India in 1958;
- (b) the period until the early 1960s when the Development Assistance Committee (DAC) of OECD was set up;
- (c) throughout the 1960s from DAC until the Second United Nations Conference on Trade and Development (UNCTAD) in 1968, when Japan became accepted as one of the world's economic powers and herself took on more of the responsibility attendant on that status;
- (d) from the late 1960s until the oil crisis of 1973, the height of the Japanese aid effort;
- (e) the ensuing economic recession lasting into the latter half

of the 1970s.

Economic Cooperation and Trade

Japan initially gave foreign aid in the early 1950s in the form of technical assistance. In the mid- to late 1950s, she entered a number of reparations agreements, and made her first official loan in 1958. Between 1960 and 1976, the total net flow of resources from Japan to the developing countries and multilateral agencies increased more than sixteen-fold from US\$246 million to US\$4,002.6 million, with US\$5,844.2 million donated in 1973 representing the peak of this growth (see Table 1-1). Total flows grew steadily over the period, although the peaks and troughs reflected fluctuations in the level of private capital flows (mainly direct investment). The most concessional portion of the total (official development assistance or ODA) was outstripped by private flows and as a percentage of GNP, ODA was always considerably lower than the DAC average. Although Japan in 1976 was the fourth largest donor among DAC members, sheer quantity did not offset the below average Japanese performance in quality.

This rapidly expanding effort drew mixed reactions. Other aid donors and some recipients did not acknowledge it as a true contribution to international aid. In Japan herself, there was no strong agreement about Japan's proper role and it was clear from the outset that a problem of definition and terminology existed.

During the 1950s, Japan for the first time took part in international technical cooperation schemes, such as the United Nations Expanded Program of Technical Assistance and the Colombo Plan. She concluded agreements for reparations with Burma, Indonesia and the Philippines and for quasi-reparations with Laos and Cambodia.² The

establishment of the Export-Import Bank of Japan (Eximbank) in 1952 signalled the beginning of full scale Government assistance to exports and encouragement to private investment overseas. Total official net flows rose from an average of US\$10 million between 1950 and 1955 to US\$285 million in 1958.³ In this period to 1958, the concept of "economic cooperation" was used to describe Japanese attempts to further economic relations with developing nations, especially with those of Asia. The distinction between this and "aid", however, was not made. The two terms were more often confused than clarified.

Different ministries separately defined economic cooperation but never explicitly identified an aid component. The Ministry of International Trade and Industry (MITI), the Economic Planning Agency (EPA) and the Ministry of Foreign Affairs (MFA) each drew up its own set of priorities into which economic cooperation was fitted, the common factor being that Japan's domestic economic well-being was placed foremost. In their separate approaches to these policy problems, emphases overlapped but distinctions remained.

The first postwar economic plan of 1955, prepared by the EPA,⁴ included economic diplomacy and trade promotion in Asia as two of its important policy goals. The second plan of 1957⁵ took these further, for it expressed in more detail the long-term perspective of Japan's economic planning and made explicit the need to coordinate domestic and international economic strategies. Measures to redirect Japan's industrial structure from light industry to heavy and chemical industries depended on the promotion of trade to the developing markets of Southeast Asia by means of international economic policies, especially economic cooperation. According to the plan, economic cooperation included development planning, capital exports, the

extension of credits, overseas investments, the procurement of resources and long-term import policies for food and raw materials. The EPA relied on broad definitions and omitted any mention of "aid".⁶

In the first edition in 1958 of MITI's Economic Cooperation: Present Situation and Problems,⁷ economic cooperation was blatantly linked, although without the long-term perspective of the EPA, to the goal of Japanese trade promotion. The MITI report represented the view, expressed early in the 1950s in business and government circles,⁸ that Japan's main economic task was the promotion of trade to secure the resources necessary for Japan's industrial growth, and to develop markets for the products of Japan's industry. Economic cooperation became "the new axis of postwar trade policy",⁹ for the developing nations were valued as markets or as potential markets in which demand could easily be stimulated.

While this object was clear cut, it did not help to clarify the terms used. The 1958 report stated that the words keizai kyōryoku (economic cooperation) could refer not only to relations between developed and developing nations, but also to those between developed nations. MITI focussed on the former and claimed that economic cooperation involved a very broad (and ill-defined) area of both government and private participation in the development of the "under-developed countries". This cooperation could, according to the report, be either bilateral or multilateral, and include capital, technical and trade flows. No reference to aid (enjo) was made.

The first foreign policy review published by the MFA in 1957 planted economic cooperation more firmly within the scope of

Japan's national policies and international interests.¹⁰ Like MITI and the EPA, the MFA considered economic cooperation to be necessary for Japan's own growth, and it openly acknowledged the significance of Asia in this respect: "Our own development is not assisted by an Asia without peace, progress and prosperity". The Southeast Asian nations were regarded as increasingly important sources of food and raw materials for Japan, as well as markets for Japanese exports.¹¹

Specifying where economic cooperation would be best directed still did not advance any real definition of the concept. The MFA made clumsy distinctions between economic cooperation and two of its components, reparations and foreign aid. These were finely distinguished by the MFA, which maintained that countries not claiming war damages were entitled to receive foreign aid. The 1957 review stated further that economic cooperation included reparations, technical cooperation, private cooperation and government assistance to private business, such as that undertaken by the Eximbank.¹² What precisely constituted aid, however, was not explained.

Within the category of economic cooperation, the MFA gave priority to private cooperation and technical assistance, because it judged that only limited resources were available for government capital assistance. This suggested that the MFA even in 1957 regarded aid as government flows of capital excluding reparations, which were included in an economic cooperation effort undertaken by both government and business.¹³

By the end of the 1950s, Japan was deeply involved in economic cooperation. Private flows of investment and technical assistance, both official and private, formed the core of policy, with

Southeast Asia as Japan's main target. The economic and diplomatic interests of several ministries were directed towards developing close and potentially large markets. This, it was hoped, would ensure the economic, social and political stability of Asia, which Japanese officials considered essential to peace in the region.¹⁴ Economic cooperation had likewise become an integral part of Japan's long-term policies. Prime Minister Kishi Nobusuke's active diplomacy and his initiatives towards improved Japanese relations with Southeast Asia demonstrated a keen appreciation of how economic cooperation would affect Japan's future. Government initiatives were fully supported by the economic diplomacy of Japanese business.¹⁵

Yen Loans: Extending Horizons

In the late 1950s, Japan's economic cooperation expanded significantly but, at the same time, official attitudes to the issue diverged further. The Japanese Government granted its first yen loan in 1958 as part of contributions by the World Bank Consortium for India.¹⁶ That nation was then regarded in many countries as the cornerstone of stability in Asia and the Consortium of which Japan was a member endorsed this view.¹⁷ Other early government loans were made to Paraguay, South Vietnam, Pakistan and Brazil but, while private investment and export credits rose in the period 1958-61 from \$33 million to \$160 million, total net official flows in fact fell from \$285 million to \$221 million, due largely to a fall in grants.¹⁸ The period was remarkable not so much for the changes in the direction of economic cooperation but for the hardening of institutional arrangements and a greater awareness of economic cooperation and aid arguments in Japan. New objectives and new modes

of cooperation replaced reparations as the central features of Japanese policy. The demands of trade promotion and a long-term Asian policy remained strong, but they represented Japanese attempts to be accepted in Europe and America as a responsible trading partner, which would enhance Japan's claims to membership of the principal international economic organisations.

MITI showed appreciation of the new direction when it referred in 1960 to economic cooperation as "the mission of the world's industrial nations". In practical terms, however, this moral goal was to be achieved by increasing direct loans and investment overseas to secure vital raw materials from resource-rich developing nations through policies of "development import".¹⁹ MITI's recommendations for increasing the quantity and quality of economic cooperation were designed primarily to further not the development of the recipient nations but Japan's own trade and economic policy ends. The 1961 report enlarged on this by stating that Japan undertook economic cooperation to develop her own industry. She did not do so out of support for Cold War political objectives or support for development as part of decolonisation policies.²⁰

This oblique reference to the aid policies of Western donors was the first comparison by the Japanese Government of her own and Western efforts. It marked also the first defence of Japanese economic cooperation in terms of the aid debate then fashionable in the United States and Europe, but MITI seemed to have little compunction in dismissing the development claims of the Third World. "Aid" as a separate endeavour was ignored.

The MFA, on the other hand, appeared to be more aware of Japan's unique position as an aid donor and presented a much more sophisticated case for Japan. The terms "economic cooperation" and "aid" were still confused, on occasion being used alternatively in respect of technical assistance, but by 1961 the distinctions were more pronounced in Ministry statements. It was suggested then that official flows represented the "aid" component of a complex pattern of official and private transactions.

The MFA put forward three arguments in support of Japan's economic cooperation:

- (a) it justified the persistent bias towards Asia by citing interdependence between the Japanese and the Southeast Asian economies and the need to ensure their stability and prosperity;²¹
- (b) it said that aid (enjo) should be increased because some nations were politically unstable.²² This took the argument beyond Southeast Asia, introducing the North-South debate and US-Soviet relations;
- (c) this in turn led the MFA to maintain that the moral basis of Japan's economic cooperation, which was first provided by commitment to reparations, was still firm. It saw a "natural role" for Japan as Asia's largest economy in world attempts to alleviate the development problems of the Third World.

It was doubtful, however, whether the MFA took these rationalisations seriously, for it continued to defend the small size

of Japan's economic cooperation effort by claiming that Japan's economic capacity was limited. It offered increased technical assistance as a means of lightening the impact on Japan's meagre finances.²³ The "natural" responsibility which Japan recognised was only natural, it was admitted, "because we depend on them [the developing nations] for 45 percent of our trade".²⁴

This mixture of political and economic motivations for economic cooperation was reinforced by the Income Doubling Plan of 1960.²⁵ It was this document which set the pattern for the next decade of economic activity and which linked domestic economic policy and economic cooperation to achieve the best use of domestic resources. While it placed foreign economic policy at the centre of Japanese policy, the Plan relegated economic cooperation as such to a subservient position. It diverted Japanese attention from the widening aid debate, the imperatives of the United Nations Development Decade and hopes for a positive contribution to the Development Assistance Group (DAG) and the DAC. These aspirations were replaced by an introspective policy emphasis, an international policy based on unyielding domestic interests and an aid effort divorced from concern for the welfare of the developing nations. It appraised Japanese aid in terms of its prospects for quantitative growth rather than qualitative achievement, a standard which was never displaced. In short, Japan entered the 1960s determined to undertake economic cooperation, but only to the extent of her national capabilities and primarily for trade development, domestic economic prosperity and broad international political objectives.

Japan and the DAC

In 1961 Japan joined, as a founder member, the Development Assistance Committee of the OECD and thus made a place for herself among the aid giving nations of the world. The move highlighted several developments. It showed that other nations, especially the United States, encouraged Japan in aiding Asian nations and it demonstrated Japan's own recognition of this task. It revealed also Japan's increasing determination to be accepted as a responsible member of the club of advanced nations, despite criticism of Japanese development assistance policy from other donors.

Japan's membership of the DAC has been referred to as "an apparent historical anomaly".²⁶ In 1960, the Development Assistance Group was established in the Organisation for European Economic Cooperation (OEEC). It was an ad hoc meeting, the result of increasing American pressure on its allies to join in a coordinated international effort on aid. In 1961, when the OEEC became the OECD, the DAG was reconstituted as the Development Assistance Committee. Nine founder members of OECD (Belgium, Canada, France, West Germany, Italy, Netherlands, Portugal, UK, USA) joined, as well as Japan, although she had not been a member of OEEC and did not enter OECD until 1964.²⁷

Japan joined originally, it seemed, to give herself "a foot-hold in the group of the more powerful states and greater influence in both world and regional affairs where it had both commercial and political interests".²⁸ The Nihon keizai shimbun recognised the possible restrictions and obligations involved in membership, but acknowledged that joining "would help bring [Japan]

out of her isolation"²⁹ and would be important in promoting Japan's membership of the OECD.³⁰ Nevertheless, Japan remained cautious. The Government's representative, Shima Shigenobu, went to Washington on 8 March 1960 with "no intention of making clear Japan's detailed plans for foreign aid". His purpose was instead to "show Japan's face" and "press for participation in the new aid organisation".³¹ The Director of the MFA's Economic Cooperation Division, Sawaki Masao, made it clear that Japan joined from a desire to avoid long-term disadvantage by getting a foot inside the OECD door. European nations were, in his opinion, still opposed to Japan's entry to that body, but membership of the DAG could give her a valuable link to the parent organisation. America was seeking the solution of aid problems "at a world level" and this assisted Japan, especially since she would be the only Asian nation to join the DAG. Sawaki also admitted that they asked the US Government if they might join only after they had satisfied themselves that the DAG was not a body which bound its members to agreed aid commitments. He believed that the greatest benefit arising from Japan's entry would be an understanding of the policies of the other donor nations, which Japan had been trying unsuccessfully to gain for some time.³²

The United States concentrated on persuading West Germany and Japan of their special obligations as former recipients of Allied aid and as nations which spent little on defence.³³ At the DAG meeting in London in March 1961 the US asked for a group target for aid to be set at 1 percent of GNP. The Japanese MFA stressed that Japan was not necessarily required to produce this amount, although it did recognise the need for expansion of present aid budgets. It envisaged Japan reaching such a target only by retaining private

investment as the core of any policy.³⁴

MITI, in a later assessment of the DAC, pointed to the American policy of "spreading the burden" as a strong influence which emerged in the early meetings of the DAG. Although Japan claimed independence of this policy, MITI contended that the Government joined out of serious motives. It wished to avoid isolation from other advanced nations, to be close to those countries working together in the OEEC and also to bring the benefits of DAG membership to its own economic cooperation and trade policy.³⁵

Japan at this early stage seemed concerned that she would not be allowed to determine her own level of aid. The Fifth DAG Meeting was held in Tokyo in July 1961. In a speech to the Group, the Prime Minister, Ikeda Hayato, declared that Japan would cooperate to the limit of her ability, while the MFA used the occasion to announce one of its periodic "rethinkings" of aid, this time noting the need for increased technical assistance within the framework of a long-term policy. The July meeting agreed that Japan should join the DAC, but it did not alter its reservations about her participation in the OECD.³⁶ Japan therefore set up a DAC liaison office in her Paris Embassy in October 1961 and announced her intention to cooperate as fully as possible with the DAC policy of greater aid contributions, although one newspaper suggested that the encouragement of machinery exports was the main reason for this positive expression of support.³⁷ As a member of the DAC, Japan was given the right to attend and speak at OECD Directors' Meetings when DAC items were under discussion.

Entry to the DAG and then the DAC affected Japan's aid effort in several ways. Although there were claims that not even MFA

officials fully realised the significance of Japan's membership,³⁸ Japan was able to evaluate other donors' programs and assess her own in the light of this knowledge. She was forced into the mainstream of the aid debate centred on the DAC and was made more aware of her responsibilities as a donor, although these were not always fulfilled. This awareness encouraged a sense of competition with other members and later Japanese reports on her economic cooperation were careful to note Japan's relative position in terms of quantity of aid given. Quality featured less prominently.

Membership of the DAC helped the Japanese to clarify the meaning of the terms "economic cooperation" and "aid", although this took some time.³⁹ Throughout the 1960s, the Japanese distinguished "economic cooperation" and "aid" as concepts, but did not carry the distinction very far. The two terms were often used interchangeably. MITI economic cooperation reports consistently argued that "economic cooperation" in its broadest sense consisted of three kinds of cooperation - capital, technical and trade. Japan's annual economic cooperation was determined by adding the value of all capital, most technical and a fraction of trade cooperation, to give the "flow of financial resources" as defined by the DAC. MITI insisted, however, that while the DAC category was termed "aid", it was only "economic cooperation" in the narrow sense. It claimed that true "economic cooperation" took account also of trade policies towards the developing nations.⁴⁰

The general thrust of thinking of the 1950s continued into the 1960s. Japanese officials came to use the word "aid" as a synonym for one type of "economic cooperation", but laid any blame for misuse at the feet of the DAC. They treated "aid" (enjo) as that part of

Japan's economic policies towards developing countries defined by the DAC as "development assistance", government and private flows included. "Economic cooperation" in the wide sense was retained to describe the full sweep of Japan's foreign economic policies. In this way, terminology was isolated from the debate about motivations.

The MFA accepted the identification of "aid" with a narrow form of "economic cooperation". The 1969 Blue Book declared that

The precise definition of "economic cooperation" has yet to win international acceptance, but in the Development Assistance Committee of OECD it is taken to mean the cooperation between advanced and developing countries through "the flow of financial resources". The classifications within economic cooperation are not yet standardised but here we divide it into capital and technical flows, and contributions to multilateral agencies.⁴¹

Foreign aid, when distinguished from economic cooperation, became for the Japanese Government what the DAC defined it as, that is, concessional flows of resources to the developing countries. The concept was not narrowed further to refer only to Official Development Assistance (ODA) or Official Flows. The distinction which continued thereafter was between economic cooperation and DAC defined flows of financial resources.⁴²

The 1960s: An Expanding Japanese Role

The foreign aid given by Japan in the 1960s was quite different in scope and quantity from that provided in the 1950s. Over the period 1960 to 1968 the total net flow of official and private resources from Japan to the less developed countries increased from \$246 million to \$1,029.8 million (see Table 1-1) and Japan became the fourth largest donor in the DAC in 1968. Official flows did not, however,

TABLE 1-1

THE NET FLOW OF FINANCIAL RESOURCES FROM JAPAN TO DEVELOPING COUNTRIES AND MULTILATERAL AGENCIES, 1960-1976
(US\$ million)

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976
Total Official & Private, net	246	381.4	285.8	278.4	303.8	485.5	538.8	855.3	1029.8	1263.1	1823.9	2140.5	2725.4	5844.2	2962.3	2879.6	4002.6
I. ODA, net	145	221.4	167.8	140.4	115.7	243.7	285.3	390.6	356.2	435.6	458.0	510.7	611.1	1011.0	1126.2	1147.7	1104.9
(a) Bilateral	115	210.0	160.6	128.2	106.2	226.3	234.7	345.9	308.3	339.7	371.5	432.0	477.8	765.2	880.4	850.4	753.0
(i) Grants	67	67.8	74.6	76.7	68.7	82.2	104.7	138.4	117.0	123.4	121.2	125.4	170.6	220.1	198.6	201.7	184.9
Technical	3	2.4	3.4	4.5	5.8	6.0	7.6	11.0	13.7	19.0	21.6	27.7	35.6	57.2	63.5	87.2	108.1
(ii) Loans	48	142.2	86.0	51.5	37.5	144.1	130.0	207.5	191.3	216.2	250.3	306.6	307.2	545.1	681.8	648.7	568.1
(b) Multilateral	30	11.4	7.2	12.2	9.5	17.4	50.7	44.7	47.9	95.9	86.5	78.7	133.3	245.8	245.8	297.3	352.0
2. OOF, net			(82.9)	(35.9)	(94.9)	(109.7)	(182.7)	(198.9)	322.1	375.8	693.6	651.1	856.4	1178.9	788.9	1369.4	1333.4
3. Private, at market terms	101	160.0	118.0	138.0	188.1	241.8	253.5	464.7	351.5	541.7	669.4	975.6	1252.3	3647.5	1038.5	352.4	1548.1
Total/GNP (%)	0.57	0.71	0.49	0.40	0.36	0.55	0.62	0.67	0.73	0.76	0.93	0.92	0.95	1.44	0.65	0.59	0.72
DAC Average (%)	0.89	0.95	0.80	0.76	0.79	0.77	0.71	0.74	0.80	0.75	0.74	0.74	0.82	0.79	0.81	1.05	0.97
ODA/GNP (%)	0.24	0.20	0.15	0.20	0.15	0.28	0.28	0.32	0.25	0.26	0.23	0.23	0.21	0.25	0.25	0.23	0.20
DAC Average (%)	0.52	0.53	0.52	0.51	0.49	0.44	0.41	0.42	0.38	0.36	0.34	0.35	0.24	0.30	0.33	0.35	0.33

Note: The category of Other Official Flows (OOF) was first introduced in 1968. The bracketed figures before that date represent calculations by DAC of the value of OOF in those years. They comprise mainly official export credits.

Sources: 1960-1962 OECD, Flow of Financial Resources to less-developed Countries, Paris, 1964.
 1963-1966 OECD, Development Assistance Efforts and Policies of the Members of the Development Assistance Committee (or DAC Review), 1966 and 1967.
 1967-1970 DAC Review, 1968, 1970 and 1971.
 1971-1976 DAC Review, 1973, 1976 and 1977.
 Ratios 1960-1970 DAC Review, 1971.
 1971-1976 DAC Review, 1973, 1976 and 1977.

rise as quickly, increasing from only \$145 million to \$356.2 million. In relation to GNP, which grew rapidly in the 1960s, ODA rose only from 0.24 percent in 1960 to 0.25 percent in 1968, although total flows increased as a percentage of GNP from 0.57 percent to 0.73 percent.

There was continued heavy dependence on private assistance, especially on export credits and direct investment, as the basis of total flows. ODA fell as a proportion of the total, from 58 percent in 1961 to only 34.5 percent in 1968. From 1968, the category of "Other Official Flows" (OOF) was introduced by the DAC into the statistical presentation of aid flows, and, when earlier figures were reconverted, Japan stood out as the member with the highest OOF portion of total flows. Furthermore, Japan's ODA as a percentage of GNP ranked very poorly, being the seventh lowest of all members in 1960 and the fifth lowest in 1968.

Within ODA, however, direct loans increased from \$48 million in 1960 to \$191.3 million in 1968, by far the largest increase of any ODA category. Bilateral grants and grant-like flows (including reparations) rose from \$67 million to \$117 million and contributions to multilateral organisations from \$30 million to \$48 million. Technical assistance increased nearly six-fold from \$2.4 million in 1961 to \$13.7 million in 1968. Technical assistance and grants as a whole remained small even in the late 1970s but as a percentage of ODA in 1968, Japan's technical assistance was only 3.8 percent compared to the DAC average of 23.3 percent. On the other hand, multilateral contributions as a percentage of ODA in 1968 were higher than the DAC average, 13.4 percent as compared with 10.8 percent.

Japan's aid giving performance always remained poor when compared with other DAC members.⁴³ For example, one feature of Japanese aid in the 1960s which continued into the 1970s was the low concessionality of Japanese official lending. Japanese terms for official bilateral loans were always harder than DAC averages and at no time, despite DAC pressure, did Japan comply with successive DAC recommendations on terms, although quality did improve. The grant-cost measure of concessionality of aid loans was computed by Hasegawa to have increased from 19.85 percent in 1960 to 38.98 percent in 1968 and then to 42.65 percent in 1973 (at a discount rate of 10 percent).⁴⁴

The pattern of geographical distribution of Japanese aid was established in the 1960s, especially through the extension of bilateral loans to many countries outside Asia. While investments in the 1950s showed a marked emphasis on Central and South America and the Middle East,⁴⁵ official development assistance later became heavily concentrated in Asia. In 1963, 56 percent of total flows was directed to Asia, but 98.7 percent of ODA. In 1969, 73.8 percent of total flows went to Asia and likewise 100.9 percent of ODA, of which 48.5 percent was to Southeast Asia. Japan's pursuit of an Asian foreign policy was bolstered by flows such as these, and their gradual diversification to other regions was only beginning to take place in the mid-1970s (see Table 1-2).

These figures reflected the objectives of Japanese economic cooperation and aid policy in the sixties. They showed also that the agreement between domestic ministries on the broad outlines of aid policy in the 1950s was weakened by the expansion of the aid program in the 1960s, particularly in the face of mounting criticism by both recipients and other donors. Heavier regional

TABLE 1-2

GEOGRAPHICAL DISTRIBUTION OF NET FLOWS OF FINANCIAL
RESOURCES FROM JAPAN TO DEVELOPING COUNTRIES
(percent)

		Asia	of which Southeast Asia	Near & Middle East	Africa	Central & South America	Europe	Other
ODA	1963	98.7	93.0	0.3	0.3	0.4	-	0.3
	1965	98.1	90.1	0.2	0.6	0.6	0.1	0.2
	1967	97.6	71.5	0.2	0.8	0.7	0.1	0.6
	1969	100.9	48.5	0.8	1.2	-3.9	0.8	0.2
	1971	98.4	51.2	0.9	3.0	-2.6	-0.2	0.5
	1973	88.1	53.8	0.1	2.6	4.6	3.0	1.3
	1975	75.0	50.1	10.6	6.9	5.6	0.0	1.9
OOF & Private	1963	33.5	22.8	14.1	29.1	13.5	8.7	1.0
	1965	32.3	26.4	3.2	37.6	17.0	9.9	0.1
	1967	33.8	5.6	14.8	42.7	9.7	-1.0	-
	1969	62.5	21.5	13.1	6.4	11.2	6.8	-
	1971	52.3	11.8	7.3	10.5	23.2	4.2	2.6
	1973	30.4	15.8	3.2	8.5	53.4	3.0	1.4
	1975	53.0	38.5	14.0	6.7	24.8	1.1	0.4
Total	1963	56.0	34.4	8.0	16.4	10.3	4.9	4.4
	1965	53.4	27.8	1.9	22.4	13.4	5.9	2.9
	1967	58.5	25.2	8.1	23.3	5.2	-0.4	5.3
	1969	73.8	29.5	9.5	4.9	6.7	5.0	0.1
	1971	64.1	21.8	5.6	8.6	16.6	3.0	2.1
	1973	39.1	21.5	2.7	7.6	46.1	3.0	0.2
	1975	60.3	42.4	12.9	6.8	18.4	0.7	0.9

Note: ODA = Official Development Assistance.
OOF = Other Official Flows.

Sources: 1963-1967: Gaimushō keizai kyōryokukyoku, Wagakuni no shikin no nagare no chiikibetsu bunri (shishutsu jungaku), (Ministry of Foreign Affairs, Economic Cooperation Bureau, The geographical distribution of Japan's flow of resources [net disbursements]), June 1968.

1969-1973: Ministry of Foreign Affairs, Economic Cooperation Bureau, Economic Cooperation Division, Japan's Economic Cooperation in 1973, June 1974.

1975: Gaimushō keizai kyōryokukyoku, Keizai kyōryoku kankei shiryō, (Ministry of Foreign Affairs, Economic Cooperation Bureau, Materials on economic cooperation), October 1976.

responsibilities, such as those which arose from Japan's participation in the Asian Development Bank (ADB), the Inter-Governmental Group on Indonesia (IGGI) and the Ministerial Conference on the Economic Development of Southeast Asia (MEDSEA), exacerbated differences between the Ministry of Finance (MOF) and the MFA in particular.⁴⁶

In the 1950s, all the ministries concerned with economic cooperation in its wider sense were aware of the potential benefits to Japan in this area. Prompted initially by Japan's reparations obligations, all had established sections to administer different parts of the program. International commitment, however, was soon replaced by the vested interest of ministries in organisational growth.⁴⁷ The ministries appreciated the contribution of economic cooperation to Japan's own prosperity and to trade promotion specifically. Predictably, however, each was concerned with its own policy responsibilities. Thus the MFA tended to present an analysis of Japan's position as an aid donor and growing world power, which was intended to foster stable political relations between Japan and the developing countries, while the EPA focussed on the implications for Japan's economic prospects. MITI concentrated exclusively on the trade impact of foreign economic cooperation and the MOF paid closest attention to the balance of payments and to the financial burdens imposed on the national budget by foreign aid and trade.

These disparities arose notably in 1961 concerning the question of control of the Overseas Economic Cooperation Fund (OECF).⁴⁸ As a result of arguments between MITI, the MFA and the MOF, a compromise solution gave control to the EPA, with which it still remained in 1977. The immediate differences then were about bureaucratic influence but

there were underlying questions of interpretation of the purpose of the OECF and soft loans in economic cooperation policy and of associated jurisdiction over policy. While they may have presumed to be so, none of the ministry emphases was fully representative of the national interest. They were instead contrasting interpretations of that interest, additional to those ideas held by private enterprise and political groups.⁴⁹ The rapid entry of Japan into aid other than reparations meant that at no stage was a "government" view of Japan's objectives in undertaking economic cooperation ever drawn up. Any articulated objectives were the product of separate ministry assessments of economic cooperation. Inter-ministerial conflict meant that their interest was more in defending a particular interpretation at home than in formulating Japanese Government guidelines for a comprehensive aid policy.

The MFA maintained throughout the period that economic cooperation was a vital component of foreign policy.⁵⁰ It defended the concentration of aid in Asia and stressed the importance of the region and its economic development to Japan. Nevertheless, it recognised the need for projects which Japan was involved in, both in Asia and elsewhere, to be visible. In its view, Japan's economic and political interests were to go together.⁵¹ As the sixties passed, Asian recipients received greater priority and references to the natural role for Japan in Asia became commonplace.⁵² The MFA was also the main channel of communication between the developing countries, international aid organisations and Japan. A stronger note of respect for the Third World emerged towards the end of the period, with recognition of its influence in the United Nations.⁵³ The MFA paid more attention to the responsibility of Japan, as an advanced nation and a

senior member of the DAC, to give improved aid in order to contribute to the solution of the North-South problem.⁵⁴

The two UNCTAD meetings in 1964 and 1968 had a visible impact on MITI thinking. Its single-minded pursuit of the trade effects of aid was arrested in UNCTAD I. A negative Japanese Government speech to the Conference brought swift critical reaction from the developing countries and equally rapid moves by the Prime Minister, Ikeda Hayato, to override the Ministers of Foreign Affairs, Finance, and International Trade and Industry and impose a more acceptable policy for re-presentation at Geneva.⁵⁵ The 1966 MITI report reflected changed attitudes on the part of the Ministry. It revealed a greater awareness of the problems, and the influence, of the LDCs and gave more space to discussion of development per se. MITI continued to put its own case, however, and drew attention to Japanese domestic economic problems (such as lower per capita income, low levels of social capital) and to the needs of the international economic order.⁵⁶ Later MITI statements showed a dual development of Ministry ideas. Firstly, they demonstrated wider interest in how Japan fitted into the international, and not only into the regional, economy. Renewed suggestions that economic assistance be used for security of resources were one result of this shift in thinking.⁵⁷ Secondly, MITI appreciated that the quality of Japan's aid should be upgraded, and a cautious standard for her capacity to improve performance was proposed. It would be "to the extent of national capacity".⁵⁸

The MOF supported similar arguments. Its control of much of aid policy through budgeting made it conservative on the aid question. The Ministry gave evidence to the Fiscal Rigidity Study

Committee of the Advisory Council on Fiscal Affairs (Zaisei shingikai zaisei kōchoku kenkyū iinkai) on 25 October 1967 and pointed out that while it recognised the demand for economic cooperation, Japan could not increase the amounts given. It considered that merely maintaining the present ratio of aid to national income would require constant effort. The UNCTAD recommendation for 1 percent of National Income to be given as aid did not have to apply to Japan, since per capita income was lower than that of Europe and reserves of social capital were poor. It was necessary, when examining new commitments, according to the MOF, to calculate the future fiscal burden of foreign aid already committed. The Ministry stressed that any improvement in terms should only be agreed to after properly judging the prospective recipient's needs, and care should be taken to ensure that other recipients did not demand the same terms.⁵⁹

Similar opinions were regularly put forward by other MOF officials, echoing the "poor fellow my country" arguments about low per capita income and social capital accumulation, low reserves of foreign currency and limited experience in relations with developing countries.⁶⁰ The MOF's main criterion in assessing aid requests was whether or not the aid recipient really wanted to, and could, develop. Its guiding principle was that "If there are requests for cooperation for promoting self-help, or requests which arise out of efforts at self-improvement, then these should be given precedence."⁶¹

The chief concerns of the MOF at the time were, in order of priority, the fiscal situation and the budget impact of aid, the effect of aid on the balance of payments, the capacity of recipients to develop and the related security of committed funds, and the capacity of the country for self-help in development. The result was

a cautious and exceedingly negative approach to the whole foreign aid question.

The Turn of the Decade

The period from 1969 to the end of 1973 marked the height of the Japanese aid effort. While Japan rose to become second largest donor in the DAC, aid was now indispensable to foreign and domestic economic policy. It was better understood and better integrated into other policy. The concentration in Asia, however, of Japan's aid and the extent of private business representation there created tensions which brought strong reactions against the Japanese presence and methods.

Total Japanese flows increased from \$1,263.1 million in 1969 to \$5,844.2 million in 1973, while ODA rose from \$435.6 million to \$1,011.0 million in the same period. As a percentage of GNP, ODA in fact dropped from 0.26 percent in 1969 to 0.25 percent in 1973, although DAC averages fell also (see Table 1-1). Technical cooperation increased from \$19.0 million to \$57.2 million but increased only slightly as a percentage of ODA. Contributions to multilateral organisations increased as a percentage of ODA from 22.0 percent to 24.3 percent and remained at slightly above the 23.9 percent average for major DAC nations in 1973. Increases in OOF and private investment were the most remarkable aspects of Japanese economic cooperation flows in the period, rising from \$375.8 million to \$1,178.9 million and from \$541.7 million to \$3,647.5 million respectively. DAC comparisons of aid giving performance, however, put Japan's grant element of total official flows at 0.34 percent in 1969 and 0.19 percent in 1973, a fall in ranking among DAC members from

tenth to fourteenth.⁶² Geographical distribution (Table 1-2) showed a swing in ODA away from Asia (100.9 percent in 1969 to 88.1 percent in 1973), although the proportion going to Southeast Asia rose (48.5 to 53.8 percent), as did flows to Africa and Central and South America. Private flows and OOF showed a remarkable drop in the proportion of resources going to Asia and a large rise in those directed to Central and South America.

The DAC continued to pressure Japan to improve her performance. Japan accepted the target of 1 percent of GNP as development assistance at UNCTAD II in 1968 and agreed to the 0.7 percent ODA target in 1970, but without a target date. She was at the forefront of international coordination on the untying issue and by late 1972 had removed all legal obstacles to untying on Eximbank and OECF loans.⁶³

Ministry attitudes did not really converge. The MFA continued to put the most comprehensive case for economic cooperation and argued that aid should not be given only when foreign exchange was plentiful. It should be considered as one of Japan's basic policy priorities, the Ministry maintained, a means to prosperity and welfare both for the developing countries and for Japan. In its opinion, Japan should not become isolated in the interdependent economic order of the 1970s.⁶⁴ The emphasis fell on Japan's standing as an advanced industrial nation and on her international and regional responsibilities.⁶⁵

An internal MFA document of July 1972 was more frank. It criticised other ministries for their narrow views of foreign aid and tried to explain the myths held about Japanese aid for so long: the

practice of tying aid to exports, the negative attitude towards commodity aid and technical assistance and the uninformed ideas about social development in the Third World. The report stated that although Japan was, in one way, forced to give aid, she should really be giving it to assist LDC development, not to further the policy goals of Japan.⁶⁶ In another paper, Counsellor Kikuchi of the Economic Cooperation Bureau attacked the use of the words "economic cooperation", suggesting "development assistance" (kaihatsu enjo) as the more appropriate subject for debate.⁶⁷

MITI still regarded economic cooperation from the viewpoint of international economic policy. Koyama Minoru, Director of MITI's Economic Cooperation Department, wrote that in the 1970s Japan had to change her industrial structure and promote the long-term international division of labour and international economic harmony. MITI's "aid philosophy", as he called it, was to promote aid which was for the recipient's real benefit, but which more importantly was for Japan's eventual benefit also.⁶⁸ The 1971 Report put it more abstrusely:

Japan's relations with the LDCs are more important than those with other advanced nations. Whether or not the LDC economies can show healthy growth has a big bearing on our own economy. We cannot afford to neglect friendly economic relations with the LDCs. Our position is that Japan's economic cooperation does not simply stop at an international responsibility but is an unavoidable requirement for the smooth management of our own economy.⁶⁹

The MOF continued to monitor the effectiveness of the resources Japan was giving and changes in the requirements of the particular developing country.⁷⁰ In conjunction with this, it was considered important that LDCs made further efforts to help themselves, although the MOF also stressed that before aid could be

sanctioned by the Government, there must be "national consensus" on the need for that aid. Aid budgets could be increased only when this consensus was reached. One commentator pointed out that ministries were all quick to identify a consensus when the MOF raised the question in aid budget negotiations. The MOF used the consensus tactic most effectively, it was claimed, when the "low per capita income" and "weak balance of payments position" arguments of the 1960s became less plausible.⁷¹

There proved to be, in fact, little public awareness of the aid issue in Japan, despite regular Government efforts at public relations.⁷² Only two full official surveys of public opinion on Japanese aid were conducted, in 1969 and 1970, the first of which was not published. The second showed conclusively that there was little understanding of aid or of Japan's aid policy, although the survey itself was not well constructed. While knowledge of the existence of economic cooperation to assist the developing countries was widespread (69 percent), especially among university educated persons (95.4 percent) and males between 20 and 29 years (84.5 percent), only 34.6 percent of all respondents knew that private aid was a part of Japan's economic cooperation. On other detailed questions asking what economic cooperation entailed, responses were not informed or positive. Questions on attitudes to economic cooperation revealed a broad range of ideas about motivations for aid-giving ("humanitarian duty" 44 percent, "world peace" 28.2 percent, "improvement of Japan's world standing" 22.6 percent, "creation of export markets" 21.6 percent, "balancing Japan's international payments" 8.8 percent, "don't know" 33.0 percent). There also emerged a strong appreciation of the need to look to Japan's social development first (even by 40 percent of

those who thought Japan should push ahead positively with economic cooperation) and a generally negative attitude to Japan's own aid policy (only 44 percent thought Japan should positively promote aid and only 26 percent thought that government aid should be increased). Even taking into account the problems of the poll, it indicated that the Japanese public did not demonstrate any real appreciation of foreign aid or of Japan's participation in the international aid effort.⁷³

Crisis and Recession

The years following the oil crisis brought recession to the Japanese economy and stagnation to Japan's aid. After having been the second donor in the DAC in 1973 she was the fourth in 1976. The huge volume of total flows of 1973 was cut to \$4,002.6 million in 1976 after being more than halved to \$2,879.6 million in 1975. ODA increased from \$1,011.0 million in 1973 to only \$1,104.9 million in 1976, falling markedly as a percentage of GNP from 0.25 to 0.20 percent. The general decline resulted from a massive fall-off in private direct investment after the oil crisis, for the \$3,647.5 million in private flows of 1973 dropped to \$352.4 million in 1975. It recovered to \$1,548.1 million in 1976.

Although Japan's ODA effort worsened, most other DAC members improved their performance. Great Britain, for example, increased ODA from 0.34 to 0.38 percent of GNP between 1973 and 1976, while the Netherlands pushed hers from 0.54 to 0.82 percent. Japan's poor record was a result of low loan disbursements and a policy of restrained commitment, a fall in grants due to lower reparations payments and only small rises in technical cooperation

disbursements.⁷⁴ Geographical distribution widened over the period, especially because of large commitments and disbursements to the Middle East following the Yom Kippur war and the Arab oil embargo. Of ODA in 1973, 88.1 percent went to Asia and 0.1 percent to the Middle East but in 1975, 75 percent was directed to Asia and 10.6 percent to the Middle East.

Japanese aid in 1977 faced a testing period. Forecasts of 0.22 percent of GNP for 1976 ODA, based on commitments and patterns of disbursements,⁷⁵ fell wide of the mark when only 0.20 percent was recorded. It was recognised in Japan that only a thorough reform of the aid system, substantial growth in the aid budget and smoother implementation could improve the aid figures.

The ministries persisted in their independent interpretations of aid, although the oil crisis brought them closer together on the link between aid and resources. There was no movement towards a basic government policy on development assistance, despite the work of an Ad Hoc Ministerial Committee in 1975-76. There was, nevertheless, growing appreciation of the complexity of the development issue and of the need to realign aid policy to provide aid which suited the economic conditions of the country in question.⁷⁶ The MFA turned more to aid as a tool of Japan's foreign policy and, according to some officials, it was "Japan's only real weapon" against the developing nations.⁷⁷

MITI, too, regarded aid and economic cooperation as coming primarily within resources policy. One senior International Trade Policy Bureau official admitted that while MITI's attitude might appear "poor" from the outside, MITI and Japan must disregard criticism and adopt

the position that Japan was a resource-poor trading nation whose domestic and foreign economic policies must be served by foreign aid policy. He believed that Japan should be positive and energetic towards aid policy but that the relevant issues were resources, industrial location (which applied in the case of the aluminium refinery in the Asahan project in Indonesia) and exports. It was his opinion that only a ministry, such as MITI, with the power of administrative guidance, could effectively manage increasingly complex policy questions.⁷⁸

The MOF's emphasis remained different. One International Finance Bureau official, while admitting that the MOF had been too harsh on aid requests in the late 1960s and early 1970s, argued that in 1976 the fiscal situation was still severe and only a foreign aid policy "appropriate to a low-growth economy" was possible.⁷⁹ An officer of the Budget Bureau involved with aid echoed these sentiments. For him, it was important "to proceed from the standpoint of economic cooperation rather than aid" and to ensure that aid was given most efficiently and in a way which also assisted the Japanese economy. He reiterated the consensus argument, claiming that approval by the Japanese people of foreign aid was essential. In his view, only aid which brought benefits to Japan could win that sanction.⁸⁰

Conclusion: Ideas and Policies

Within a period of twenty years Japan became one of the world's largest foreign aid donors, but failed to formulate an accepted set of policy guidelines to assist ministries in assessing aid requests. Many Japanese looked to foreign aid as a safeguard against apparent economic vulnerability, but basic agreement in this

regard was not carried over into the details of policy. Ministries involved with foreign economic policy justified aid in terms of their own vision of Japan's best interests. Their contributions to aid policy and their attitudes to the nature of foreign aid developed separately but in distinct stages.

In their arguments about policy, ministries appealed to similar ideals. For example, the duty and responsibility to provide aid were often invoked, although the demands of major power status were also acknowledged. Similarly, fairness and mutuality became standard expressions in statements about Japan's aid responsibilities. The concept of exchange in this kind of thinking resulted from the identification of foreign aid with one narrow aspect of economic cooperation. The end result, rather than the motivation, was always decisive in domestic argument on aid questions. These ends tended, however, to be viewed in the short-term and the shifting bureaucratic battle over aid policies was not founded either on lasting consensus on policy objectives or on agreement about what Japanese foreign aid could in practice achieve.

This sketch of the official ideologies of Japanese foreign aid has revealed that foreign aid was a policy area rich in relationships between people, power and institutions. Aid policy was dependent originally for its articulation on ministry ideas and perceptions, but the matching of aid and other policy priorities shaped outcomes. Criticisms of Japan's aid did not fully account for the diversity of Japanese approaches to aid; the gap between official intention and actual performance will need to be examined. To assess this problem, the following chapter considers how the Japanese aid bureaucracy developed.

CHAPTER 2

THE GROWTH OF THE AID BUREAUCRACY

As the Japanese aid program grew rapidly after 1955, so did the tasks of ministries and agencies with a policy interest in economic cooperation and aid. The present chapter describes this growth and considers what made Japan's aid bureaucracy so divided. In assessing Japan's aid performance it is important to know whether administrative change kept pace with aid flows.

Some existing explanations will be explored. John White maintains that the choice of one type of aid administrative structure rather than another "is usually the outcome of historical accident combined with the administrative conventions of the country concerned".¹ Certainly a wide variety of donor structures existed in 1977. Patterns of aid administration within DAC member nations ranged from that of the United Kingdom under the Labour Governments of the 1960s and 1970s, where a minister was responsible for aid and in charge of an aid ministry, to the extremely decentralised French or Japanese situations, where a number of ministers controlled different parts of the aid program.²

We point out how reparations and the need for export growth led administrators to focus on economic cooperation, a concern which was later heightened by the influence of domestic argument about policy directions and appropriate forms of development financing. The competition between ministries to assure their presence in the aid field reached its peak in the early 1960s, but after this final spurt in its growth the bureaucracy was not reorganised, even though the demands on it expanded greatly. Despite their considerable impact in Japan,

however, accident and convention do not fully explain administrative change over twenty years. The unsteady relationship between aid and politics was decisive in linking diverse official motivations with actual policy mechanisms. How this occurred and with what result profoundly affected the making of aid policy.

The Early Years: Reparations and Exports

An administration for Japan's economic cooperation appeared without ceremony when an Economic Cooperation Division was established in the International Trade Bureau of MITI in 1953.³ MITI was responsible for promoting and regulating trade, administering foreign exchange in relation to commerce and furthering economic cooperation in trade.⁴ As part of the economic reforms carried out under the Occupation, the former Ministry of Commerce and Industry (Shōkōshō) was reconstituted as MITI in May 1949, a move which one writer claims to have revealed a clear shift "from an emphasis on the domestic economy and increased production to an emphasis on international trade and the promotion of exports".⁵ The primary goal of export growth was well reflected in MITI's early structure, in which trade functions were given to all the commodity bureaus. The Economic Cooperation Division of 1953 (formerly the Export Commodities Division) was a catch-all section, designed to manage international cooperation,⁶ but responsible also for the administration of customs for commodities handled by MITI, the export and import of internationally scarce commodities, and arrangements for expositions and trade fairs.

Apart from exports, long-term economic policy and reparations led to expansion of the aid bureaucracy in this early period. The EPA

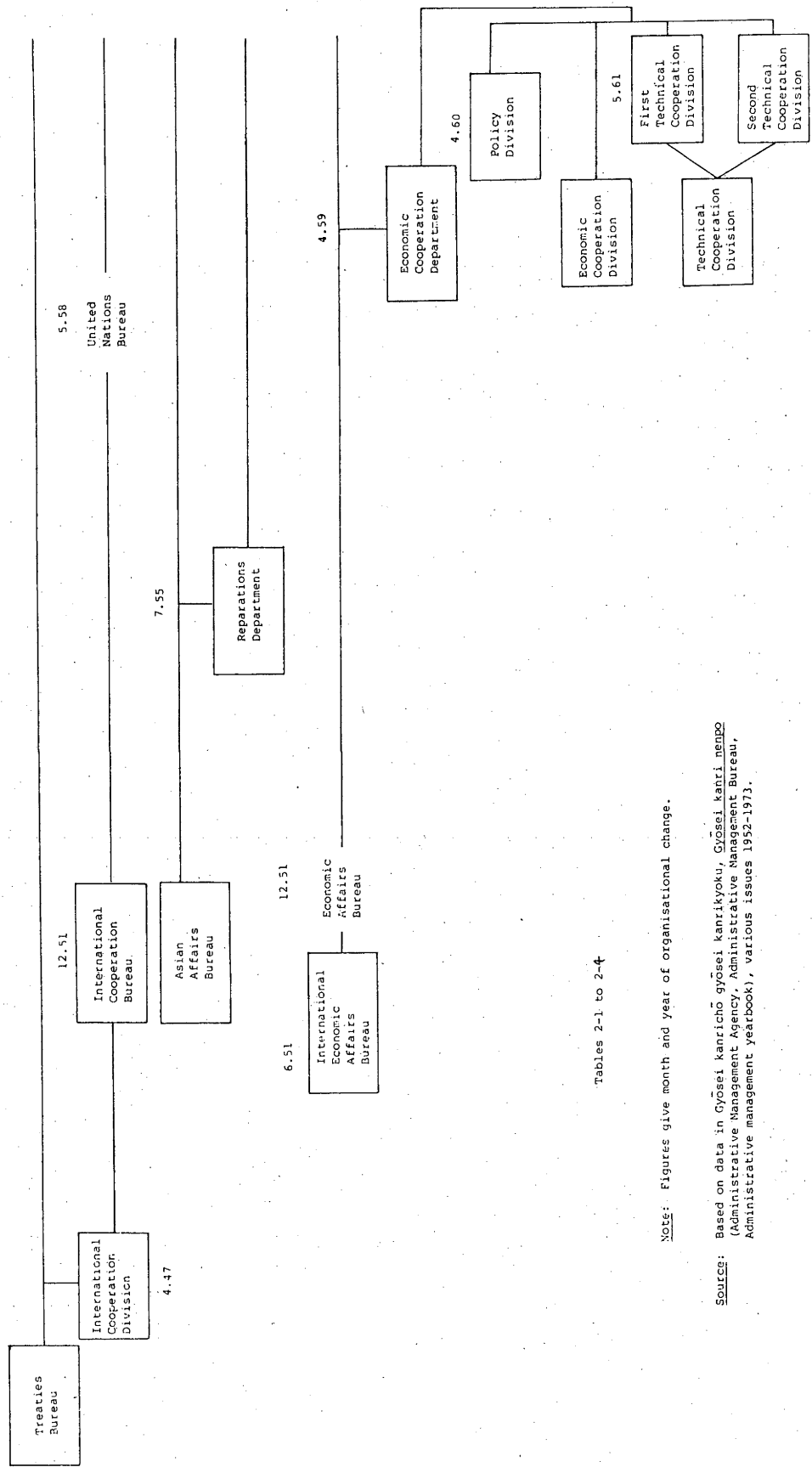
was created in 1955 and an Economic Cooperation Office was set up in the Director's Secretariat from the beginning, to fit foreign economic policy into the long-range economic planning with which the new Agency was charged.⁷ In July 1955, the MFA formed a Reparations Department in its Asian Affairs Bureau,⁸ marking official administrative recognition of Japan's postwar economic relations with developing countries. The Department replaced the Special Reparations Office which had been established in the Asian Affairs Bureau some time before (see Chart 2-1).

This Department eventuated after the MFA had spent eight years slowly setting up a more active foreign affairs bureaucracy. Japan's international tasks had been first acknowledged when an International Cooperation Division was set up in the Treaties Bureau in April 1947 as part of a general overhaul of the Ministry after the war. The Division, created mainly to handle negotiations over the Peace Treaty, was retained in the MFA reorganisation of 1949, when the new Foreign Ministry Law (Gaimushō setchiho) was passed. The MFA's interest in economic policy was affirmed by the creation of the International Economic Affairs Bureau in June 1951.⁹ It was intended that the Bureau would improve the administration of Japan's overseas economic and commercial policies as a prelude to the approaching San Francisco Conference, and its responsibilities included liaison with international organisations and economic agencies.¹⁰ A further change in December 1951 consolidated the MFA's economic administration but introduced overlapping jurisdictions. The International Economic Affairs Bureau was renamed the "Economic Affairs Bureau" and the International Cooperation Division in the Treaties Bureau was expanded to full bureau status to manage relations with the United Nations and other international bodies. While those reforms signalled the end of the

CHART 2-1

ADMINISTRATIVE ORGANISATION FOR AID: MINISTRY OF FOREIGN AFFAIRS (1)

1947 1948 1949 1950 1951 1952 1953 1954 1955 1956 1957 1958 1959 1960 1961

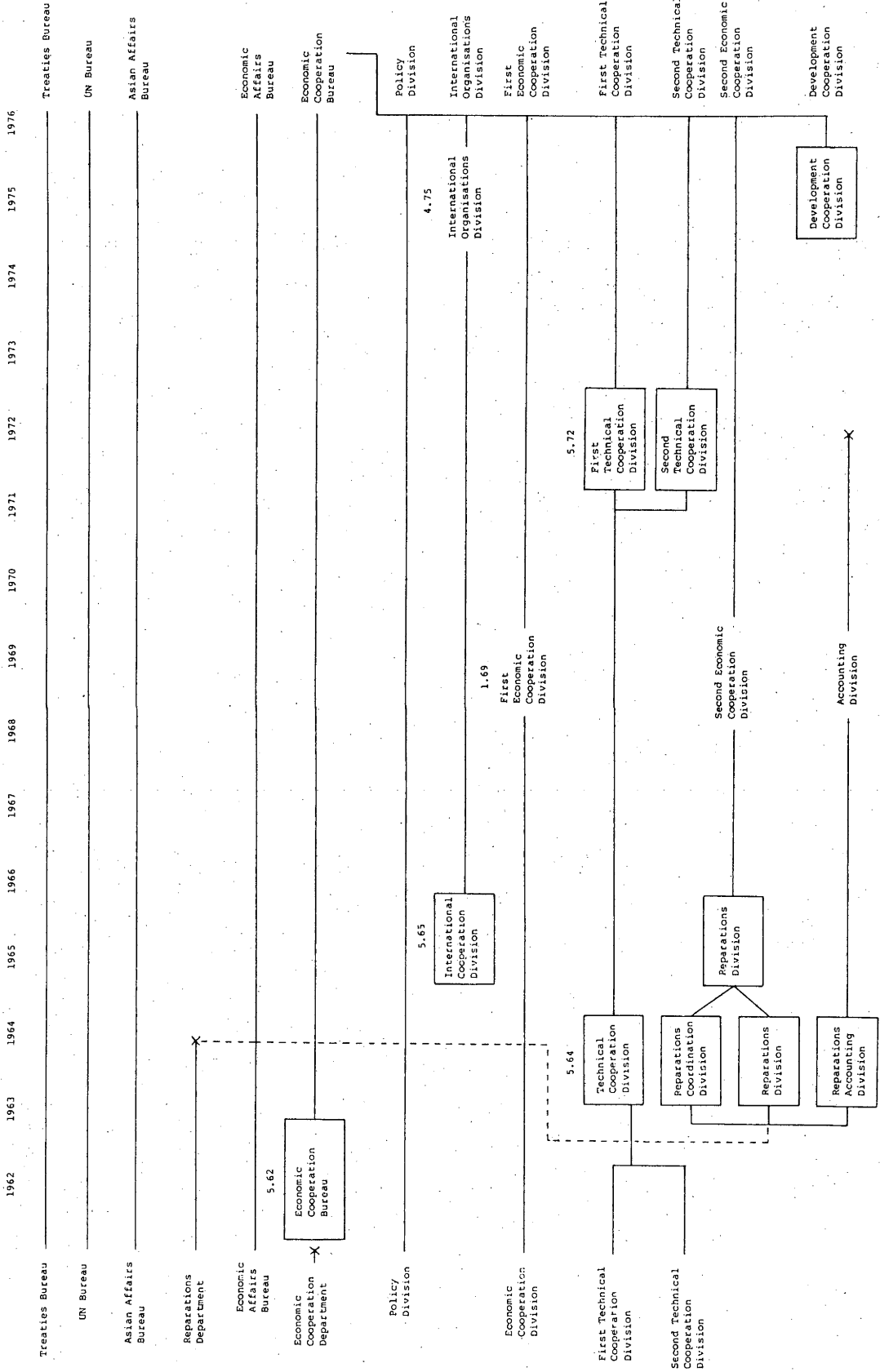


Tables 2-1 to 2-4

Note: Figures give month and year of organisational change.

Source: Based on data in Gyōsei kanrichō gyōsei kanrikyoku, Gyōsei kanri nendo (Administrative Management Agency, Administrative Management Bureau, Administrative management yearbook), various issues 1952-1973.

MINISTRY OF FOREIGN AFFAIRS (continued)



Occupation period and the beginning of the new era of the Peace Treaty, with its emphasis on reparations and independent relations with other nations,¹¹ they also laid the grounds for future disputes.

The Reparations Department therefore followed naturally from postwar changes in the MFA. It was set up in the Asian Affairs Bureau, rather than in one of the functional bureaus, because reparations were then considered only with Asian nations. The Department administered the Reparations Agreement with Burma (concluded in April 1955), negotiations under way with Indonesia and the Philippines and relations with other domestic ministries involved with reparations. These included MITI, because of its control of export licences and trade in general, and the MOF because of its regulation of budgeting and international finance.¹²

The first large administrative unit for international financial management was the MOF's Foreign Exchange Bureau, created in August 1952. This accompanied a widespread pruning of various commissions and agencies which was intended to reorder economic management. The Foreign Exchange Control Commission and the Foreign Capital Commission, which supervised exchange policy under the Occupation, were both abolished. The new Foreign Exchange Bureau took over the foreign exchange functions of these commissions and assumed responsibility for policy towards the International Monetary Fund and the World Bank.¹³

In this way, four ministries had by 1955 placed themselves squarely in those areas of the national administration destined to become the centres of economic cooperation policy from the late 1950s. The MFA had the main jurisdiction in relations with international organisations and the developing nations, the MOF was responsible

for international monetary policy (and, of course, budgeting), MITI was the controlling authority in exports and trade with developing countries and the EPA undertook overall economic planning.

1958 - 60 witnessed notable developments in Japan's aid and aid administration, and more frequent Government expressions of aid policy. The first yen loans made by Japan in 1958 and 1959 initiated Japan's capital economic assistance and at the same time called forth new assessment procedures for economic cooperation. New administrative arrangements followed in all four ministries.

In April 1959, in response to an increased workload, MITI replaced the single Economic Division in its Export Promotion Department with two divisions.¹⁴ The MOF added an Overseas Private Investment Division to its Foreign Exchange Bureau to take charge of overseas investment by Japanese nationals, which totalled US\$185.8 million by the end of fiscal 1959.¹⁵ The MFA also significantly set up its first comprehensive economic cooperation administration, an Economic Cooperation Department within the Economic Affairs Bureau. This was designed to bring together all the economic cooperation functions of the ministry, making administration more effective.¹⁶ The Department had two divisions, one for economic and one for technical cooperation. Under its brief the Department had to plan for economic cooperation as it affected foreign policy, manage agreements with other countries, protect Japanese investment interests abroad and promote exchange of technological research. This was the first time the Japanese Government had explicitly linked economic cooperation with diplomatic and political objectives and was a marked contrast to the export orientation of the counterpart division in MITI.¹⁷

The Advisory Council and the OECF

These broad developments at the end of the 1950s formalised, but in no way coordinated, Japan's incipient economic cooperation effort. They helped to decentralise, not consolidate, the aid administration, a process which continued into the 1960s. On 25 July 1959 the Liberal Democratic Party (LDP) established its Special Committee on Overseas Economic Cooperation (Taigai keizai kyōryoku tokubetsu iinkai)¹⁸ as a unit of the Party's formal decision-making machinery. At an early stage the Committee recommended setting up a high level council on economic cooperation in the Prime Minister's Office and on 30 April 1960 the Advisory Council on Overseas Economic Cooperation (Taigai keizai kyōryoku shingikai) came into being. It incorporated two other committees established in 1958, the Overseas Economic Cooperation Consultative Committee and the Special Committee on Economic and Technical Cooperation. Fukuda Takeo, who at the time was Director of the Prime Minister's Office, discussed the bill to establish a council in the Cabinet Committee of the House of Representatives on 18 March 1960, saying that the body would be composed of Cabinet members and of "other suitably qualified people". The membership was to be no more than fifteen, making it small and, hopefully, strong.¹⁹ Its first meeting was held on 7 December 1961, with the Prime Minister, Ikeda Hayato, as Chairman and there were in fact eighteen members, including six ministers.

The Council was set up to advise the Prime Minister on aid goals and to act as a coordinator of aid policy. There were insistent demands from industrialists for this, given the need which they saw to use aid as effectively as possible in the promotion of exports. Olson considers that the early committees of 1958 were

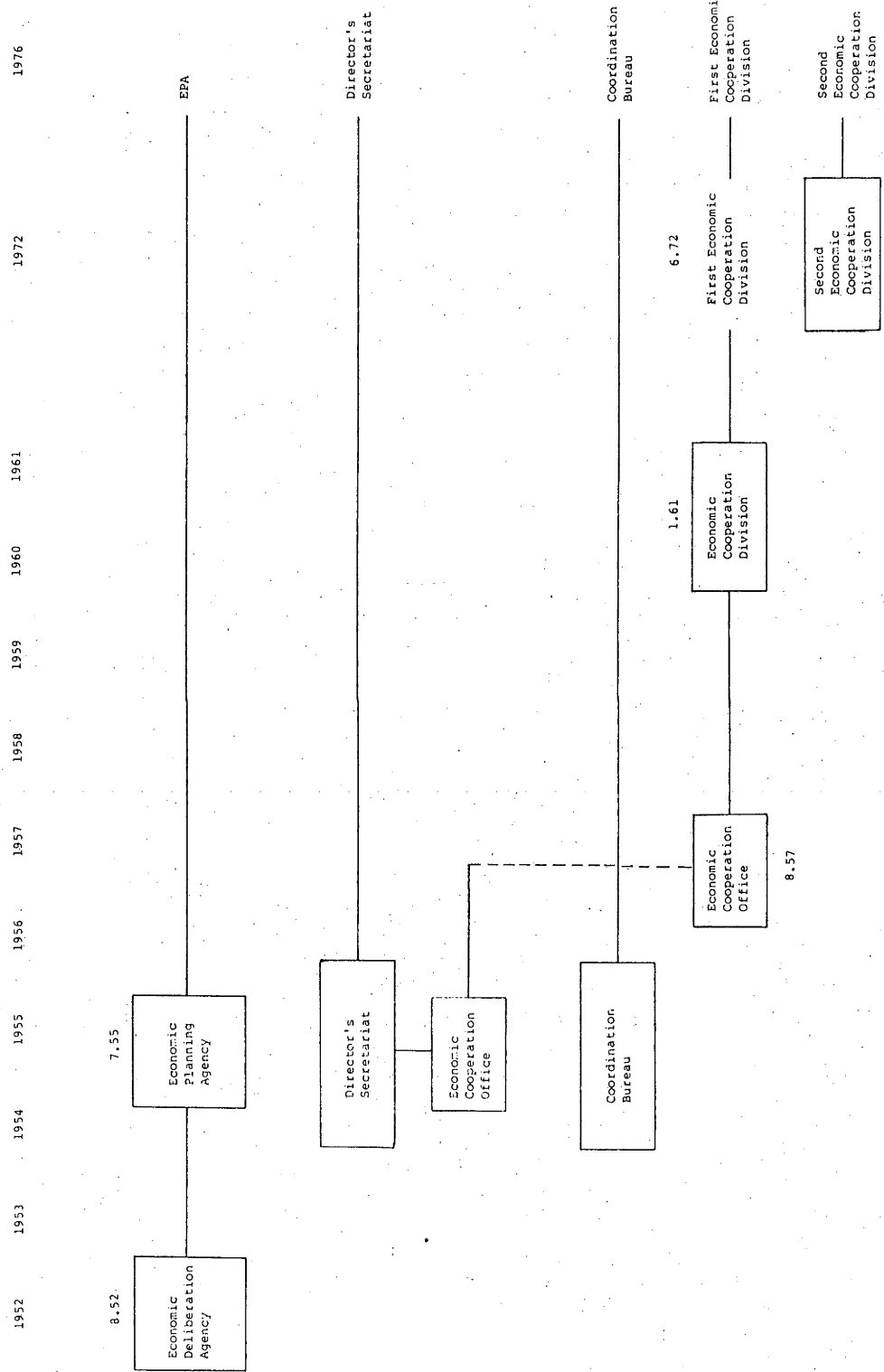
"honorific and moribund",²⁰ but the new Council's membership was indicative of its importance and it seemed likely that it would be able to stimulate the development of new Japanese aid programs. The Council went into recess, however, after only two meetings. Although it did not reconvene for many years it was not abolished but continued to draw a budget to cover administrative expenses.²¹ The delay in choosing members (not completed until June 1961) and in actually meeting, perhaps revealed the barriers to the Council's success posed by inter-ministerial differences. The Council was eventually restructured and revitalised in 1969, but until then its function as a body to initiate and coordinate policy was unfulfilled.²²

Rather than inhibiting the tendency for each ministry to expand its own economic cooperation administration, the establishment of the Council in 1960 may well have encouraged ministries to ensure that their voices were clearly heard at the ministerial forum. In April 1960, the MFA added a Policy Division to its Economic Cooperation Department, both to coordinate and initiate aid policy within the Department.²³ The Economic Cooperation Division also gained new planning duties. A year later, in May 1961, the Technical Cooperation Division was split into two, the new division taking responsibility for overseas training centres and multilateral technical cooperation agreements.²⁴

In January 1961, the EPA created within the Coordination Bureau, its first Economic Cooperation Division, which was given wide legal powers for overall coordination, policy initiation and planning (Chart 2-2). It was also made responsible for the Overseas Economic Cooperation Fund (OECF).²⁵ The Division became the only body in the entire Government economic cooperation administration with the formal

CHART 2-2

ADMINISTRATIVE ORGANISATION FOR AID: ECONOMIC PLANNING AGENCY



authority to undertake broad policy coordination, although it remained unused. This was mainly because of the EPA's lack of influence in domestic politics, which was itself a result of the strong control of the Agency by officials from other ministries (notably the MOF and MITI) attached to it.

The new Division's work in economic planning was in keeping with the aims of the Agency. Both the National Five-Year Plan of 1955 and the New Long-Term Economic Plan of 1957 recognised international economic policy as being essential to stable domestic economic growth.²⁶ An article written in 1957 by the Director of the EPA's Planning Division argued explicitly the need to incorporate economic cooperation policies in the national planning framework. He claimed that there were obvious drawbacks in a short-term view of economic cooperation and its effects, because the industrial development of underdeveloped countries could draw on supplies of limited resources and lessen the country's export capacity. The author maintained, however, that economic cooperation should be regarded primarily in the long-term, for only by aligning economic cooperation policy with Japan's industrial development and industrial structure policies could economic cooperation be of greatest benefit to Japan and to the recipient nation.²⁷ It was this rather "neutral" stance of the EPA, directly concerned with the orderly planning of economic cooperation as part of a domestic economic strategy, which gained it administrative direction of the OECF.

The OECF grew out of the Asian Development Fund set up in 1957 with support from the Prime Minister, Kishi Nobusuke. That Fund was intended as a "regional international financial institution"²⁸ and was contingent on subscriptions from the United States and other Colombo

Plan donors. Harrell maintains that it was a replacement for a proposal to the Prime Minister in 1958 by the Federation of Economic Organisations (Keidanren) to establish a government agency,²⁹ but this is doubtful. The internationalist mood of the times, and not merely Keidanren ideas, would have encouraged the creation of an organisation for Asian development financing, especially given Japan's contribution to the Consortium for India and Pakistan. The United States, however, was not forthcoming with its subscription and, for convenience, the Fund was placed within the Export-Import Bank (Eximbank). It was never drawn upon, for by its charter it could not be used without additional donations from other countries.³⁰

The Fund did not constitute a formal agency and certainly was not of the kind envisaged by the Keidanren, the LDP Special Committee or even the International Technical Cooperation Association, which also called for proper use of economic cooperation funds.³¹ These organisations pressured the Government for a new financing institution offering more concessional terms than could be provided by the Eximbank. This was one aspect of mounting dissatisfaction among business and the ministries with the scope of Eximbank operations. The International Technical Cooperation Association in its August 1960 appeal noted that the Eximbank was not fulfilling its function of encouraging trade and overseas investment. Its purely commercial base and high interest rate structure, coupled with a low rate of government funding for the Bank, worked against its accomplishing its objectives. The Association recommended replenishment of the Bank's capital, revision of existing interest rate levels and loan conditions and the removal from Bank operations of certain national development projects requiring large amounts of concessional capital, such as Brazil's Usiminas steel plant.³²

The Chairman of the LDP Special Committee on Overseas Economic Cooperation, on returning from a trip to Southeast Asia in 1960, expressed similar reservations, commenting that:

The important reason for this trip was the feeling that we cannot continue economic cooperation on just the commercial Eximbank basis that we have at present... Although there has unavoidably been a lack of a national policy on economic cooperation until now, we as a Government must take it up as a national policy, lay aside present commercial objectives and deal with it from a long-term viewpoint. For this purpose we must take appropriate budget measures and consider the need for a new agency.³³

A MITI economic cooperation official wrote in 1961 that a movement to strengthen the Eximbank had begun within government circles in early 1959. This was, he suggested, fundamentally because economic cooperation had become more of an international issue, with Third World development having a stronger impact on relations between the West and the Communist bloc. Appreciation in Japan of the benefits of economic cooperation with the developing nations had increased; the Government realised that cooperation was necessary for expanding exports, obtaining raw materials through "development import" schemes, and for assisting the achievement of the Income Doubling Plan. MITI put forward the idea of an Overseas Economic Cooperation Corporation (Kaigai keizai kyoryoku kabushiki kaisha), to be fully funded by the Government to finance projects which the Eximbank could not assist, such as non-commercial national projects. Unfortunately for MITI, ministerial discussions led to the Asian Development Fund being used as the foundation for the new OECF.³⁴

The primary purpose of the Eximbank was the promotion of exports, and it financed overseas development projects only as a secondary function. The premise of its operations was "sound banking"

through the supplementation (hokan) of private funds, but the OECF was intended to finance those development projects considered beneficial to the recipient country, with no necessary direct ties to export financing, although this did not mean that the long-term benefits to Japan of the particular project were not assessed.³⁵ The Eximbank itself had problems, including pressures to revise its loan conditions to bring them into line with "international interest rate patterns", and the need to increase substantially the funds available to the Bank so that it could achieve the export growth targets set down in the Income Doubling Plan.³⁶

According to a former Department Director of OECF, who joined in its first year, one of the main reasons for the establishment of the OECF was that Eximbank financing was restricted to credits, and only to projects where Japanese could supply over 70 percent of project content. There were some projects, however, where many materials could be procured locally rather than from Japanese exporters, but the Japanese Government would not give approval for Eximbank financing in these cases. The OECF was a more appropriate source of finance and was also able to support survey work in the developing areas and direct investment in large projects such as North Sumatran oil and Usiminas steel.³⁷

The movement towards the new Agency was thus well defined, but it could be argued that what spurred its establishment at that time was the availability of ¥5 billion in idle economic cooperation moneys. A former executive of the early OECF declared that there was no definite plan at the time to establish a fund for the development of overseas projects. Although it was generally agreed within the domestic economic cooperation community that some sort of government

organisation to promote relations with Southeast Asia was necessary, the idea of the OECF germinated as a vague notion to use the unspent budget of the Asian Development Fund.³⁸

A bill to establish the OECF was presented to the 34th Diet in 1960 and became law in December of that year.³⁹ Its stated purpose was to "contribute to the economic development of Southeast Asia and other developing regions ... by conducting such business as necessary for facilitating the supply of funds for their development which are difficult to obtain from the Export-Import Bank of Japan and from ordinary financial institutions, and thus to promote international economic cooperation". The objectives of the OECF were therefore essentially different from those of the Eximbank.

Arrangements for administrative control of the OECF posed difficulties, for it came within the jurisdiction of three ministries: the MFA, the MOF and MITI. To avoid having the OECF associated too closely with any one, responsibility was given to the EPA.⁴⁰ The OECF was placed under a domestically weak agency and at the same time officials from other ministries entered it in strategic policy positions. The OECF was emasculated from the start and made subordinate to bureaucratic interests rather than to those objectives of international development espoused in the OECF Law.

This control was not welcomed by all. One of the original directors of the OECF remarked how little the MOF understood development ideas and how its attitude to aid was clouded by a domestic orientation and by a concern for budgets and financial stringency.⁴¹ OECF personnel were, with one or two exceptions, drawn from the ministries and no new

recruits entered until 1964. The General Affairs Department of the OECF was staffed by men from the MOF, the MFA and MITI because of their joint overseeing role. The Loan Department was headed by an officer from the Bank of Japan and its two Division Directors were from the Eximbank and the Japan Development Bank, with desk-level staff transferred from the Eximbank, making the Loan Department, in a sense, an extension of that organisation.

There were attempts in the early years to merge the two financing agencies. Criticisms were made by politicians and officials that the Fund was an organisation which was too small for its purposes and that the division of functions between Fund and Bank should be more explicit. In 1963, a committee was set up to investigate these charges⁴² but some, such as the Asahi shimbun, demanded a bigger role for the OECF, independent of Eximbank control, so that Japan could fulfil her obligations to the developing countries.⁴³ The MOF certainly did not want to see this happen. On 19 September 1963, the Finance Minister, Tanaka Kakuei, met with the Prime Minister, Ikeda Hayato, and suggested that since the OECF was still small and, in recent fiscally difficult years, was not allowed by the Government to undertake much financing, the Eximbank should take over more of its duties in order to unify aid policy and allow greater capital for official lending. There was strong opposition from the MFA and from MITI, which saw benefits to the LDCs and Japan alike in softer loans than the Bank could provide.⁴⁴ Morinaga Sadaichirō, President of the Eximbank, was non-committal in his comments, stressing that the Government "should consider the plan with caution".⁴⁵ Yanagida Seijirō, President of the OECF, prevailed upon the Finance Minister, who backed down. When questioned by the Opposition in the Finance Committee of

the House of Representatives on 19 February 1964, he replied that the Government would not amalgamate the two organisations, even though the Fund's business was limited. The Minister went on to suggest that much of the problem lay in conflict between the MFA, the MOF and MITI concerning aid and export finance, an admission not often made in public.⁴⁶

From the outset the ministries took control of most of the Fund's affairs. The "four-ministry deliberation system" (yon shōchō kyōgi taisei) was formed, which made it difficult for the OECF to establish its own identity. Under this system, the four main ministries (the MFA, the MOF, MITI and the EPA) consulted about, and had to agree on, the provision of all loans by the Fund.⁴⁷ By the 1970s, it was the heart of the decision-making process for official loans.

Completing the Structure

1962 was an important year for Japan's aid administration, for it marked the end of its substantive development. The MFA, the MOF and MITI all modified their economic cooperation bureaucracies, and the Overseas Technical Cooperation Agency (OTCA) was established under the control of the MFA. They were the last significant reforms in the MFA until 1969, and in MITI until 1973 and ended the growth in their administration for economic cooperation.

In May 1962, the Economic Cooperation Department of the MFA became a fully-fledged bureau, separate from the Economic Affairs Bureau. Partition proved successful in expanding the size of the Department, whose workload had greatly increased,⁴⁸ and in easing tensions between it and the Bureau caused by diverging interests. The

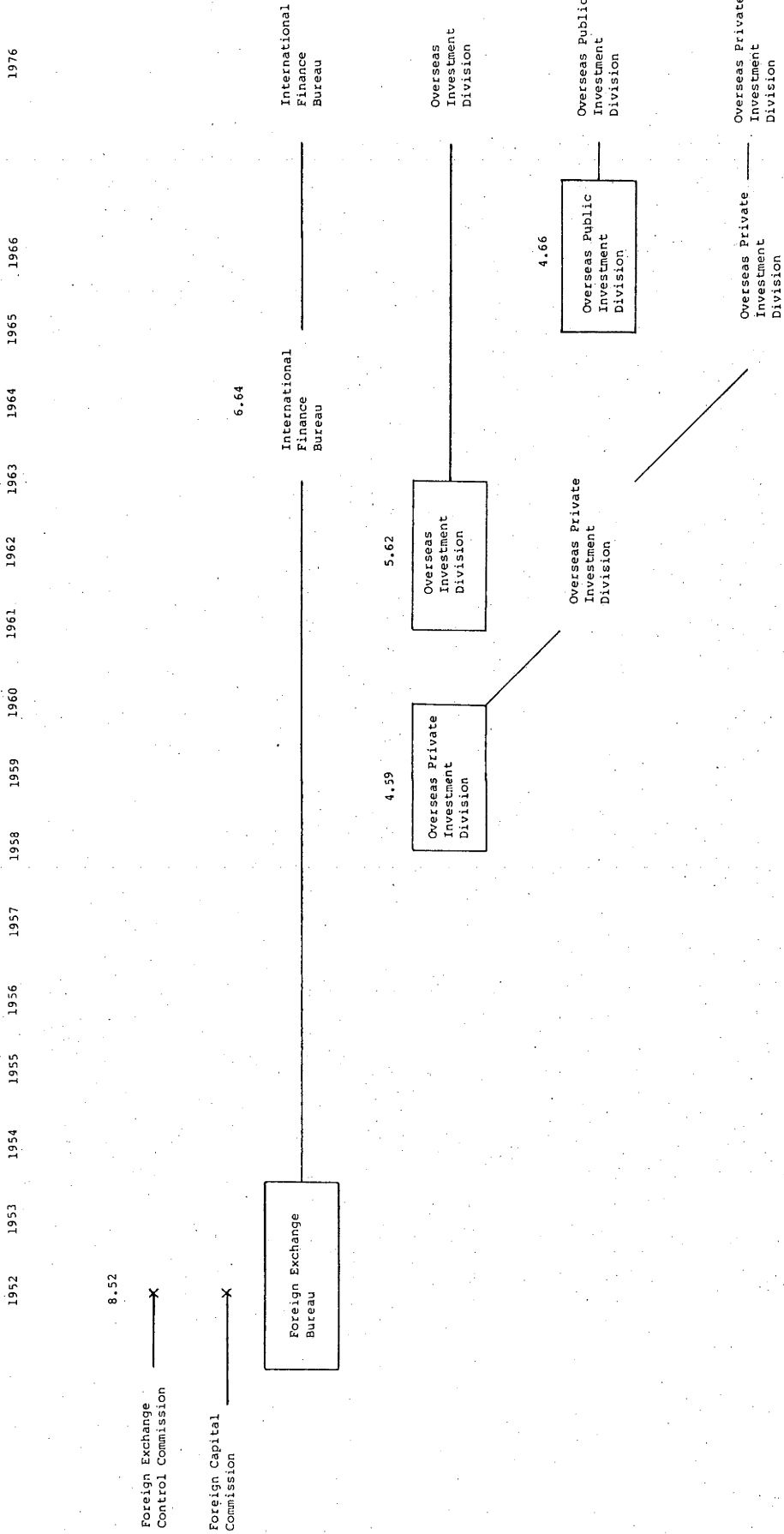
latter's responsibility for Japan's economic relations with the advanced nations was not always welcomed by a Department increasingly aware of the importance to Japan's future of economic cooperation with the less-developed countries. The Fifth Meeting of the OECD Development Assistance Group (DAG) held in Tokyo in July 1961 gave a new perspective to international aid and it is likely that Japan's efforts to actively participate in that body included administrative change.⁴⁹ The new Bureau had four divisions and the existing Policy Division took on added functions. It became the channel for liaison with international economic cooperation organisations and was charged with policy research.

The MOF, also in May 1962, added an Overseas Investment Division to its Foreign Exchange Bureau,⁵⁰ which indicated a clear response by the MOF, especially by its Exchange Bureau, to the establishment of the OECF and to the developments within the DAC. The new Division was given broad authority over economic cooperation finance, the first time that the MOF had so defined its work in the area. The Division was concerned generally with policy for economic cooperation, policy initiation for technical assistance and export credits, relations with international economic cooperation meetings (including the DAC), research, and the OECF (see Chart 2-3).

In April 1962, the International Trade Bureau in MITI was reorganised and a separate Economic Cooperation Department was established within the Bureau to cope with an increased workload in economic cooperation⁵¹ (see Chart 2-4). It had three Divisions, the former Second becoming the new Technical Cooperation Division and the former First splitting into the Policy Division and the Capital Cooperation Division. The first gained the new responsibility of liaison with international bodies and the latter the task of monitoring

CHART 2-3

ADMINISTRATIVE ORGANISATION FOR AID: MINISTRY OF FINANCE



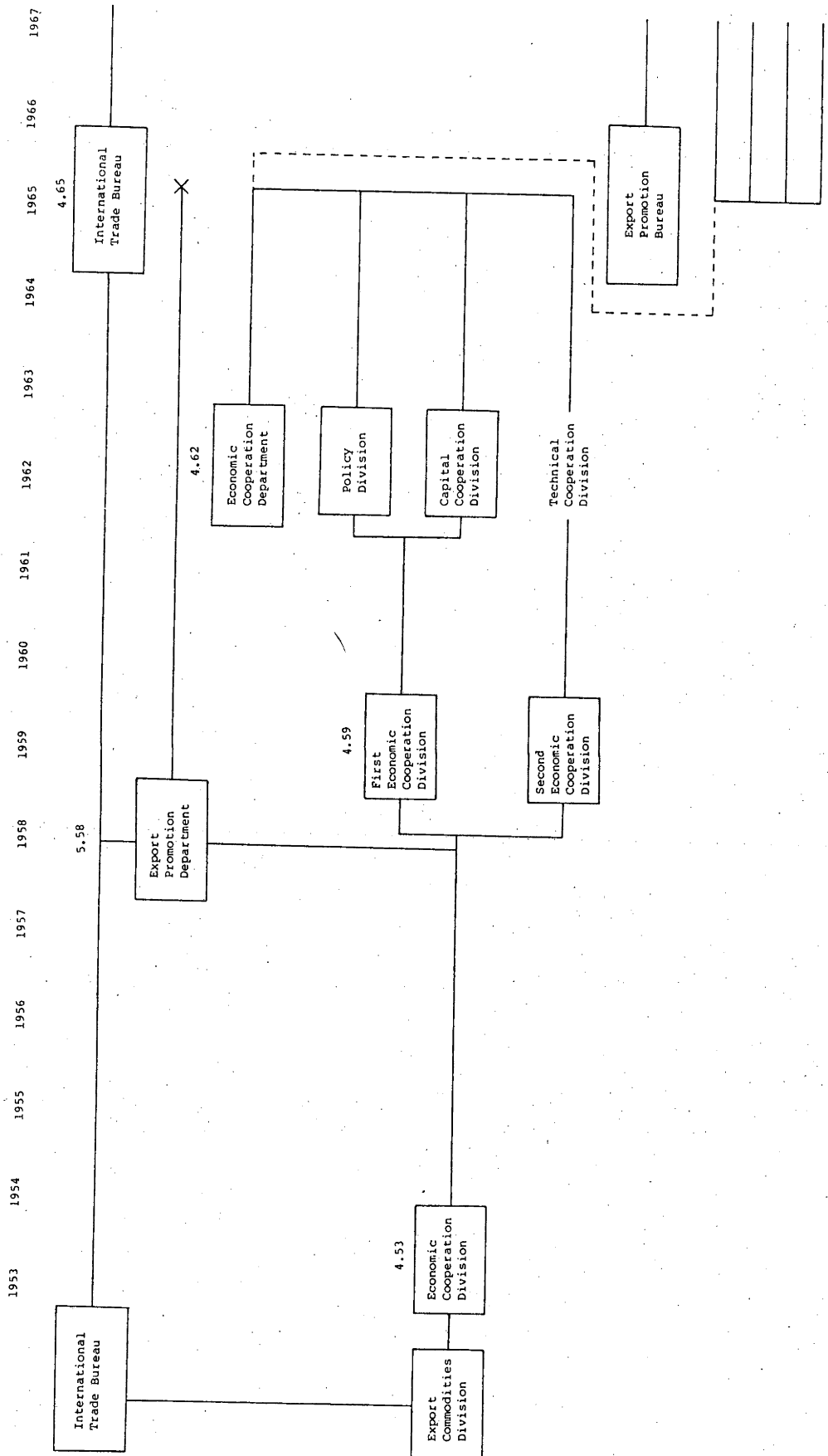
capital cooperation carried out by the new OECF. The formal separation of economic cooperation from export promotion (which was managed by a new Export Promotion Department) did not alter the MITI attitude to economic cooperation in general. A former official of the MITI Economic Cooperation Department in the early 1960s, and in 1977 a senior departmental official, when asked about the main functions of the early Department, answered simply "export promotion".⁵²

The advent of the OTCA in May 1962 was not accompanied by inter-ministerial controversy of the kind which occurred over the OECF. It was set up to combine all official technical assistance programs and many smaller schemes operating under different private groups. The Asia Society (Ajia kyōkai) was the core of the new agency,⁵³ which was placed under MFA control, although the MOF retained power over the budget. Consultation was required with other ministries which had competence in the technical cooperation area, such as in the provision of technical experts. It was clear, nevertheless, that much effort was needed to ensure an easy path for the OTCA. Kai Fumihiko, the Director at that time of the MFA's Economic Cooperation Bureau, wrote that:

The tasks of the new Agency are important and are closely related to Government policies but, since they are wide-ranging and complex, it is impossible for the Agency to carry them out by itself, however hard it tries and whatever effort the Foreign Ministry makes. Close contact, harmony and coordination between related ministries and private organisations are absolutely necessary for the Agency to implement its tasks. The tasks which the Agency must carry out are spread over all administrative areas of our Government and unless there is cooperation with all ministries, whatever their differences, we cannot expect smooth implementation. For this reason the need for the Foreign Minister to consult with commissioning ministries is written into the Law but the Agency, which receives these commissions, must also make efforts to strengthen its ties with them.⁵⁴

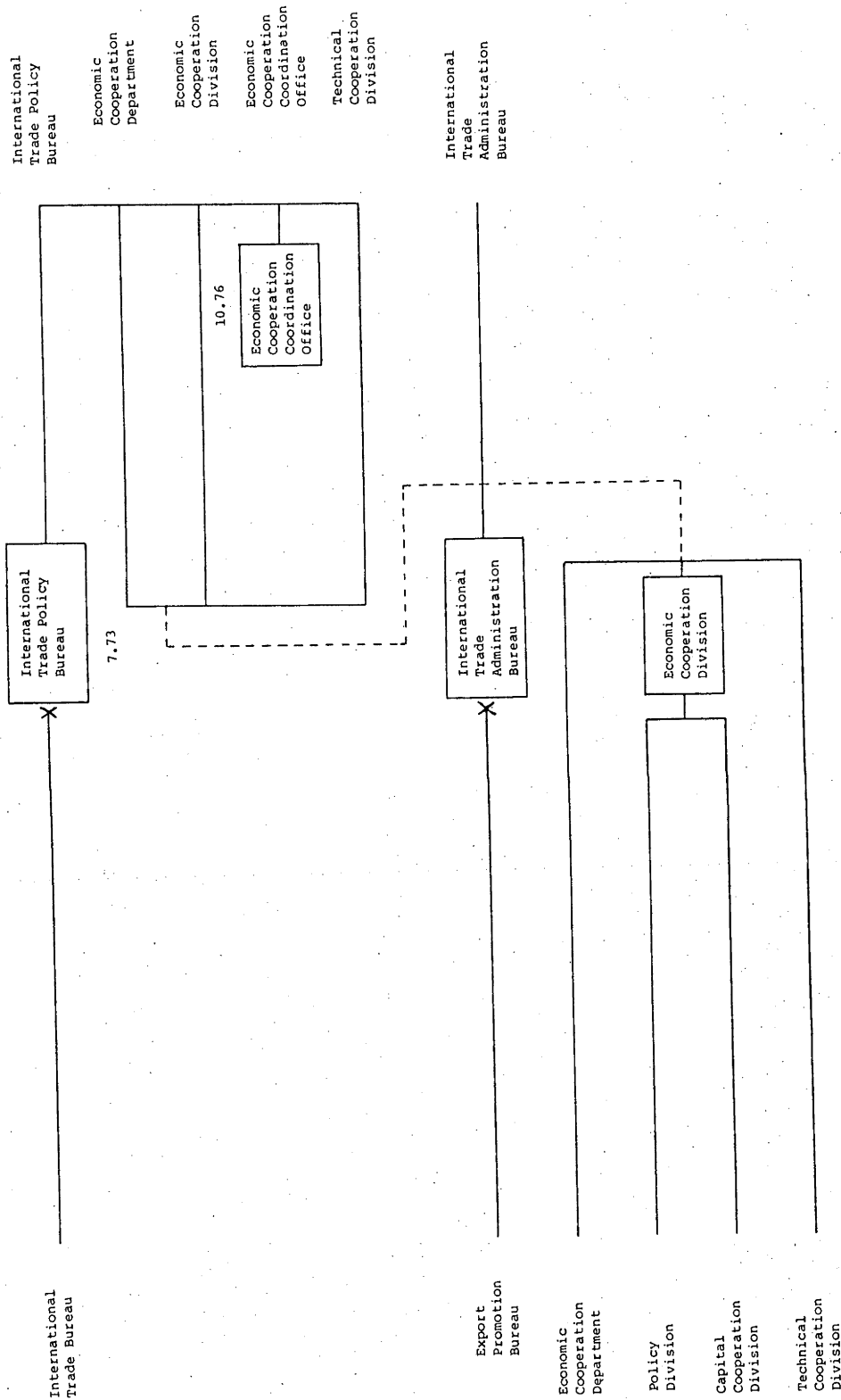
CHART 2-4

ADMINISTRATIVE ORGANISATION FOR AID: MINISTRY OF INTERNATIONAL TRADE AND INDUSTRY



MINISTRY OF INTERNATIONAL TRADE AND INDUSTRY (continued)

1968 1969 1970 1971 1972 1973 1974 1975 1976



The MFA's First Technical Cooperation Division was given jurisdiction over the OTCA in June 1962.

Thus the Government's second agency for implementing economic cooperation was established under the direction of at least six ministries - more, in fact, than were involved with the OECF. While general supervision rested with the MFA and the MOF, MITI, as well as the Ministries of Agriculture and Forestry, Welfare, and Labour, had technical training programs and institutions which operated under government technical cooperation policy. This regulatory tangle around the OTCA remained throughout the 1960s and affected the formation of the Japan International Cooperation Agency (JICA), OTCA's successor, in 1974.⁵⁵

The establishment of the OTCA concluded the main formative period in the development of Japan's aid administration. By 1963, the lines which were to determine the overall patterns of policy-making from then on had been drawn, the ministries having "staked their claims" in the different areas of economic cooperation. The four-ministry deliberation system was operating, the MFA had majority control in technical cooperation, and responsibility for cooperation with international aid organisations was divided between the MFA and the MOF. By 1963, Japan's aid administration had fully developed, and bureaucratic economic cooperation interests had become institutionalised in four ministries. The 1960s were to see the Japanese aid effort become one of the largest among DAC member nations, but the basic structure of her aid administration did not change.⁵⁶

In May 1964, the MFA rationalised its reparations administration. The Reparations Department in the Asian Affairs

Bureau was abolished and all three of its divisions were transferred to the Economic Cooperation Bureau. At the same time, the two technical cooperation divisions were combined, making in total six divisions within the Bureau.⁵⁷ This was followed in May 1965 by the merging of two of the reparations divisions and the splitting off from the Policy Division of the International Cooperation Division, which was given the task of liaising with international organisations on economic cooperation (which the Policy Division had dealt with until then).⁵⁸ There were no further readjustments within the Bureau until 1969.

In April 1965, MITI decided to make fuller use of its Economic Cooperation Department. The Export Promotion Department of the International Trade Bureau became a complete Trade Promotion Bureau, and the Economic Cooperation Department moved out of its former home into the new bureau, retaining its three divisions.⁵⁹ As was the case before 1962, this strengthened the link between economic cooperation and trade promotion, a fact which MITI frankly admitted. The official explanation was that the International Trade Bureau had become overloaded and the new arrangements were to lighten the burden and place more emphasis on the urgent task of trade promotion. Economic cooperation was transferred simply because it was "closely connected to trade promotion".⁶⁰ This reorganisation left the Economic Cooperation Department under the direct influence of export policy administration until the general MITI restructuring in 1973.

The MOF altered its economic cooperation administration only slightly. In June 1964, the Foreign Exchange Bureau was renamed the International Finance Bureau, although its functions remained the same. According to the Finance Minister, this shift in emphasis

represented a maturing of Japan's outlook on economic controls:

It is now a world of liberalisation of trade and foreign exchange ... we have moved to IMF Article 8 nation status from 1 April and thus the notion of "foreign exchange control" is most unsuitable. It is necessary to state clearly that we will no longer "control" foreign exchange. The tasks of domestic finance, as well as international finance, have become increasingly complex. On the international stage there are completely new responsibilities in the postwar period ... such as the IMF, IBRD, OECD, IDA and even Japan's own international cooperation activities ... In this sense, the Foreign Exchange Bureau gives way to the International Finance Bureau, its national tasks greatly changed, but basically the same body. Its job, however, will mean a much more forward-looking international finance policy.⁶¹

This new image for the MOF's economic cooperation work was underlined in 1966 by the establishment of an Overseas Public Investment Division. This involved the formal separation of bilateral aid (for which the new Division was given responsibility) from private investment and international aid policy.⁶² With this, the MOF economic cooperation administration was complete.⁶³

Restructuring the MFA and MITI

The only remaining administrative changes which affected economic cooperation, apart from the addition of a Second Economic Cooperation Division to the Economic Planning Agency's Coordination Bureau in June 1972,⁶⁴ were to the MFA and MITI. For both ministries the reforms were significant, but they left the structure of economic cooperation divisions little altered. In the case of the MFA, however, policy-making was further complicated and many new problems created for aid administrators.

The MFA reorganisation in January 1969 was based on the recommendations of an intra-Ministry Reorganisation Committee set up in 1966 at the behest of the Ministry kambukai (the meeting of senior

officials two or three times a week). The move, referred to as the "unification of politics and economics" (seikei gattai), involved a rationalisation of duties handled previously by both regional bureaus (such as the Asian Bureau) and functional ones (such as the Economic Affairs Bureau). It was the result of recognition by the committee of the complexity of Japan's economic relations and of the increasing political responsibilities which accompanied her enlarged international economic role. It reflected real changes in MFA thinking and, as a result, the economic aspects of Japan's foreign policy figured more prominently in policy planning.⁶⁵

The MFA differed from other ministries in that the same issues were handled by both regional and functional bureaus, often causing problems of jurisdiction and intra-ministry rivalry. In the official euphemism, regional and economic bureaus managed the same problems "in a system of close cooperation".⁶⁶ The 1969 changes involved the transfer to the respective regional bureaus of the responsibility for bilateral relations previously administered by the Economic Affairs and Economic Cooperation Bureaus. The two economic bureaus retained planning for economic and economic cooperation policy and direction of multilateral relations. They gained the function of assessing and coordinating bilateral relations in their own specialist fields.

In real terms, the Economic Affairs Bureau suffered most and the Asian and American Affairs Bureaus gained. The reorganisation can be seen in one sense as a result of pressure from the Ministry's two chief regional bureaus (Asian and American Affairs) to curb the growth in size and power of the Economic Affairs Bureau.⁶⁷ The latter consisted previously of ten divisions but it lost six of its regional

divisions, the work of which was absorbed by the regional bureaus. In the end it retained only five divisions, including a new Resources Division, which was destined to become central to the MFA's diplomacy in the 1970s.

The regional bureaus all underwent divisional reorganisation. In the Economic Cooperation Bureau also there were changes, but since all the divisions were functional ones already, there was no wholesale transfer of powers to regional bureaus. The existing structure was largely retained, but the Reparations Division was renamed the Second Economic Cooperation Division. Japanese payments for war damage were nearing completion and the work of the division came closer to grant aid than to reparations administration. The First Economic Cooperation Division's role in non-grant aid was reaffirmed and the Reparations Accounting Division became the Accounting Division, and dealt with the financial aspects of both reparations and grant aid.

The seikei gattai meant greater complexity in inter-bureau relations in the MFA. The regional bureaus in 1976 handled economic, economic cooperation and political relations with their own geographic regions and countries, and the Economic Cooperation Bureau, for example, had to consult them about bilateral economic cooperation. This was irksome to many officials and, according to one former Division Director, the Economic Cooperation Bureau resisted the reorganisation. He argued that it was incomplete, and carried through in respect of only a few important recipient countries, namely South Korea, Indonesia, South Vietnam and recently the Middle East.⁶⁸ There was extended inter-bureau discussion on policy towards these countries, he complained, but on others the regional bureaus were too busy to handle the work and did not have the necessary expertise. He raised the example of problems

regarding policy to Bangladesh, with which Japan's relations were mostly economic. The Economic Cooperation Bureau could not make decisions on its own, being a functional bureau, but the responsible regional section (the South-West Asia Division of the Asian Affairs Bureau) had neither the time nor the inclination to consider aid fully in its approach to Bangladesh.⁶⁹ Such issues prompted intra-bureau debate in 1975-76 on the need for bureau reorganisation along regional lines. It was recognised, however, that duplication of effort was likely and that increased reliance on other ministries for specialist knowledge would only weaken the MFA's position and probably the overall aid program. Officials also thought that wider responsibility for regional bureaus would encourage greater politicisation of issues. The patronising attitude of the regional officers in offering "to give you chaps a hand" when the Economic Cooperation Bureau became busy was said to be symptomatic of the trend.⁷⁰

Later MFA changes included the addition of another Technical Cooperation Division in May 1972 and the abolition of the Accounting Division, the staff of which were dispersed throughout the Bureau. The formation of the new Technical Cooperation Division was partly due to an increase in the budget allocated for technical cooperation in fiscal 1972 and to the inability of one division to handle the work.⁷¹ In April 1975, the Development Cooperation Division was set up, ostensibly to administer development projects overseas where both capital and technical cooperation were involved, especially development surveys and projects promoted by private enterprise.⁷² As most of this work was to be carried out by the new Japan International Cooperation Agency, in fact the MFA tried to assure itself of predominance in what was envisaged as a major area of future Japanese economic cooperation.⁷³

The MITI reorganisation of 1973 was the only full scale ministry reorganisation after the 1950s and the only rationalisation of an immediate post-war bureaucratic structure to meet current policy demands.⁷⁴ It was a move away from the emphasis on industrial development and trade promotion, to an alignment with new economic and social needs such as technological development, environmental protection and internationalisation of the Japanese economy. Based on a report of the Industrial Structure Council, advisory body to the Minister, the reorganisation strengthened policy-making bureaus and further integrated those designed for industrial policy implementation. This was done by changing specific industry bureaus to deal with industries on a broader policy basis. The dual trade-industry structure of MITI was retained while policy coordination ministry-wide was improved and greater flexibility allowed in approaches to groups of industries. In respect of international economic policy, an International Trade Policy Bureau was set up for policy planning and an International Trade Administration Bureau for implementation. The Economic Cooperation Department was placed in the former:

Until now, economic cooperation has been seen as an integral part of export promotion, but at a time when the balance of payments is over \$10 billion in surplus, this thinking is inappropriate. It is necessary for economic cooperation to be taken from the recipient country viewpoint and to be given according to the wishes of the underdeveloped nations.⁷⁵

Economic cooperation remained, in effect, firmly tied to the trade policy concerns of the Ministry. Policy for bilateral economic cooperation was handled in the Department, although implementation was overseen by the country market divisions of the Bureau outside the Department.

The Department was, however, reduced, the Policy and Economic Cooperation Divisions being merged. This was rather surprising to

some, for it was unusual that the numbers of divisions and staff should fall when no reduction in the workload occurred.⁷⁶ The newly named Economic Cooperation Division had its work enlarged enormously. One Departmental official alleged that while the cut was probably a result of a wider MITI rationalisation of divisions, it was inappropriate and the former division was necessary to MITI's economic cooperation function. In his opinion, the change was a failure, because the new Division Director, the man with responsibility for the entire Department, became so busy it was almost impossible for him to give sufficient attention to any one matter. The opinion of the Director was necessary in all discussions and it made departmental coordination more difficult when he was unavailable.⁷⁷

The problem was partly solved by the establishment, in October 1976, of an Economic Cooperation Coordination Office in the Division, staffed by one officer of division director level. This was a complete reversal to the pre-1973 situation.

A Central Aid Agency

Questions of administrative reform in Japanese aid lead to the subject of a central aid agency. There is a long history of recommendations that such an agency be established in Japan and, although JICA was the closest approximation to a multi-purpose aid agency, at no time in its gestation period between 1972 and 1974 was there a suggestion that it should take on responsibility for the formulation and implementation of all aid policy. Indeed, there was never a well developed movement or political impetus for reform which was able to overcome the weight of the established bureaucracy, and ideas for change appealed always to notions of administrative unity

which it was in the interests of ministries (even the MFA) to avoid.

Calls for some form of economic cooperation agency in Japan usually followed criticism of the aid administration, especially of the need for internal coordination and policy consistency. The first such recommendation came from the Matsumura Committee (a group comprising LDP members wishing to promote relations between Southeast Asia and Japan) to the Prime Minister, Kishi Nobusuke, in August 1957, although its initial suggestion of an economic cooperation agency outside the MFA was diluted to that of an economic cooperation bureau within the Ministry.⁷⁸ This report was followed in January 1958 by recommendations from a Keidanren committee for a government agency, and by the Second Report of the LDP Special Committee on Overseas Economic Cooperation, which suggested that the Government "centralise the administration of economic cooperation".⁷⁹ As it eventuated, only a department was created in the MFA and it was not until 1962 that a full bureau came into being.

These early moves helped the MFA aid bureaucracy expand, and eventually led also to the establishment of the OECF in 1961. Later, jurisdictional disputes between the Fund and the Eximbank prompted, at a ministerial level, new pressures for reform of the administration. These arguments were seen in the efforts of the Finance Minister, Tanaka Kakuei, to amalgamate the OECF and the Bank and in an idea of the Foreign Minister, Shiina Etsusaburō, as reported in the Asahi shimbun of 20 September 1964, to set up a new fund to promote aid to developing countries. He envisaged this as a replacement for the OECF which would merge with the Eximbank.

Later reports showed that ministers and senior economic

spokesmen continued to be concerned with the issue of an aid agency. Four senior men involved in economic cooperation recognised in 1966 the need for an agency, along the lines of those organisations in other DAC member countries,⁸⁰ able to coordinate and formulate policy. In March 1967, the Foreign Minister, Miki Takeo, pledged reforms during a policy speech to the Diet.⁸¹ In a further statement in April, he acknowledged pressure from recipients to improve the aid system and said in particular that the MFA was studying the viability of an agency as a prelude to a complete restructuring of the system.⁸²

While the MFA decided to shelve the agency plan and settle for an enlarged Economic Cooperation Bureau, Miki again called in July 1970 for a foreign aid agency under the control of the MFA. He hoped that this would encourage the development of a long-term aid policy.⁸³ As with most such appeals by officials and politicians, however, his ideas lacked detail and impact. In fact, it was in the interest of the MFA to opt for the status quo and retain the wide control it had over aid, if for no other reason than to maintain the strong foreign policy input into aid policy. According to an editorial on aid problems in February 1968, bureaucratic territorialism (kakkyoshugi) remained the obstacle to change, by preventing coordination between ministries involved in the aid administration.⁸⁴

Ministers were not the only ones to raise the question of reform. The study of aid administration carried out by the Special Committee on Administration (Rinji gyōsei chōsakai) in 1963-64 made no recommendations about an agency, but suggested strengthening the MFA's Economic Cooperation Bureau and rationalising the division between the OECF and the Eximbank. It proposed a ministerial Advisory Council, with a Cabinet Counsellor (naikaku hosakan) as secretary, to initiate and

coordinate policy.⁸⁵

In February 1968, the Japan Committee for Economic Development (Keizai dōyūkai), one of the three major economic organisations in Japan, published a report by its Special Economic Cooperation Committee in which it recommended the creation of an economic cooperation agency to achieve consistency, flexibility and comprehensiveness in aid policy.⁸⁶ This was echoed three years later in an interim report of the Advisory Council on Overseas Economic Cooperation, which advocated an economic cooperation agency for policy formulation, to be headed by a minister but not responsible for implementation.⁸⁷ The Council's final report, however, advised instead that an Overseas Development Cooperation Promotion Office be established in the Prime Minister's Office. This downgrading suggested the impact of ministry pressure on the Council. Its compromise was that the Office "promote the improvement of administrative arrangements" while "respecting as much as possible the independence of implementing ministries and agencies".

The Government party also put forward its proposals. One newspaper reported in March 1970 that the LDP's Special Committee on Economic Cooperation had decided to seek the merger of the OECF, the OTCA and the Japan Emigration Service (JEMIS), as part of a revision of the LDP's aid policy.⁸⁸ There was no explanation of why these three agencies in particular should be integrated, but the idea was important in the light of the eventual form which the Japan International Cooperation Agency took in 1974. Later meetings of the Committee concentrated on the reform of the OTCA and attempted unsuccessfully to garner support for proposals to give that Agency the power and money to provide cheap finance for business ventures overseas, especially development projects.⁸⁹

Pressure came not from within Japan alone. The DAC, in its annual examination of Japan's aid effort, often referred to the need for administrative reforms. In the first examination in 1965, the Japanese authorities apparently acknowledged that there was room for improvement and in 1966 the DAC Secretariat report noted that "a central administration would seem to be increasingly essential" as Japan undertook new programs of direct government lending.⁹⁰ References were again made in the 1967 and 1968 reports, while the 1971 report criticised the administrative structure as being ad hoc and complex. In 1973, the Secretariat noted that "the administrative structure of Japan's aid remains highly decentralised ... it appears that the administrative structure of the Japanese programme is considerably smaller than that of other DAC members with comparable or smaller volumes of flows. This factor may prove to constitute a restraint on the expansion of the programme".⁹¹

By 1976, the momentum to bring about a central aid administration was weaker. Officials were less positive in assessing how to accommodate ministry pressures and few were able to indicate what concessions could be made. It was evident that the Government recognised the necessity for centralisation, but it was not clear from where the impetus could come. Minato Tetsurō, an LDP Diet Member who vigorously advocated an aid program for Japan, favoured an aid agency in 1974 but by 1976 had abandoned that position and urged qualitative policy improvements within the existing fragmented administrative system.⁹²

Conclusion: Aid and Administrative Change

The general conclusion of John White, when applied to Japan, is substantially correct. Historical accident and administrative convention indeed greatly influenced the structure of the Japanese aid bureaucracy. The growth of that bureaucracy, however, was not purely reactive, for political motives and pressures were a significant, if only negative, influence. The Japanese aid administration stagnated after the mid-1960s. As the economic cooperation program grew, the division of responsibility for policy did not keep up with the need to adjust procedures to new demands. Functions were further dispersed as more ministries dealt with foreign aid and no method for coordinating the different programs was devised. The strength of Japanese administrative tradition (and the persistence of divergent ideas about aid, described in Chapter 1) meant that power over policy was divided and therefore weakened and no natural policy leader emerged from among the ministries.

The development of new bureaucracies, resulting from the "constant flux in the nature of policy space",⁹³ is well known, but apart from the interaction of existing bureaus with the environment, the effect of ideas on policy outcomes is also important. Herbert Simon showed in 1953 how environmental forces interacted with conflicting conceptions of the tasks of the United States Economic Cooperation Administration to shape that agency's development.⁹⁴ Throughout the history of the Japanese aid program, contrasting perceptions of aid were the stimulus for change in aid management structures. These were domestic attitudes, mainly a product of ministry approaches to problems, although moulded by politics also.

Apart from supervision by the Administrative Management

Agency and the Budget Bureau of the MOF, administrative changes in the aid policy area were the prerogative of each ministry. Much of the growth was a response to the diversifying Japanese international role of the 1950s and 1960s. Workloads never diminished, but each ministry set its own goals for economic cooperation in the light of wider policy considerations. Economic cooperation, and its administration, were expanded or restrained by ministries pursuing these broader interests.⁹⁵ Thus MITI's economic cooperation divisions were aligned to export promotion policy for most of the period; the MFA divisions were separate from regional policy bureaus but were never independent of their influence. The MOF's overseas investment divisions always followed the international monetary policy goals of that Ministry. When ministry perceptions clashed, however, system reform and centralisation became political issues.

Political support for aid policy was sporadic and given only for specific ministry interests. Because of this, it was crucial in controlling administrative change and preventing comprehensive reform. This was not difficult to achieve. Proponents of change in Japan did not promote the beneficial effects on aid flows of a restructured system and no debate arose about the developmental impact of donor administration. Discussion centred instead on the vague notion of "unifying" policy, so bureaucratic inertia overcame piecemeal reform proposals.

There was, therefore, no sense of immediacy about reform. Not until the early 1970s, when international conditions began to move in favour of a more coordinated approach to aid management, did at least one ministry (the Ministry of Agriculture and Forestry) link its own policy strategies with administrative solutions to Japan's

aid performance. Aid and development then assumed long-term political significance in Japan. The following chapter traces some effects of this change.

CHAPTER 3

"SCRAP AND BUILD":

THE ORIGINS OF THE JAPAN INTERNATIONAL COOPERATION AGENCY

The Japan International Cooperation Agency (Kokusai kyōryoku jigyōdan, or JICA) began operations on 1 August 1974, to implement government sponsored technical cooperation programs, emigration services and funding of development projects in agriculture, forestry, mining, industry and social development. It was not designed as a central aid agency and came under a complex set of controls by several ministries.

This chapter is a case study of the relationship between aid and diffuse policy currents within the Japanese Government. It illustrates the shifting balance of interests in aid policy, the ordering imposed by budget procedures and the legislative process, and the separation of the domestic politics of aid from ideas of economic development. It discusses how ministry perceptions of aid clashed over problems of organisation and how this conflict influenced the eventual structure and functions of JICA. Bureaucratic politics, it will be argued, directed the debate and narrowed the final options, but proved unable ultimately to resolve an issue which impinged on the goals of aid sections in different ministries.

Bureaucratic Conflict and Politics

In August 1972, the Ministry of Agriculture and Forestry (MAF) requested 1973 Budget funds to establish an agency for the development of agriculture in developing countries.¹ The substantial (¥12 billion) request was prompted by MAF concern about two issues: agricultural import policy and MAF influence in the domestic aid

administration, which was restricted by its specialised, domestic orientation.

Those sections of the Ministry responsible for agricultural trade clearly understood the effect on Japan's food supplies of trends in international agriculture, and recognised the need to increase assistance to the primary sector of developing countries. Japan depended heavily on imports of farm products and the developing countries in 1972 provided 52.2 percent of her primary produce imports. MAF officials hoped that policies of overseas agricultural development might help diversify sources of agricultural commodities, for a few developed countries provided the bulk of staple food imports.²

Administrative questions were also prominent. Within the MAF the International Cooperation Division of the Economic Affairs Bureau was, as one commentator put it, a "special (tokushu) section", out of place within an inward-looking ministry.³ If policies were to be pushed forward, it was realised, aid divisions of the MAF needed more power in the bureaucracy than their status within the Ministry afforded them. Officials of the Division aimed to achieve this, but the MAF had no power base in the national aid administration. The MAF was not included in the four-ministry group which made decisions on capital aid policy and its secondary task in technical cooperation was to provide specialist staff for agricultural technical aid projects.

The MAF, however, had a rival in its attempt to create a new agency, for MITI had requested funds for a Small and Medium Industry Overseas Investment Agency. Because of the nature of both proposals,

considerable difficulties were expected in negotiations with the MOF. The MAF plan presented problems in the balance between agricultural and forestry projects, for emphasis on the latter was likely to involve the Government in schemes too obviously designed out of domestic self-interest. The MITI plan was not envisaged at any stage to be wholly government-operated but was to rely on cooperation from private enterprise.⁴

Initially, the MOF adopted a negative approach, asserting that aid administration was a problem beyond the scope of MAF jurisdiction alone. It suggested rather that the Ministry examine its proposal more carefully. Although ¥30 million was allocated for further research into the scheme,⁵ the MAF foreshadowed a request for the following year's budget⁶ and set up a coordinating study group within its Economic Affairs Bureau in June 1973. Seven missions were sent abroad to research trends in agricultural production and food demand.⁷

The MAF regarded movements in world food production and demand as being important for national security because of their effect on Japan's long-term food imports.⁸ The Planning Division of the Minister's Secretariat, for example, conducted in 1972-73 its own study of the food problem, which had been highlighted in the summer of 1972 when the Soviet Union embarked on a program of buying up grain stocks. Until the "food crisis" of 1972-73, Japanese agricultural cooperation consisted mainly of assistance with rice cultivation and with projects which resembled rather closely the "development import" ideas current ten years earlier in MITI circles and revived in the late 1960s.⁹ Opposition parties had attacked the policy as having only a minor effect on the stability of Japan's food imports, and agricultural pressure groups opposed it as a threat to the incomes of Japan's rice

farmers. The international situation which emerged in 1972 gave renewed force to the arguments put forward by the MAF's International Cooperation Division that overseas agricultural development projects were necessary.¹⁰ Thinking in the Ministry was supported, ironically enough, by the United States Government's announcement on 14 June 1973 that exports of cereal products would be restricted. This involved a 50 percent cut in contracted export quantities of soya beans, and the vulnerability of Japan's food supplies suddenly became apparent to all.

The soya bean "shock" was perfectly timed to the MAF's advantage, coming only two months before ministry requests for the 1974 Budget were made. Greater public awareness of the food issue gave legitimacy to agricultural development proposals,¹¹ and serious lobbying by "sponsors" of MAF ideas and intense political involvement replaced the apathy of 1972 and countered expected opposition from the MFA and the Administrative Management Agency (AMA) to the very idea of agricultural cooperation. Both had argued this way a year earlier, but their objections in 1973 were to be instead over the emphasis and organisational implications of policy.

A Committee on Overseas Agricultural Cooperation was set up in June 1973 by Tokonami Tokuji, an LDP Member of the House of Representatives and chairman of the Agricultural Sub-committee of the LDP Special Committee on Overseas Economic Cooperation, paralleling the study group in the Economic Affairs Bureau of the MAF.¹² At the end of August the Tokonami Committee produced a proposal for an inter-ministry committee on agricultural cooperation and an Overseas Agricultural Development Cooperation Agency, which was to include the Japan Emigration Service (JEMIS). It would concentrate on agricultural cooperation with the Latin American countries and be supervised jointly

by the MFA and the MAF. Minato Tetsurō, another LDP member actively interested in aid, believed that this proposal converted many within the LDP to the idea of agricultural cooperation.¹³

A report from the study group within the MAF's Economic Affairs Bureau led to a ¥40 billion request in the 1974 Budget, for an agency combining government and private efforts to stabilise Japan's food imports. Unfortunately, the emphasis was too obviously on the benefits to Japan rather than to the developing country, which gave grounds for MFA opposition and for the eventual displacement of agricultural development as the primary function of the proposed agency.

Partly out of pique, MITI responded to the MAF request by seeking funds for an Overseas Trade Development Cooperation Corporation, for financing industrial and resources projects in developing countries. It was to absorb the Japan Overseas Development Corporation (JODC), a body set up in 1970 to assist private firms in developing Asian resources.¹⁴ While MITI's reaction was an attempt to expand alongside the MAF, to keep up with its bureaucratic neighbour,¹⁵ the plan contained elements of that rejected by the MOF the year before and was also consistent with MITI policies of industrial relocation, international division of labour and support for private initiative in resource development.¹⁶

The proposals brought immediate responses from other ministries. The EPA was against both, for as administrator of the Overseas Economic Cooperation Fund (OECF) it was concerned about the impact of the proposed agencies on the scope of OECF lending.¹⁷ The MFA also opposed the two plans but on wider grounds than in 1972. It objected on the basis of administrative feasibility, policy coordination

and principles of development policy. As the ministry in charge of the Overseas Technical Cooperation Agency (OTCA), it saw no need for a new agency, since technical cooperation was already well managed, and it did not consider that either plan was capable of properly coordinating technical and financial aid. It likened the development import content of each to "resources plunder" which it claimed was against Japan's long-term interests.¹⁸ The MFA's attention was not entirely upon development issues, however, and as in 1972 it obviously desired to preserve its own position in the aid administration. To that end, official MFA policy was to regard the new agency as unnecessary, but the Ministry believed that, if it were inevitable, it should be as comprehensive as possible and not restricted to one sector of aid policy. Only by adopting this attitude could the MFA ensure that its organisational interests were protected.¹⁹

Domestic agricultural groups were not all convinced of the worth of the MAF request. Within the Ministry itself debate was about whether the emphasis should be placed on development import or on development cooperation, for recipient benefits featured more prominently in the latter. To many, such as those in the Agricultural Structure Improvement Bureau, development import was a positive course to follow (given their concern for the future of Japan's primary industry structure) whereas it was only in mid-1973 that other sections, such as the Animal Industry Bureau and the Forestry Agency, came to consider either approach as useful to Japan's agricultural policy. Events made it clear to them that diversifying the sources of stock feed and timber imports would assist Japan.²⁰ The Overseas Agricultural and Forestry Development Policy Group (brought together in the Minister's Secretariat with officials from the Secretariat and from the Economic Affairs Bureau), especially its Director, Kawamura Kōichi,

with support from the International Cooperation Division of the Economic Affairs Bureau and from its Director, Ashikaga Tomomi, succeeded in shifting the emphasis of its proposal from "import" to "cooperation". It did this to show that, in contrast to MITI, its ideas approached the development solutions sought by the LDCs themselves, without jeopardising Japan's long-term food import structure or the domestic industry. Making this distinction was vital in terms of the domestic political balance. By moving the main theme of the argument from pursuit of Japan's interests to the promotion of LDC goals the Policy Group quietened MFA opposition and won over many of its opponents in and around the Ministry.²¹

The efforts of MAF officials to turn the debate to their advantage were bolstered by a fortuitous turn in political events. This came as the process of bureaucratic politics reached the difficult budget negotiation stage, in which politicians and parties were to become involved. While this would open up the debate to wider political forces, the strict timetable of the budget process imposed its own organisational order and allowed the MAF's supporters in Cabinet to protect its interests.

As a result of the sudden death of the Finance Minister, Aichi Kiichi, the Prime Minister, Tanaka Kakuei, reshuffled his second Cabinet on 25 November 1973. Three rural Diet Members, among the most powerful men in the LDP and all of the same Fukuda faction, took over portfolios directly associated with the agency question: Fukuda Takeo became the Minister for Finance, Kuraishi Tadao Minister for Agriculture and Forestry, and Hori Shigeo the Director of the AMA.²²

Lobbying continued as part of the normal budget process through November and the first half of December, although it merely hardened the positions of the ministries. The backing of LDP policy committees and business groups was sought, but private enterprise was not united, even though many larger firms stood to gain from both schemes.²³ Nevertheless, at the time, the MAF plan was perhaps more politically acceptable, again helped greatly by chance. The Middle East war had begun in October 1973 and once more Japan was made painfully aware of the instability of her resource imports. It became "fashionable" to promote agricultural development and the political edge enjoyed by the MAF was reflected in the discrepancy between its own ardent attempts to ensure support and MITI's rather tepid approach.²⁴

Because of the controversy, the result of the budget requests of the two ministries was not surprising. In the MOF Budget Draft of 22 December 1973 no funds for an agency were allocated to either ministry and a decision was held over until the "revival negotiations" between the MOF, ministries and ministers had taken place.²⁵ While it was evident that a political decision was required, other non-political factors had influenced the MOF. Its policy for the 1974 Budget was, in response to the effects of the oil crisis,²⁶ highly deflationary and an enlarged administration was not a priority in that fiscal climate. In addition, the AMA's "scrap and build" policy required the abolition or absorption of existing agencies when new ones were created. None of the ministries, however, wanted to relinquish any of theirs to form a new conglomerate aid organisation, and the MAF had upset calculations by requesting one other agency in the 1974 Budget.²⁷

Bureaucratic politics, therefore, brought the issue to a

political decision, although fate and serious policy motives on the part of some MAF officials were also instrumental. Ministry rivalry forced a compromise but organisational process, in the form of budgeting, channelled ministry arguments into a strict timetable. For this reason, debate turned to the immediate task of success in bureaucratic and budgeting terms, and the purposes of the proposed agency became a secondary problem.

Politicians and the Decision

The decision to establish the new Japan International Cooperation Agency was made formally at Budget Cabinet on the morning of Saturday 29 December 1973, after agreement between the Finance Minister and LDP leaders in the final budget negotiations on the night of 28 December.²⁸ In its last week the budget process attracted the close personal attention of the Prime Minister to the aid question and involved heated negotiations between politicians, top bureaucrats and budgeting officials, in which the claims of MITI, the MAF and the MFA were all accommodated in a considerably narrowed set of options.

The first step in breaking the impasse between ministry positions came when Minato Tetsurō, in a proposal on 21 December, suggested the establishment of both a Policy Office in the Prime Minister's Office to coordinate aid policy and an Overseas Economic Development Corporation. The corporation was to be formed from three existing agencies, the JEMIS (under MFA direction), the JODC (MITI) and the Overseas Agricultural Development Fund (a small financing organisation under the MAF), with tripartite control.²⁹ It was a curious document, for it was clear that different administrative problems had to be

resolved. The status of the OTCA was left uncertain and there was room for conflict between the supervising ministries, and between the new and existing agencies. The proposal had been written in close consultation with the Minister for Agriculture, Kuraishi, and suggested an MAF initiative to force a favourable compromise.³⁰ One LDP informant corroborated this by claiming that Minato wrote the paper "for the Party and the ministries".³¹

Minato went further in his efforts to resolve the issue and made a private visit to the Prime Minister on Sunday 23 December.³² These talks were a turning point, for as a result Tanaka issued a directive to government officials on Tuesday 25 December to establish new machinery for economic cooperation. Minato asked the Prime Minister for three things: a "control tower" for aid in the form of a responsible minister; a stronger aid advisory council; and an agency.

There was some disagreement over these requests. Minato thought that, because of the existing complications in the aid administration, one of the present ministers could be given the added aid responsibility. Tanaka, however, was adamant in preferring a new ministerial position. In regard to the proposed agency, Minato now hoped to include not only the JEMIS and the JODC, but also the OTCA and even the OECF and the Export-Import Bank (Eximbank) in a conglomerate organisation. This was a far broader proposition than his proposal of 21 December and reflected something of the MFA attitude. Both Tanaka and Minato realised, however, the administrative conflicts which would arise in such a collection, and Minato yielded to a simplified arrangement. The Tanaka "memo" to officials incorporated all three of Minato's suggestions, with Tanaka's amendments.

In the meantime, the normal budget process continued and

"revival negotiations" (between ministries and the MOF about initial MOF allocations) were concluded at desk-officer level by Monday 24 December, while the policy committees of the LDP continued to conduct hearings with ministries.³³ On the morning of Tuesday 25 December, the Prime Minister instructed the Councillors' Office of the Cabinet Secretariat to prepare detailed proposals in accordance with his "memo".³⁴ In the evening, a meeting of the LDP Policy Affairs Research Council (PARC) Deliberation Commission decided on Party policy for the 1974 Budget and at 11.00 a.m. the following day a special meeting of the LDP Executive Council was held to ratify the previous evening's eight-point budget program. The Council decided that the Party should recommend the merger of the two agency plans, finalise ministerial discussions by the 28th and have the Budget approved by Cabinet on the 29th.³⁵

The focus was, at this point, on two issues: the form of the new aid agency and the status of the proposed new minister for economic cooperation. The Yomiuri shimbun of the evening of Wednesday 26 December reported prematurely (and inaccurately) that the LDP had decided to set up a new ministerial post for economic cooperation and a new agency, after agreement had been reached between Ōhira, Fukuda and Tanaka. While the Prime Minister met his two top ministers separately on the morning of the Tuesday and no doubt mentioned his plans to them then, discussion was brief.³⁶ Ōhira opposed the plan for a minister, warning of the dangers of "double diplomacy" and interference with his own portfolio. Fukuda's initial attitude appeared in his statement with Hori on the following day that, in view of the difficult budget situation, no new government agencies would be established except the Housing Development Corporation.³⁷

These were early negotiating stances. The Finance Minister, Fukuda, again met the Prime Minister on the morning of Thursday 27 December but would not accede to the creation of an agency, stating that budget policy demanded a strengthening of aid in qualitative rather than in quantitative terms.³⁸ The two also differed on details of the new Cabinet position, even though they agreed in principle that it should be created. Tanaka preferred a post with full powers and a complete staff but Fukuda suggested that, for mobility and impact, a "roving" minister with only a small staff would be better. The minister would be without portfolio, to avoid administrative complications. Fukuda hoped to see the minister "complement the already over-worked Foreign Minister".³⁹

Tanaka met the Foreign Minister, Ōhira, on the afternoon of the same day but first demonstrated his own firm resolve to finalise these initiatives in the aid area. He instructed the Director of the Cabinet Legal Office to draw up legislation for a ministerial post,⁴⁰ and recorded an interview for NHK, the national broadcasting and television network, to be broadcast at 8.00 p.m. that night, in which he announced the Government's intention to establish an agency for overseas food and resources development.⁴¹ Meanwhile, Suzuki Zenkō, Chairman of the LDP Executive Council and one of Ōhira's closest political associates, expressed reservations about the appointment of a minister⁴² and the MFA came out with a fresh suggestion to shelve that proposal but to create an agency combining both the MAF and MITI ideas, and incorporating JEMIS. While one newspaper claimed that this gained concessions for the MFA,⁴³ it would seem rather to represent a weakening of its stance and an expression of its desire to negotiate on the minister-agency questions, perhaps to avoid the former by

agreeing to the latter.

Tanaka met with Ōhira and several MFA officials at 1.00 p.m. on Thursday 27 December. The meeting became difficult when Ōhira demanded retraction of the plan for an economic cooperation minister and even threatened resignation. He warned Tanaka against moving too quickly, and said that if a ministerial position were allowed, the MFA would provide no staff, "except a secretary and a girl to make the tea", and that the minister would have to be subordinate to the Foreign Minister. Tanaka apparently reacted strongly to the MFA attitude, and the meeting proved inconclusive.⁴⁴

Newspapers on the morning of Friday 28 December reported that on the previous day the Government had finalised arrangements for the minister. This referred to guidelines drawn up by the Cabinet Secretariat, which recommended that the minister should neither have a ministry nor the power to negotiate with foreign governments. He would chair an Economic Cooperation Committee which would be set up in the Prime Minister's Office, absorbing the Advisory Council on Overseas Economic Cooperation.⁴⁵ This format clearly separated the question of the minister from the agency proposal and left room for the MFA to accept one without the other.

A meeting of senior ministers after Cabinet that morning made the final decision. The Prime Minister, Fukuda, Ōhira, Hori and Nikaidō Susumu, the Chief Cabinet Secretary, were present, but Kuraishi and Nakasone were notably absent. Despite opposition from Ōhira, it was agreed to establish a ministerial post, but without portfolio and with only a few assistants. The committee idea was rejected, but an economic cooperation agency to be called Kokusai kyōryoku jigyōdan

was to be created. In a vague five-point directive, later to be nicknamed the Gokaijō no goseimon after the Charter Oath of Emperor Meiji issued on his assuming power in 1868, it was agreed:

- (a) that the OTCA and the JEMIS would be the foundation of the agency;
- (b) that the Foreign Minister would supervise, while the Ministers for Agriculture and Forestry and International Trade and Industry would have joint responsibility with the MFA in relevant areas;
- (c) that the JODC and sections of the Overseas Agricultural Development Fund would be included;
- (d) that the present structure of the OTCA would be retained, with new departments for agriculture, mining and industry, and emigration;
- (e) that a law would be enacted along the lines of the OTCA Law.⁴⁶

This agreement was ratified as a budget item in talks between the Finance Minister and LDP leaders on the evening of Friday 28 December and approved in Budget Cabinet on the morning of Saturday 29 December. The agency was allocated by the MOF a surprisingly large sum of ¥5 billion, plus moneys already set aside for the OTCA and the JEMIS.⁴⁷

The Decision: Two Issues

The political bargaining which forced a hurried compromise left no room for considering the implications for future policy. Scant regard was paid to resolution of the policy conflicts between the MAF

and MITI, or to the effect of proposals for overseas resource development on technical cooperation policy. The decision to abolish the OTCA, an effective independent agency, came at a very late stage and was not a direct attempt to improve Japanese technical assistance administration. Even though the AMA was engaged at the time on a report criticising many technical cooperation procedures,⁴⁸ the MFA thought that the OTCA was performing its duties reasonably well.

The possibility of including the OTCA in the proposed agency was not raised until Minato's private meeting with Tanaka on 23 December. Until then, the MAF and the MFA had agreed that the JEMIS would be provided as the zabuton, or "cushion".⁴⁹ However, since the MFA had always considered that to be most effective a new organisation should be comprehensive, it recognised the potential benefits to the OTCA of its being incorporated in a larger body, although the possibility was, until late in the process, remote.⁵⁰ The Tanaka "memo" on 25 December (directing the abolition of both the OTCA and the JEMIS) surprised the MFA but, at an emergency meeting of senior officials, a representative of the Economic Cooperation Bureau suggested that it provided a good opportunity to enhance the role of the OTCA by having it "scrapped" instead of the JEMIS. Appeals were made to Ōhira by emigration and economic cooperation officials, but the Minister could not convince Hori, Director of the AMA, that both should not be abolished.⁵¹

The OTCA was a victim of political circumstance and lack of foresight on the part of MFA officials, who took too late the chance to see the OTCA used constructively in the agency, over which the MFA gained majority control only by a late tactical about-face. In

this instance politics ran ahead of bureaucratic manoeuvrings, where participants were inward-looking and defensive, and the Prime Minister's aggressive use of the scheme for a new minister to soften the MFA opposition to a new agency proved the most positive feature of the final negotiations.

This leads us to ask why Tanaka pressed so strongly for a minister for economic cooperation in spite of firm opposition from other LDP leaders. His apparent neglect of the details was overshadowed by his personal enthusiasm and impatience for a quick decision. One newspaper suggested that it was one of his few personal directives for the 1974 Budget, and Hori Shigeo was quoted as saying that "it is not an administrative problem but one of the Prime Minister's own concerns".⁵² The motives behind Tanaka's attitude were, however, not obvious. He certainly seemed to be in favour of a new coordinating agency, for as recently as October 1973 he had expressed dissatisfaction with the slow administration of aid and had demanded in Cabinet that yen loan agreements and the progress of disbursements be reported to him directly.⁵³ There may have been more immediate issues in his mind, however, since he was apparently keen to press ahead with economic cooperation to Brazil, and his pending visit to Southeast Asia in January 1974 demanded some kind of aid policy initiative.⁵⁴

Tanaka's decision in late December to institute the new post for a minister for economic cooperation was unexpected, although the idea itself had been raised before by Minato. It is possible that the success of Miki Takeo's trip to the Middle East between 10-28 December 1973 as Special Ambassador encouraged Tanaka, for some of his statements about the Foreign Minister's load indicated that the burdens of that office should be lightened.⁵⁵ The MFA, however, had always opposed the

recommendation on the grounds that, unless the minister was a junior or assistant minister, the position of the Foreign Minister could be compromised, but legislation which lent support to Tanaka's wishes was already before the Diet. It had been presented in February 1973 and, although still pending in December, provided for a system of Cabinet Councillors (naikaku sanyō) to assist in high level policy, including economic cooperation. They could have acted as advisers to the new minister.⁵⁶

The proposal for a minister was obviously unworkable. Not even his responsibilities were clearly delineated and one newspaper described the position as "pathetic".⁵⁷ The lack of detailed preparation suggested that Tanaka used the plan successfully to force MFA agreement on the agency question, while Fukuda and his fellow ministers took the opportunity to undercut Ōhira, who was then regarded as the likely successor to Tanaka.⁵⁸ Tanaka was able to publicise both initiatives during his trip to Southeast Asia in January 1974, but allowed the bill to create a ministerial post to be quietly shelved. The bill was presented to the Diet separately from that providing for a new Minister for National Development (contrary to the earlier ideas of the Cabinet Secretariat),⁵⁹ and was still on the notice paper, undebated, in 1976.

Drafting the JICA Legislation: Conflict and Compromise

The compromise between bureaucratic and political interests suggested an uncertain future for the new agency. Guidelines for its tasks, for the distribution of control over it between ministries and for its relations with other aid financing bodies, were only outlines, but officials acted swiftly to prepare legislation to be introduced at

the forthcoming 72nd Diet session.⁶⁰ At the suggestion of the Deputy Director of the Cabinet Secretariat, Kawashima Hiromori, a small team was set up in the Foreign Minister's Secretariat, headed by Yanagi Kenichi, Director of the Economic Cooperation Bureau's First Technical Cooperation Division. It began work on 4 January 1974 on the first draft of the proposed bill, which was to be used for inter-ministerial negotiations at a higher level.

Subsequently a senior drafting committee was formed in the Councillors' Office of the Cabinet Secretariat with a strictly limited membership. Because of the controversy surrounding the legislation, members were restricted, by Prime Ministerial directive, to the relevant bureau directors (or their equivalent) in the responsible ministries. The chairmanship of this group fell to the Director of the AMA's Administrative Management Bureau, Hirai Michirō.⁶¹

This was an unusual appointment, but one of significance to the early resolution of drafting problems. Legislative work in the Councillors' Office usually came under the jurisdiction of the bureaucratic appointee to the Deputy Directorship of the Secretariat,⁶² but Hirai was well acquainted with the problem in his capacity as the officer in charge of the oversight of administrative reorganisation. Whether or not he was the Prime Minister's own choice,⁶³ he was a neutral chairman. Nevertheless, his status as an AMA official meant that his authority over the committee was legally tenuous and he had to rely primarily on persuasion to effect changes in the draft of the bill.⁶⁴

The Hirai Committee was small, very powerful and designed for quick and effective policy work. This was important since time was at a premium, and many of the problems associated with JICA in 1976 were a

consequence of truncated committee deliberations. January-February 1974 was a period of intricate legislative work and continued bargaining, conducted both formally within the Committee and informally between desk officers in the ministries. The lines of argument were explicit from the outset. The problem was how to reconcile the short-term objectives of MITI and the MAF with the MFA's longer-term conceptions of Japanese economic cooperation. As it turned out, the serious disagreements were not about relations between Japan and the developing countries but were determined largely by domestic factors, as some observers had predicted.⁶⁵ The time available for drafting was short and the protagonists were set in their aims. Debate was heated and the unsatisfactory compromises reached in the JICA bill were testimony to the confrontation between entrenched ministry positions.

Several issues stood out, namely the scope of agency business, administrative control, and the relations between the agency and the ministries, other agencies, and private enterprise. The broad structure of the agency had been decided at ministerial level, and technical cooperation managed by the former OTCA would be incorporated in the work of a number of departments, as would the functions of the JEMIS. The Japan Overseas Cooperation Volunteers was retained as a separate organisation as it was under the OTCA. Only those JODC operations relating to agriculture and mining and industry were included, and new departments were to be set up for them.

Dispute between ministries arose especially in regard to Article 21 of the bill dealing with "Scope of Business", particularly paragraph 1.3, which detailed the "new functions" of the agency - the provision of loans for overseas development projects.⁶⁶ This new duty was a direct result of the original MAF and MITI plans for undertaking

overseas resource projects, but all ministries wanted to use the article to expand or defend their own jurisdiction in aid affairs. The final wording of the article was confusing, imprecise and severely limiting in scope.⁶⁷

It was decided that the new agency would provide loans only when the Eximbank or the OECF made loans to or investments in the project and when finance could not be obtained from those bodies for some components of the total project. These conditions were designed to protect the interests of the Bank and the OECF and to prevent any restriction of their funding.⁶⁸ JICA was limited specifically to financing "related facilities ... concomitant to development projects" and "experimental projects". This provision has since caused misunderstanding about which projects can be supported, a consequent scarcity of projects and slow disbursement of available JICA loan funds. JICA had to wait for OECF or Eximbank participation, but could still only finance the fringes of a project, the "related infrastructure", such as roads and bridges associated with large construction sites.

The Committee also opened the way for the agency to undertake feasibility studies by agreeing that it could carry out surveys and technical guidance necessary for JICA projects, but one of the main controversies concerned the sectors which these "related infrastructure" and "experimental projects" would include. Agriculture, forestry, mining and industry were the first and most obvious areas agreed upon, but the current JICA Law also included the objective of cooperation in "social development", that is, "culture, transportation, communication, health, living environments, useful for the promotion of the welfare of the inhabitants in developing areas" (Article 21.1.3 (a)). This, as

we shall see, was the outcome of pressure from ministries not included in the Committee.

Another dispute within the Hirai Committee related to supervision of the agency and to consultation between ministers over jointly controlled functions. Each ministry was determined to exact maximum benefit from the discussions and, once again, the resulting compromise was a classic example of bureaucratic competition taking precedence over common sense. The Chairman had to take his efforts at coordination to vice-ministerial level before agreement could be reached.

There was a long-standing conflict between the MAF and MITI⁶⁹ about the extent of their existing authority and how this impinged on the agency's new financing provisions. MITI insisted that trade extended into the agricultural development aspects of JICA's work, but the MAF countered by claiming that it was the relationship of development to food policy rather than to import policy which was pertinent. The MFA was keen to extend its powers of supervision into all areas. This appeared in its desire to control the development survey work of the agency, although the MAF and MITI opposed this. The Committee realised that surveys carried out on a project basis would overlap the boundaries of all three ministries, and therefore surveys became a "joint jurisdiction" (kyōkan). By 1976, there was a tangled series of procedures for budget approval and for implementation of surveys.

The Law (Articles 42-43) stipulated that the Minister for Foreign Affairs had to consult the Minister of Finance on all financial and accounting matters and the Ministers of International Trade and Industry and Agriculture and Forestry on all business connected with their respective functions. The latter two ministers had equal

competence with the Minister for Foreign Affairs in respect of development financing. Even where the Foreign Minister was the only competent minister (as in ordinary technical cooperation), the system of mandatory consultation enforced restrictions on him or on his officials in making policy and set up a continuing cycle of claim and counter-claim in jurisdictional disputes.⁷⁰

Debate also occurred on what shape the executive structure of the agency should take, for this had serious implications for ministry influence regarding its daily administration. At first a chairman-directors (kaichō-riji) format, similar to many existing statutory corporations, was considered, but it made a balance of representation difficult to achieve. The chairman would represent the controlling ministry (the MFA),⁷¹ while MITI and MAF interests would be given only directorships. To place both on an equal and elevated footing, the alternative of having a president and two vice-presidents emerged as the most appropriate and was incorporated in Article 8 of the bill. Settling on the number of directors, however, proved a more complicated problem. The large number of ministries and agencies which demanded a place meant that, instead of the usual three or four directorships for a statutory body, twelve were assigned to JICA.

Once these issues had been resolved within the Committee, the LDP's PARC Deliberation Commission considered the bill for approval before it went to Cabinet.⁷² At this opportunity, however, other ministries and their supporters in the Party forced changes in the financing functions of the agency. There seems to have been a delay of a week over the timetable envisaged for the bill in late January. Newspapers on 27 January reported that the bill was drafted and would be approved by Cabinet on 8 February. While there was no mention of

the "social development" aspects of JICA's work at this stage, however, by 7 February they had been included.⁷³

Ministries with minor economic cooperation programs, excluded from the Hirai Committee - Construction, Transport, Posts and Telegraphs, Welfare Ministries and the Science and Technology Agency - wanted to participate in the work of the agency but had to wait until this late period in drafting to put their view. Their arguments were about the sectors which the agency could finance, and about the meaning of "infrastructure" financing and the relation between it and lending to actual industries or projects. The LDP Deliberation Commission advanced the case, on behalf of the ministries, that "international cooperation" meant much more than assistance to infrastructure projects in agriculture, mining and industry. Consequently, the concept of "social development" was introduced in the body of the draft.⁷⁴ There was insufficient time to resolve doubts about precise interpretation of the concept, or to make substantial changes to the wording of the bill (such as in articles referring to jurisdictions), so JICA's confused functions stemmed partly from this late interference in decision-making already hurried and tense.

The relationship between agency financing and investment by private enterprise was also raised. The Hirai Committee had determined that, in principle, the agency would not finance projects where private firms were in a position to make a profit, and that projects undertaken on a largely private basis should be financed by other institutions, such as the Eximbank. JICA was to support projects, or areas of projects, with an extensive public or "social capital" content. This was neither entirely what the MAF had wished for, nor what Tanaka had envisaged.

In respect of private firms, however, the Law remained equivocal. The OECF and the EPA argued vigorously to ensure that JICA was prevented from financing foreign governments directly, so that the OECF was not cut out of implementing future government loans, but no clause was placed in the bill to define who should receive agency funds. It was left to inter-ministry memoranda to stipulate that only Japanese companies could receive JICA loans,⁷⁵ and therefore, while the aim of the original drafting committee was to avoid links between JICA and private enterprise, the agency was restricted to offering finance to Japanese companies or to persons engaged in development projects overseas. Furthermore, no criteria were established to measure the public benefit of such projects. JICA operations were thus severely curtailed, in two ways. It could finance only "related facilities" or "experimental projects" (and needed associated OECF or Eximbank funding in the former) and had to depend on private enterprise investment decisions before it could become involved in either.⁷⁶

In all, MAF, MITI and MFA conceptions of economic cooperation were not reconciled in JICA, and the effectiveness of JICA as a financing agency rested primarily on the initiative of private businesses. The scope of JICA operations was still unclear in 1976 and arguments between ministries over jurisdictions prevented the smooth implementation of agency programs, as we shall point out in detail in Chapter 5. While, initially, political pressures forced a compromise in the budget context, further political interference in finalising the new agency's structure and responsibilities only complicated the agency's tasks.

The Diet Debates

After five weeks of Committee bargaining, Cabinet ratified the JICA bill on 15 February 1974. It was presented to the Diet on 18 February, passed by the House of Representatives on 14 May after deliberations in the Foreign Affairs Committee, and by the House of Councillors on 27 May. It was promulgated as Law No. 62 of 31 May 1974.

By the time the bill reached the Diet, basic organisational questions had been settled.⁷⁷ The capital of the agency was set by Article 4 at ¥4 billion and, with the funds of those agencies taken over (the OTCA, the JEMIS and part of the JODC) added, initial capital totalled ¥22.4 billion. The budget for 1974, consisting of operational expenses and capital transferred from the 1974 budgets of the absorbed agencies plus a new budget for the agency, amounted to ¥27.37 billion. Staff were to number 900-1000, including 500 from the OTCA, 420 from the JEMIS and about 100 to be recruited from ministries to work in the new financing and survey departments.

The Japan Socialist Party (JSP), Japan Communist Party (JCP) and Kōmeitō all opposed the JICA bill, although their opposition never endangered its passage through the Diet. The objections were predictable: criticism of the overseas expansion of Japanese capital as represented by JICA and the neocolonialist nature of resources development projects. The Kōmeitō differed slightly with its emphasis on human rights, which, it claimed, Japan's economic cooperation failed to protect. The Democratic Socialist Party (DSP) supported the bill.

While the debate on the bill was one of the most comprehensive on foreign aid held by the Japanese Diet, it excited no passions.

Nevertheless, some issues were discussed at length: the relationship between the new agency and the bill for an economic cooperation minister; the control of the agency; resources development and development import; JICA and private firms; and the administration of Japanese aid as a whole. Much of the criticism of the agency and of the proposed minister was levelled at the increased powers which could pass to the Prime Minister and arose from doubts about his personal motives.⁷⁸ An LDP member, Ishii Hajime, alleged that agency supervision was too involved and that the new organisation would quickly lose its administrative efficiency.⁷⁹ He considered that there were too many areas of joint control, too many directors and too many officials transferred from the ministries. One Kōmeitō member, Watanabe Ichirō, even called JICA a "freak".⁸⁰ Charges that employment conditions varied between sections of the staff were pertinent, for there had not been time for the drafting committee to sort out the details of combined ministerial control of the agency, let alone inconsistent staff salaries and conditions.⁸¹

The most extensive part of the debate was on the concept of "development import" and on the degree of JICA involvement. The discussion revealed differences between the MFA and the MAF concerning how far development import should be pursued and about the relation of development import to domestic food policy, and also some hasty justification by Government witnesses for those JICA functions which resembled development import. They were differences which had existed since the MAF first requested an agency in 1972 and were evident in the MAF emphasis on the work of JICA as an adjunct to agricultural and food policy centred primarily on increasing Japanese self-sufficiency.⁸² The development aspect of the agency's work was of secondary importance to

the MAF, whereas it was a high priority for the MFA, even though it saw no objection to development import accompanying bilateral economic development cooperation. In the testimony of MFA officials, however, it became clear that JICA would not be restricted to work in developing countries but that Australia was, among others, a likely target for development finance. This admission tended to support opposition claims that JICA aimed above all to develop resources for Japan's benefit and detracted from the MFA emphasis on the development impact of the new agency.⁸³

Despite its length, the debate did not reveal familiarity of Members with aid or with development arguments. Criticisms of Japanese aid and aid administration repeated the well worn complaints of poor performance and lack of coordination and basic policy guidelines.⁸⁴ Some censure arose of the fact that loans were to be made to Japanese companies, but it was not driven home with any conviction. Answers by Government witnesses were bland and repetitive, composed from a comprehensive set of questions and responses prepared by the MFA Economic Cooperation Bureau.⁸⁵ There was no extended debate on control of agency business by the ministries or on the relationship between JICA and the OECF or the Eximbank.⁸⁶

Questions by the Opposition parties were not penetrating and tended to be set-piece performances aimed at scoring parliamentary points rather than at producing a coordinated attempt to take the Government to task on its policies. The debate was dull and inconclusive and failed completely to solve any of the glaring problems within the JICA bill. The Diet was ineffective in the formation of JICA.⁸⁷

Choosing Personnel

The choice of candidates for executive positions was settled unofficially in May, after the bill had been passed by the Diet. The Nikkei of 30 April commented that the MFA, MITI and the MAF were competing strongly for the available executive posts. It seemed that one directorship and one auditorship (kanji) would go to representatives of the MOF, but that the MFA was working hardest to secure positions in the agency. It needed to find jobs for the executives of the two organisations under its control which had been abolished (the OTCA and the JEMIS) and because traditionally the MFA had few posts available to offer its retiring senior officials. Naturally it wanted to increase these opportunities.

These were plausible reasons. The MFA did not have the scope which home-based ministries, such as the MOF, MITI or the MAF, had for placing retiring officers in semi-government or private organisations. Some had argued that the MFA saw JICA from the outset as a rich pasture for its "old boys", although as it transpired the balance achieved between ministry appointees was a very fine one and the MFA gained no particular advantage.

It was never certain during the drafting of the bill that the position of president would go to an official, even one from the MFA. Some politicians and businessmen wanted a non-government candidate, as Nakayama Sopppei, the former president of the OTCA, had been. It was Nakayama himself, however, who opposed this idea, by stressing that more than a figurehead was required. Officials agreed that a working president was essential to the success of JICA and that an experienced bureaucrat would be the best qualified. At this point, it appeared probable that the top post would go to an MFA choice.⁸⁸

Three men, Hōgen Shinsaku, Asakai Kōichirō and Mori Haruki,⁸⁹ seemed the most likely. Asakai and Mori were both well versed in aid. The former was an adviser to the Foreign Minister and a director of the Bank of Tokyo, while Mori was Ambassador to Great Britain with extensive experience in economic cooperation, including a period as Japan's first Ambassador to the OECD. Of the three, Hōgen had the least experience in economic cooperation and aid,⁹⁰ but he had been forced to resign from the vice-ministership only a few months before the JICA presidency became an issue. Before he left office, he had discussed possible candidates for the JICA position with Mikanagi Kiyohisa, Director of the Economic Cooperation Bureau, and with Katori Yasue, Director of the Minister's Secretariat, but at that stage was not in the running himself. In April, however, Katori suggested that the recently dismissed Hōgen be offered the job and both Ōhira and Tanaka agreed to this by mid-May.⁹¹

JICA executives were formally chosen on 31 July 1974. Hōgen became President while the Vice-Presidents were Hisamune Takashi, Director of the Overseas Fisheries Cooperation Fund and a former Director of the MAF's Economic Affairs Bureau, and Inoue Takeshi, director of an engineering firm and a former Director of MITI's Economic Cooperation Department. This balance at the top of the executive structure was maintained throughout. The demands of the abolished agencies were met by the appointment of four former directors and auditors from the OTCA, four from the JEMIS and one from the JODC. Of the total of eleven directors and three auditors, six were former MFA officials or belonged to agencies under its control, one previously worked in the MOF, two in the MAF, two in MITI, one in the Ministry of Construction and one in the Ministry of Posts and Telegraphs, while one was a former member of the

House of Councillors.⁹²

Staffing of the Agency was straightforward, but also reflected care in weighing ministry interests. OTCA, JEMIS and JODC staff were moved across and others were transferred from the MFA, the MAF and from MITI. Different departments of the new Agency came under the influence of their responsible ministries. While Emigration, Training and Medical Cooperation Departments took in staff from the JEMIS and the OTCA, the new departments had new personnel. The General Affairs Department was headed by a former official of the MFA, Personnel Department by an OTCA officer, Mining and Industry Departments by men from MITI, Agriculture Departments by officials from the MAF, and the Social Development Cooperation Department by a former officer of the Ministry of Transport. MOF influence in the Accounting Division was said to be strong, especially since it reported to a director who was a senior official of the International Finance Bureau before his appointment to JICA.⁹³

The New Agency

Public appraisal of the Agency was predictably generous, but the problems thrown up by JICA's troubled birth could not be, and were not, ignored. The new Foreign Minister, Kimura Toshio, saw JICA making up for the "insufficiencies of the implementing machinery" and providing links between technical and capital cooperation,⁹⁴ but Nakayama Sopppei, immediate past President of the OTCA, was not as optimistic:

The merging of a number of aid agencies into one has no significance unless it results in better and more effective development assistance. I encountered difficulties arising from the Government's vertical division of responsibilities even when I was managing only one agency, the OTCA. Now that the new Agency's scope of activities has been broadened much beyond that of the OTCA, I think the difficulties are likely to be even more acute.⁹⁵

The new President, Hōgen Shinsaku, was consistent in his desire to use the Agency to pursue the economic development and well-being of the developing countries. At the same time, he appreciated the restrictions arising not only from within a new body but also from the environment of the aid bureaucracy as a whole. "It is necessary", he said, "to build unity within the new Agency as quickly as possible, but it is silly to think that this can be done immediately ... we must be patient".⁹⁶

Other commentators were less considerate. MAF officials remarked, both in print and in private, that the Agency once in operation was not what they had expected, because JICA's capacity to harness technical cooperation to development financing was not effectively exploited. In terms of bureaucratic influence, however, the MAF benefited from JICA's creation, since its share in the Agency's administration brought the MAF closer to the centre of Japan's aid bureaucracy. Although this did not lead to participation in the making of government loans policy, it was nevertheless a foothold in what was to become a far more active side of Japan's aid program.

The MFA also fared well, by securing majority control of JICA, even though it had not set out to do so and had originally opposed the very notion of another government aid organisation. MITI, however, lost one of its subsidiary agencies (the JODC) and won little more influence over JICA than it had had over the OTCA.⁹⁷ It had to be content with new development financing facilities.

Conclusion: JICA and Policy-Making

From several conflicting perceptions of the purpose of the agency there emerged a body which satisfied few, if any, of those original goals, for its final form was not a result of any considered decision-making process. In the end, haste typified the behaviour of politicians and officials alike and the style of decision-making helped determine the agency's character and structure. Once the rival MITI and MAF proposals became budgetary problems, debate between lower level officials - until then largely in terms of policy - took on political significance. The policies of other bodies, notably the AMA, became crucial to the final outcome and discussion centred on the merits of combinations of existing agencies rather than on the benefits of JICA as such.

Five characteristics of the decision-making process affected the kind of decision which was made:

- (a) The pursuit of policy questions through the budget process was normal bureaucratic procedure, but one where rivalries went unchecked and resolution was impossible in policy terms.
- (b) The resulting impasse was removed only by political pressure because it involved administrative reorganisation at a time of fiscal difficulties and because powerful ministries were ranged against one another. Two men in particular, Tanaka Kakuei and Minato Tetsurō, were influential, although they had opposing motives. The former was interested in immediate political and diplomatic gains, whereas the latter looked to the qualitative effects on Japan's aid policy.

- (c) Limited participation in the political decision and in legislative drafting enabled a conclusion to be reached swiftly and conflict to be contained. Compromise was easier and the problems and options restricted. Only a few politicians were actively interested and LDP factions were not involved, except informally in the coalition of Fukuda, Hori and Kuraishi.⁹⁸ The relevance of high level committees to abnormal policy situations was clear.⁹⁹ When participation widened, however, and the LDP and other ministries interfered, priorities became confused and the draft legislation suffered as a result.
- (d) Timing had a marked effect on the outcome. Two years of preparation by the MAF ended in a political decision which took one week and in drafting which lasted one month, when completely new options were raised and adopted without detailed consideration. The deadline for the budget decision and for the presentation of the bill to the Diet left no opportunity for ironing out the conflicting interpretations of the functions of the agency.
- (e) This was linked to the fact that perceptions of the policies and the issues in the whole JICA story never met. Decisions were made on temporary compromises between completely divergent sets of principles, bureaucratic interests and political purposes.

Some of the serious bureaucratic and political conflicts lay in interpreting the Law itself. The entire future of the JICA role in development financing depended on the meaning of "related facilities"

and "experimental projects" in Article 21. The relations of JICA with the OECF and the Eximbank also depended on that interpretation. At the time, it was suggested that the exact meaning of "related facilities" could only emerge with the practical application of the idea to actual situations. A "case-by-case" approach would need to be adopted.¹⁰⁰

The six-weeks' effort of the Hirai Committee could not possibly have made the Law sufficiently precise and the history of the creation of JICA needed to be appreciated if the boundaries of JICA responsibilities were to be properly defined.¹⁰¹ The operational problems inherent in a structure like that of JICA were apparent from the outset and the Japanese aid system bore witness to that predicament.

CHAPTER 4

AID AND THE GOVERNMENTAL PROCESS

Administrative structures for aid policy were in the late 1970s a small, though scattered, part of the Japanese national government. There had been considerable growth in certain sectors of the aid bureaucracy, but this did not add up to massive growth. There was no separate aid agency as in other large donor countries (United States, Great Britain, West Germany) and in April 1977 eleven ministries, five agencies and the Prime Minister's Office had authority over different aspects of the Japanese foreign aid program.¹ There was no single minister responsible for aid, but three ministries and one agency, the MFA, the MOF, MITI and the EPA, dominated policy formulation. It was these organisations and their implementing agencies, the Export-Import Bank of Japan (Eximbank), the Overseas Economic Cooperation Fund (OECF) and the Japan International Cooperation Agency (JICA), which managed foreign aid.

This chapter will examine aid in the national government context, to assess administrative and systemic definitions of aid policy. It is possible that organisational processes provided a clear picture of the interaction of aid with broader policy areas, although ministry views of aid (seen in Chapter 1) and ministry rationales for expanding aid administration (Chapter 2) expressed primarily a concern for more generalised foreign economic policy. As Chapter 3 demonstrated, aid as a concept and as a policy was extremely vulnerable to the vagaries of domestic politics. So varied were perceptions of aid that the boundaries of aid policy seemed very broad indeed, and some critics wondered if there were a definable policy for aid at all.²

Aid Within Government

John White, in his study of the politics of foreign aid, concluded that the makings of an aid policy lie within "the rather narrow institutional environment" in which aid institutions operate, that people, rather than agencies or governments, determine the forces which allow policy to evolve, in a continuous and cumulative process.³

While the aid administrator's immediate working environment may be narrow, the pressures on him are not. He is torn not only between the recipient's demands for aid on improved terms and the restrictions of available domestic resources, but also between the desire to serve the developmental objectives inherent in any aid policy and to accommodate aid with competing domestic policy interests. There is a constant tension about aid policy and a continual search for a new balance between aid and the other, often more pressing, duties of national government.

Administrative machinery for the management of a donor's aid policy usually rests uneasily in the national government structure, for several reasons:

- (a) Aid is a curious and, in many ways, unique policy area. While the indirect benefits to some segments of society (such as exporters) may be considerable, the primary reason for the existence of an aid policy lies outside the donor country and the direct beneficiaries cannot normally participate in the policy process.⁴ Nevertheless, although aid ostensibly caters first to an overseas clientele, domestic interests are well served and channels representing them are well defined. As later chapters will show, foreign aid can be cited as a prime

example of a policy significantly affected by domestic structures.⁵

- (b) Administrative structures for aid policy-making and implementation are never wholly independent. Their place in the national bureaucracy does not represent a position of strength, for their own raison d'être is external to the system and their domestic power is set within constraints provided by other relevant ministries and agencies. They have no power base of their own and the more dispersed the aid administration, the more acutely obvious this becomes.⁶
- (c) An aid agency, as John White puts it, "has no natural allies, for whom the agency's activities are of vital concern, within the national political frameworks of the donor countries".⁷ In addition, the allies it may attract at any time rarely combine or coordinate on behalf of the agency or its objectives. In Japan, in contrast to Great Britain, there was no "aid lobby", no group of committed aid advocates among the government and the general public.⁸ Support for foreign aid at home came more from perceptions of self-interest than from a sense of dedication to Third World development.

Aid and the Ministry Environment

Aid policy was, of course, a function of the Japanese government. The aid administration lay within the national bureaucracy, a system bound by tradition and popular myth and which was always active in social direction.⁹ In the 1947 Constitution, civil servants were deemed "servants of the people", in keeping with the democratic aims of

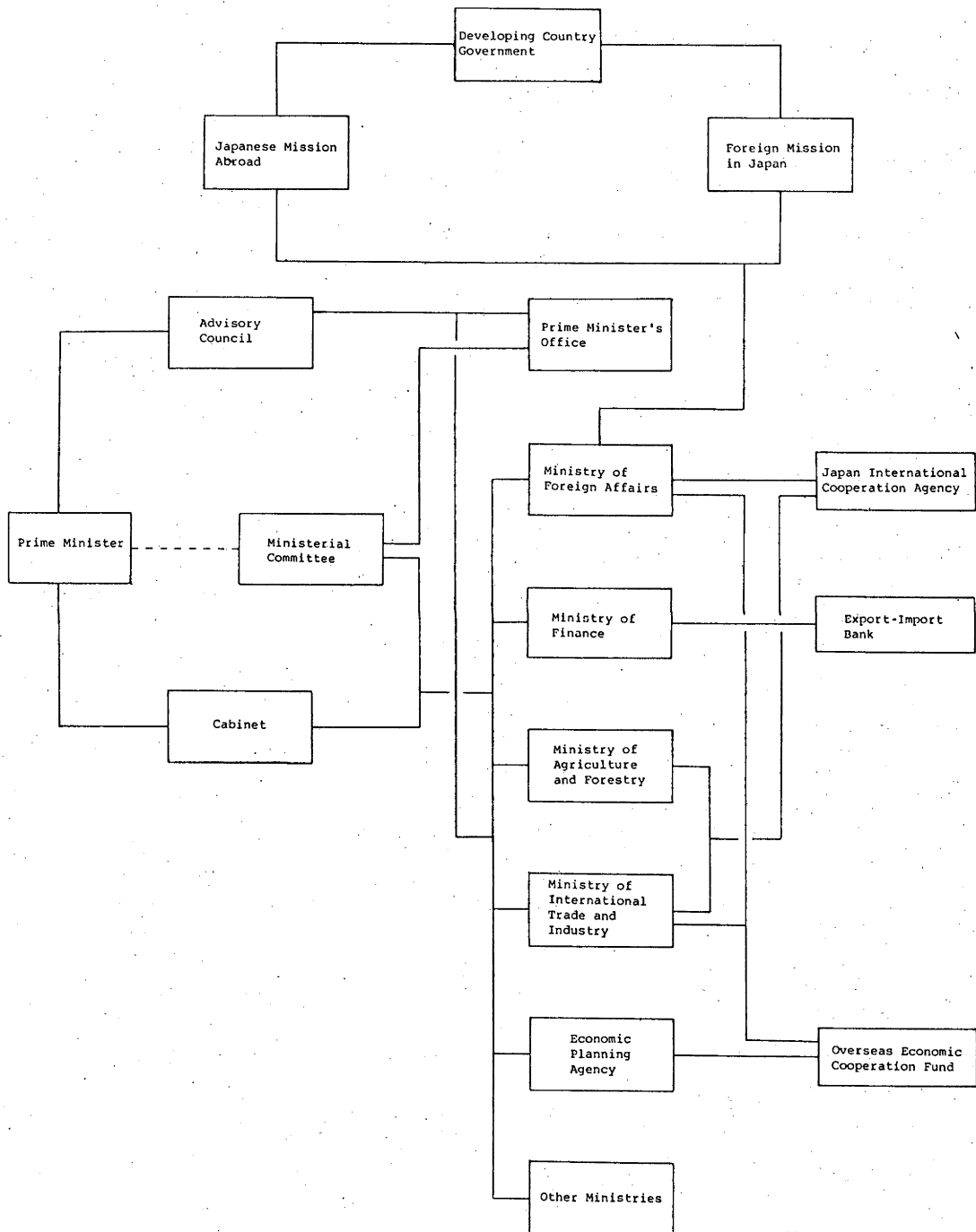
civil service reforms, but this restructuring failed to affect many informal operations of the government machinery.¹⁰ The élitist sentiments expressed by and about bureaucrats exemplified the strength of convention. In this vein, a career in the MOF was regarded as the pinnacle of achievement, so much so that the image of the MOF in the popular mind was equated with supremacy in policy-making.¹¹

Ideas of élitism, however, did not of themselves bring power in government. In foreign aid, the MOF was one among many, although its control of budgets often gave it principal leverage in inter-ministry discussions. Likewise, the MFA's traditional exclusion from the domestic political round¹² was not matched by the realities of the foreign aid policy field, where the MFA was often a leader in the domestic policy-making process.

The hierarchies of parliamentary democracy in Japan, where executive power extended from the Prime Minister and his ministers to the ministries and their attached agencies, applied equally to aid as they did to other policies (see Chart 4-1). Official advice on aid was provided by an advisory council answerable to the Prime Minister and top level coordination was (until January 1977) attempted by the Ministerial Committee on Overseas Economic Cooperation. In theory, policy implementation bodies were distinct from ministries but, in practice, the divisions were blurred. The relationships between Cabinet, the ministries and their agencies were formalised in a series of administrative laws and regulations, beginning with the National Constitution and extending to the Cabinet Law, National Administrative Structure Law and ministry establishment laws. No foreign aid legislation defined Japan's aid objectives or methods, although such laws were introduced in the Diet on occasions.¹³

CHART 4-1

JAPANESE AID ADMINISTRATION: FORMAL OUTLINE



Note: The Ministerial Committee was abolished in January 1977.

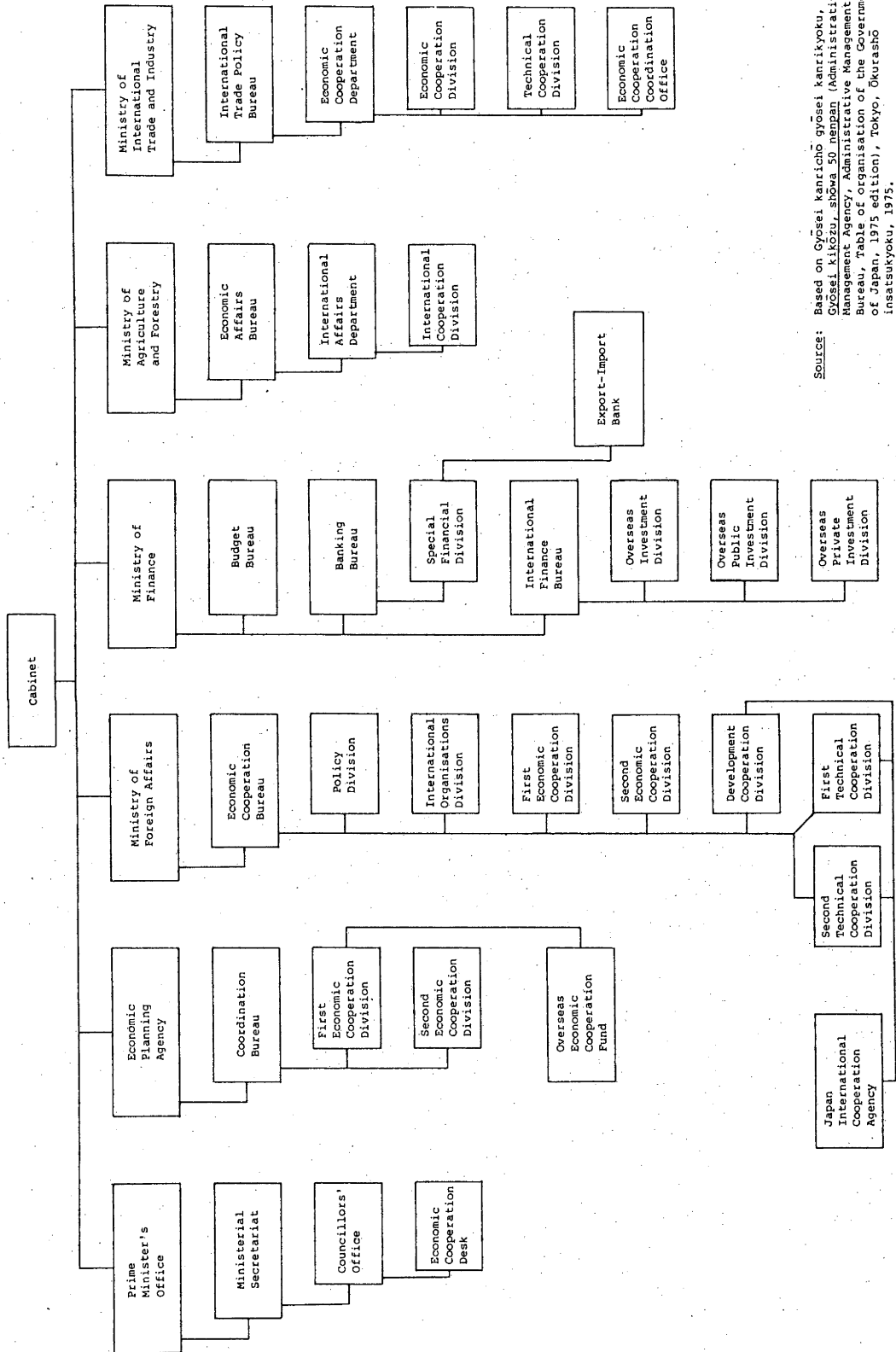
Source: Ministry of Foreign Affairs, *Japan's Economic Cooperation*, Japan, 1976, p. 23.

The tasks of each ministry were defined in ministry organisational ordinances, although usually in vague and pro forma language. As can be seen from Chart 4-2, the MFA Economic Cooperation Bureau was the largest aid section of any of the ministries. It had seven divisions and dealt with most aspects of foreign aid policy: loans, grants, technical cooperation and multilateral aid. It also had a responsibility for general policy planning, although only as far as that was possible within the constraints of Japan's single-year budgeting. The power of the MFA in aid policy sprang from its broad authority, its ability to gain an overview of aid policy as formulated and implemented, and from its management of Japan's foreign relations, of which aid was a vital, and often the most telling, component. It was the official "window" for all Japanese aid business, a function which it jealously guarded.

Other ministries positioned aid divisions closer to their primary policy bureaus. Within MITI, the Economic Cooperation Department was part of the International Trade Policy Bureau and it was intimately associated with the regional and bilateral trade policy areas of the Bureau. The Department's two divisions were concerned with economic and technical cooperation respectively, as they affected trade, which meant that MITI's aid work overlapped that of the MFA in two domains, technical aid and loans. MITI's influence in aid policy remained strong because of the continued relevance of the past. For twenty years, aid and commercial policy had been closely interrelated, and MITI had become one of the largest and most powerful of the domestic ministries because of its direction of Japan's postwar industrial and trade growth.

This system of "equal partnership"¹⁴ was a delicate arrangement of checks and balances, where formal jurisdiction was not

CHART 4-2
THE STRUCTURE OF JAPAN'S AID ADMINISTRATION 1976: THE MAIN MINISTRIES



Source: Based on Gyosei kanchi chō gyōsei kanrikyoku, Gyōsei kikōzu, shōwa 50 nenpan (Administrative Management Agency, Administrative Management Bureau, Table of Organisation of the Government of Japan, 1975 edition), Tokyo, Ōkurashō insatsukyoku, 1975.

always matched by real authority, where the MFA relied on its expertise in international affairs to offset the weaknesses in its domestic power base, and where a Ministry of Trade was at the same time a Ministry of Industry, using both sets of powers in domestic policy-making.¹⁵ Likewise, the MOF's presence was double edged, being concerned both with aid in the budget context and with aid as a tool of international monetary policy.¹⁶ The three Overseas Investment Divisions in its International Finance Bureau had jurisdiction in government loans, multilateral aid and private investment. The Budget Bureau contained an Economic Cooperation and Foreign Affairs Desk which assessed all budget requests for aid, while the Banking and Financial Bureaus were also involved in supervising Eximbank and OECF affairs.¹⁷

Other powerful ministries, such as the MAF, had an increasing interest in aid policy, but the MAF's aid function remained restricted to technical aid rather than capital assistance. In 1976, the MAF was still excluded from formal participation in loans policy, despite its prestige in domestic politics. This was because aid, until the early 1970s, had been regarded as peripheral to the first objective of the Ministry - the promotion of domestic agriculture.

The EPA was a minor force in the bureaucracy, even though it formulated national economic plans. The EPA participated in the aid administration because of its responsibility for the OECF, and its Coordination Bureau included two Economic Cooperation Divisions. The main task of the Divisions was enormous, the "general coordination of aid policy", but few took their contribution seriously. The EPA had no "voice" (hatsugenryoku), no philosophy of aid or concrete resources (buki) for policy-making. Any attempts at coordination were weakened by the ambiguous relationship between foreign aid and national

priorities and by the confusion between the competing components of the aid policy package.¹⁸

The weakness of the EPA was partly attributable to the control of its operations exercised by other ministries, especially by the MOF and MITI. This was the result of a long-standing system of transfer appointments (shukko) of ministry officers to select EPA positions: in the Coordination Bureau, for example, the Bureau Director usually came from MITI, the Counsellor (sanjikan) from the MOF and the Coordination Officer (chōseikan) from MITI, while the Division Directors were MITI (in the First Economic Cooperation Division), MOF or native EPA officers. Transferred officers also occupied positions below the division director level, and were typically career officers from the larger ministries gaining outside experience as part of their career development.¹⁹

Aid Within Ministries

As aid policy was accorded fitful recognition by the national bureaucratic structure, so aid sections were regarded differently within each ministry. The standing of bureaus within any ministry changed with the fortunes of the duties which they administered, but the status of the Economic Cooperation Bureau in the MFA, for example, was never firm. General perceptions of the importance of the developing countries in foreign policy were transmitted to aid, but in the MFA the European and American spheres were still the popular diplomatic domains. While it was acknowledged that Bureau experience was helpful to an officer, the prestigious diplomatic postings, with the exception of Seoul and Jakarta, were not to developing countries and there seemed to be no conscious policy of posting Economic Cooperation Bureau officers to developing

country embassies.²⁰

The Economic Cooperation Bureau was a backwater in the MFA in the late 1970s.²¹ Although established in 1962, it was considered a "new" bureau, not one of the traditional branches of MFA structure, and it did not greatly impinge on power relations within the Ministry. No Economic Cooperation Bureau Director had risen to the top of the Ministry,²² although in the late 1960s, when Japanese aid began to grow rapidly, some junior officers looked upon the Economic Cooperation Bureau as a useful base for rapid promotion.²³ The Bureau was, however, a functional one, to many merely for implementation rather than for policy-making, and Ministry custom perpetuated generalist thinking towards careers in the regional policy bureaus.²⁴ There were, as we shall see later, few aid specialists in the MFA and for certain structural reasons there was no explicit policy to develop an aid "service".

Aversion in the MFA to "on the ground" policy contrasted with the situation in the EPA. There the Economic Cooperation Divisions were close to the job (gemba), to the realities of policy, while the Agency on the whole dealt with macro-economic issues. This dichotomy appeared often in Japanese administrative studies.²⁵

The importance of aid sections within MITI and the MOF was defined in terms of administrative capability, perhaps in keeping with the more practical orientation of those organisations. MITI's aid divisions were called "special administrative units", possessing both strong intellectual and administrative resources.²⁶ It was acknowledged that Division Directors in the Economic Cooperation Department were able men with bright careers ahead of them, and it was said that being in

the Department was conducive to promotion. Strength was needed when the Department coordinated all aid related business in the Ministry.²⁷

Differences between bureaus within a ministry were more noticeable in the MOF, where the International Finance Bureau had long been poorly regarded. Being the international face of a closely knit and inward-looking Ministry, it was a "foreign cadre" which had always been considered somewhat special. Bureau consciousness was aggressive, despite regular movement of officials, and the Bureau was staffed with capable officers.²⁸

The size and rate of growth of aid divisions also reflect their administrative standing, although size alone does not suffice as a measure of quality. Table 4-1 shows fixed numbers of employees of the various bureaus for the period 1965 - 75 and actual numbers of employees in aid divisions within the ministries.²⁹ In the ten-year period there was no real expansion in the aid staff of the main ministries. Actual numbers in MITI and the MOF showed no increase over the decade (in MITI they in fact fell) and fixed bureau numbers dropped in both cases. In contrast, the EPA aid numbers increased slightly and the creation of a new division in 1972 did not, as was common in such reorganisations, draw staff from the First Division.

MFA staff numbers were fixed, although by Ministry decision and not by law. Employees in divisions whose functions did not change (Policy, International, First Economic Cooperation) showed a slight increase over the period, as did the number of technical cooperation staff, which benefited from a new division in 1972. Grant aid and reparations staff decreased as reparations were wound down and people transferred to other tasks. Bureau fixed numbers stayed almost

TABLE 4-1
STAFF OF AID DIVISIONS IN MAIN MINISTRIES, 1965-1975

	EPA			MOF			MITI			MFA			Bureau Total	(f)	(f)	(f)	Bureau Total				
	Cooperation 1	Economic Cooperation 2	Cooperation 2	Overseas Investment	Overseas Public Investment	Overseas Private Investment	International Finance Bureau	Total	Economic Cooperation/Policy Division	Capital Cooperation Division	Technical Cooperation Division	Technical Cooperation Division						International Organisations Division	Economic Cooperation 1	Economic Cooperation 2	Technical Cooperation 1
1965	8		52	15	14		159	15	16	15	279	2	10	8	13	24	23			13	93
1966	8		52	11	10	13	161	15	15	14	262	2	10	8	15	23	23			12	93
1967	8		52	12	12	13	164	19	17	13	260	2	10	8	15	21	23			11	90
1968	8		52	13	13	13	164	18	17	13	260	2	10	8	15	21	23			11	90
1969	8		51	13	12	12	162	18	16	14	257	3	10	8	14	18	23			10	86
1970	7		50	15	12	12	161	17	17	13	257	3	10	8	14	18	23			10	86
1971	7		50	15	10	12	159	18	16	13	255	3	11	8	14	18	23			10	87
1972	7	6	53	16	12	12	159	18	16	13	253	3	11	8	14	22	18	9			85
1973	7	6	54	15	12	12	157	24	13	13	194	3	11	8	14	22	20	9			87
1974	9	6	60	15	12	14	155	26	12	12	195	3	13	8	15	22	20	10			91
1975	9	6	59	12	12	14	155	26	12	12	195	3	13	8	15	19	18	10	8		94

Notes: 1. (a) refers to actual numbers of staff (jitsuin).

(f) refers to fixed numbers of staff (teinin), also called "establishment".

2. EPA: division numbers were taken from Agency sources and were as of 1 April (fixed by Agency policy). Bureau numbers were taken from Jimjin kanrikyoku shokkaika, Gyōsei kikan soshikizu (National Personnel Authority, Bureau of Administrative Services, Position-Classification Division, Organisational charts of administrative organs), various years, and were as of 1 July.

3. MOF: division numbers were derived from Ministry sources and were of 1 April. Bureau numbers were taken from Gyōsei kikan soshikizu, various years; and were as of 1 July.

4. MITI: division numbers were from Ministry sources, and were as of 1 April while Bureau numbers were taken from Gyōsei kikan soshikizu, various years, and were as of 1 July. "Bureau" refers to Export Promotion Bureau 1965-72 and International Trade Policy Bureau, 1973-75.

5. MFA: all numbers derived from Gaimushō keizai kyōryūkyoku, Kihō oyobi teinin no henshin (Ministry of Foreign Affairs, Economic Cooperation Bureau, Changes in structure and personnel), April 1976, and were as of 1 April. Numbers of divisional staff were fixed by Ministry policy.

the same, while regional bureaus and the Minister's Secretariat substantially increased their personnel, especially after the reorganisation of 1969.³⁰

Apart from the low political interest in aid in Japan, one factor which accounted for the static numbers of aid staff was the clear cut policy of the Administrative Management Agency and National Personnel Authority to limit bureaucratic growth. This was maintained by regular across-the-board reductions of staff, and even of divisions. Every year each ministry had to "hand back" to the Administrative Management Agency 5 percent of its positions. While it could demand new positions and most of the 5 percent were reallocated, they had to be for new functions. This enabled regular ministry reviews of their tasks and encouraged the transfer of old positions to new and emerging policy areas.³¹

Fixed numbers indicate those positions allowed within the budget framework but, as Table 4-2 reveals, there was considerable flexibility in staffing, for personnel in the MFA's Economic Cooperation Bureau in April 1976 totalled 134, 39 more than the number allocated in the budget. From the table we can see that the MFA's Economic Cooperation Bureau was not an isolated or "ethnocentric" bureau. Its fixed staff included 13 transferred from other ministries (Finance, Construction, Agriculture and Forestry, Home Affairs, Transport, Posts and Telegraphs), while officials were also seconded from ministries, banks and semi-government organisations. A number of these were technical specialists. The large discrepancy between fixed and actual staff numbers was regarded as a normal state of affairs in the bureau,³² although the gap was probably changing constantly.³³ The dearth of aid specialists in the MFA may have been one reason for the considerable

TABLE 4-2

FOREIGN MINISTRY ECONOMIC COOPERATION BUREAU: ACTUAL STAFF NUMBERS AS OF 1 APRIL 1976

Division	Fixed Framework			Outside Fixed Framework			Total	1976 Budget Staff Levels	Actual in Fixed Framework
	MFA	Attached to Bureau	Other Ministries	Other Ministries	Private Companies	Temporary Staff			
Bureau Director	4					1	5	3	4
Policy	15	3		1	1	2	22	13	18
International	8	1			2	1	12	9	9
Economic Cooperation 1	14	1		2	1		18	15	15
Economic Cooperation 2	13	3			1	1	18	19	16
Technical Cooperation 1	16			1	4	1	22	18	16
Technical Cooperation 2	13				1	2	16	10	13
Development Cooperation	6		3	1	3	2	15	8	9
Reparations Office		3	2			1	6		5
Total	89	3	13	5	13	11	134	95	105

Notes: Fixed framework (teinin taishō): Foreign Ministry pays the salaries of staff from other ministries in this category.

Outside fixed framework: staff seconded from other ministries, companies, etc., for varying periods. Temporary staff are female secretaries.

Source: Gaimushō keizai kyōryōkyoku, Genin shirabe, (Ministry of Foreign Affairs, Economic Cooperation Bureau, Staff survey), April 1976.

borrowing of staff.

Other ministries did not appear to have staff in excess of the figures quoted in Table 4-1, but within the MFA's Economic Cooperation Bureau, all divisions had outside personnel. Only the grant aid division, however (the Second Economic Cooperation Division), had a total lower than its fixed allocation (18 as against 19), a fact which did not altogether tally with forbidding descriptions of the Division's duties (see Chapter 5). The newly established Development Cooperation Division was the best equipped, with 15 in comparison to a fixed allocation of 8. This reflected the emphasis of policy on JICA and on its feasibility survey work, the supervision of which the Division was established expressly to carry out.³⁴ The Policy Division, the most important in the Bureau in respect of budgeting and the control of policy direction, had 22 staff members, but was matched by the 22 in the First Technical Cooperation Division which managed overseas technical assistance policy. Nowhere, however, was there a unit sufficiently large to attempt Bureau coordination, much less overall coordination of foreign aid. Neither were there sufficient personnel in the Policy Division to permit the development of country programs, a task to which the United States Agency for International Development, for example, devoted vast resources.³⁵

Other ministries did not possess the administrative muscle necessary for broadly based coordination. The EPA, which had a brief for it, only had an aid staff of 16 in 1976. The Councillors' Office of the Prime Minister's Office, which was suggested as an appropriate coordinator of aid policy, was even smaller, with only 4 men on the Economic Cooperation Desk.³⁶ The International Cooperation Division of the MAF's International Department was very large, with 49 persons, but

many of these were attached technical and other officers working on non-aid matters.³⁷ According to Table 4-1, aid related staff in the four major ministries totalled in 1975 only 183, whereas in 1965 they numbered 176. Even taking into account extra personnel recruited from outside, it is hard indeed to see how staff numbers over the decade after 1965 matched the increasing workloads represented by aid performance figures. The aid administration changed little in outward structure and secured only marginal additions to its staff resources.

Aid and Bureaucratic Behaviour

Aid did not exert a powerful bureaucratic influence in Japan; it was peripheral to the main purposes of many of the ministries which were part of the aid system. The daily operation of individual divisions, however, placed more immediate limitations on the aid program, since policy was managed by small, disparate groups of officials, between which the divisions were predominantly vertical.

Despite the traditional distinctions between bureaucracy and the rest of society, which were intensified by administrative legalism and by the entrenched social position of officials, Japanese bureaucracy was extraordinarily open in its methods, in a way which many Western systems were not. There was close and constant communication between administrators and their clients and a correspondingly heavy movement of officials and the public in and out of ministries every day. This reflected a social dependence on bureaucracy, a need for official approval and licensing of much daily business,³⁸ as well as certain cultural values which emphasised formality, ranking and procedure in social contact and their expression in face-to-face communication.³⁹ These social norms contrasted with patterns in countries like France,

where Crozier detected a preference for authority relationships and for systems in which impersonal inter-office memoranda replaced direct communication. For the highly decentralised foreign aid bureaucracy, the emphasis on face-to-face communication and personal ties assisted coordination; it helped people know what others were doing and thinking.⁴⁰

The lowest unit of formal organisation and the centre of routine policy-making, the division (ka) within a ministry, exhibited these characteristics most clearly in the late 1970s. A division's office layout rarely varied and structures of authority were indicated by the arrangement of desks.⁴¹ The accent on the unity of the division gave no concession to privacy and group consciousness predominated, consistent with patterns of Japanese social behaviour. Authority within the division was vested in the director (kachō), his deputy directors (kachō hosa) and in the various desk heads (kakarichō), but the division's size (usually 10-20) meant that the director himself could maintain constant contact with his officers.

Because the division was a close unit, effective management was necessary for the completion of tasks, and the personality of the director was decisive in the translation of authority into collective action. Communication between ranks within the division was easy, frank and constructive, because authority was not expressed, as Crozier discovered in France, in rigid strata isolation and the linking of separate ranks by regulations and orders, but rather in a creative aura which enveloped the group. The individual was part of a team which allowed him informal participation in decisions often outside the scope of his immediate responsibilities but which left him no room for independent action or initiative.

Despite stable authority structures within the division, however, harmony and consensus were not the norm. The division was the focal point for several underlying tensions which cut across integrative patterns of authority. The career system was one such factor which, while providing goals for the individual, threatened the order of the division. In relation to foreign aid, for example, career patterns had a distinct impact on policy-making.

Entry to the Higher National Civil Service and advancement within it were determined ordinarily by examination. The system of upper, middle and lower categories of examination operated as a streaming mechanism, channelling personnel into distinct career structures, where there were fixed upper limits to promotion and uniform rates of upward mobility. The numbers who passed the Higher National Civil Service examinations and entered the "career" officer ranks were very few, in 1973 only 639 out of 10,826 who passed examinations in all three categories.⁴²

Both career and non-career streams comprised generalist administrators and technical officers. Only those who were successful in the Higher National Civil Service or the Higher Foreign Service Examinations were eligible to become the highest officials in the national bureaucracy and so, in the ministries, senior officers (division director and above) were almost always generalist career officers who had moved upward at a fixed and steady rate,⁴³ with little open competition for advancement between them until the number of candidates began to outstrip available posts at the division director level.⁴⁴ Career officers were promoted much faster than were non-career officers and changed positions every two years or so; they moved from bureau to bureau and often to attached agencies or even to other

ministries, gaining wide and varied training in administrative affairs. Non-career staff, however, advanced slowly and spent long years in the same job in the knowledge that they would never achieve positions of power in the ministry, but at the very most might expect to be given a directorship of a minor division after 20 or 30 years' service.

These distinctions created tensions in the workplace and frustration among non-career officers at being isolated from higher levels of policy, particularly when they acquired specialised knowledge of the policy area in which they worked. There was, in fact, a severe imbalance between career structures and the need for expertise. Career officers received a very general training and often relied on non-career personnel for the knowledge of rules, precedents and internal divisional guidelines which was essential to much of the work of the bureaucracy.⁴⁵ The small numbers of career officers in ministries exacerbated problems of generalism, because effective deployment of career officers became very difficult and resulted in their being spread thinly across a ministry. In the case of the MFA, Fukui has shown how this resulted in "single-issueism" and policy-making by improvisation.⁴⁶

Foreign aid policy was seriously affected by the lack of specialist knowledge among senior officers. As Cunningham showed, specialists had to be active in the central management branch of aid agencies if their skills were to be fully exploited.⁴⁷ In Japan, however, technical experts were grafted uneasily onto the system and non-career officers, the most experienced lower level administrators in the ministries, were separated from policy decisions by inflexible barriers. The Japanese system did not cultivate aid specialists, and the one research officer (chosakan) appointed in 1975 to the MFA Economic Cooperation Bureau's Policy Division, was the first career

officer in what was normally a non-career officer's final appointment. MITI appointed a "specialist officer" (semmonkan) in 1976 but he was non-career. Obviously the career system prevented the promotion of career aid officers to a high level in the ministries.⁴⁸

The openness of the bureaucracy and the informality of discussion in its daily work compensated in practice for the rigidity of organisation and formal regulations. In the case of the MOF and MITI, for example, jurisdiction was defined in great detail and was, for all ministries and their bureaus, a source of perennial argument.⁴⁹ Informal and consensus oriented processes within the division also acted as a balance to the permanent divisions between officers caused by ascribed status rather than formal position.

More importantly for decision-making, the emphasis on the division as a group meant that the scope for initiative was limited to the extent which the group would allow. The division moved cautiously and reacted slowly to non-routine situations, especially when these demanded coordination with other divisions. The need to extract officers from the divisional environment to make up task forces to tackle crises or irregular situations, was well known.⁵⁰ The ease of vertical relationships within the division was offset by the problems of horizontal relationships between divisions. Jurisdictional argument notably began between divisions, because the unity of the division was derived from its group orientation and from its being the lowest organisational unit with legally defined existence and responsibility. Questions of territory were based both on organisational perceptions and on the psychological identification with the division.

The division as a group needed very well defined goals to perform effectively. As a united group it was a competent action team but without goals clearly expressed through the director, this momentum would break down. In regard to foreign aid, where clients were overseas and demands therefore less explicit, the budget cycle provided an alternative reference point for a division's work because deadlines were firm and duties explicit, although energies were devoted to the maintenance of current group activities, and creativity in developing new policy was rare. In foreign aid, inputs from sources external to the bureaucracy were commonly the cause of changing objectives or priorities and the diffuse Japanese aid administration provided ample opportunity for this infusion.

Advisory Bodies

One possible source of such initiatives or guidance for inter-divisional tasks would be the public advisory body. As a vehicle for outside advice to governments, it was common in many countries, including Japan, and displayed functions which, according to Harari, were both instrumental and systemic. Its policy guidance, legitimisation of government action or inaction or its co-opting of interest groups into the policy-making process, were always characteristic of Japanese government. A number of aid donor countries established permanent advisory boards to advise their governments on aid and related subjects. In Australia, the Development Assistance Advisory Board was created in 1974 to advise the Minister for Foreign Affairs, but ceased to exist in June 1977 when the Australian Development Assistance Agency was reconstituted as a bureau under the control of the Department of Foreign Affairs. Such bodies also existed in Austria,

Belgium, Denmark, Finland and the Netherlands and all had both government and outside membership except those in Denmark and the Netherlands, which were composed entirely of people from outside government.⁵¹

The Japanese government advisory body on foreign aid was the Advisory Council on Overseas Economic Cooperation (Taigai keizai kyōryoku shingikai, hereafter "Council"), first established in 1960 and restructured in 1969 to achieve a greater non-official membership and, it was hoped, a livelier contribution to the national aid debate. A group of ministers which never convened became a council with a top ranking businessman (Nagano Shigeo, Chairman of the Japan Chamber of Commerce) as Chairman and a leading academic and former bureaucrat (Ōkita Saburō, then President of the Japan Economic Research Centre) as Deputy Chairman.⁵² Its resurrection in 1969 followed a decision in September 1969 by an Ad Hoc Ministerial Committee on Economic Cooperation, formed in the previous May. The reasons for the Council's reorganisation were twofold: to achieve guidelines for Japan's aid policies in the new international situation of the 1970s; and to answer widespread criticism of the inadequacies of Japan's aid policies and administration. The Ad Hoc Ministerial Committee was intended to supplement the Council but in fact rarely met and, after recommendations from the Council in May 1975 and pressure from within the LDP, it was upgraded to an official Ministerial Committee on Overseas Economic Cooperation in July 1975.⁵³

The Council was an advisory body to the Prime Minister and one of the 246 official advisory organs in existence in 1976. It was, in most respects, typical of other advisory bodies and exhibited the same weaknesses and strengths which the literature has amply described.⁵⁴

The Council was a small group, having only 20 members, but it represented a cross-section of academic, business and semi-government organisations, which was typical of advisory commissions in Japan. The number of present and former officials was large⁵⁵ and tenure was for the usual two years. Meetings were held regularly, about once a month, and representatives from the ministries and, on occasion, officials from implementing agencies, attended the meetings. Sub-committees were established when necessary and drafting of reports was undertaken by a drafting committee. Reports were presented to the responsible minister (in this case the Prime Minister) in the customary way.⁵⁶

While the structure and composition of the Council were standard, the relationship between it and the policy area upon which it was meant to advise, was unusual. It made recommendations to the Prime Minister because it was always attached to the Prime Minister's Office and because in 1960 there was no one minister predominant in aid policy whom it could more suitably advise.⁵⁷ This was still the case in the late 1970s, so that while legally the Council was in a neutral bureaucratic position, it was also separated from direct contact with any one ministry involved with aid. This weakened the Council's influence over the fate of its reports, and meant that the Council had no "promoter". In the absence of a "promoter", the Council did not convene at all for the first six months of 1975 or 1976, not even to discuss policy for UNCTAD IV, which began in May 1976. The Prime Minister was concerned with aid policy on a high and abstract plane and could not be counted on to push for the adoption of Council recommendations unless he was personally committed. Both he and the Council were removed from the daily round of aid policy.⁵⁸ Even though the Council's organisational position isolated it from the centre

of policy development in ministries, however, its reports still had a stimulatory effect and could be a source of new ideas for the government. At the very least it could act as a sounding board for initiatives from the bureaucracy or government at large.⁵⁹

Most advisory councils were, to some extent, controlled by the officials of the ministry to which they were attached. This control could emasculate a potentially active council or, as was the case with MITI's Industrial Structure Council or with the EPA's Economic Council, it could add legitimacy to policies which originated in the ministry itself. The reports of the latter two Councils, for instance, were immediately adopted as policy and the Councils were correspondingly accorded the status and outward signs of power consistent with their role as legitimising agents.⁶⁰

The Advisory Council on Overseas Economic Cooperation performed a similar function, but it was weak and its status was low, due partly to long years of inactivity. Its rebirth in 1969 failed to pull it out of administrative limbo and no pattern of leadership emerged. The Council secretariat was the small Economic Cooperation Desk in the Councillors' Office of the Prime Minister's Office, and none of its staff were aid specialists. As a result, there was no possibility that the Desk could take on coordination of aid policy, unless it was enlarged and its powers expanded. The Council, in its own report of August 1975, recommended that study of the strengthening of the Council's secretariat be considered, although officials prevented a more positive wording in the draft of the report. Ministries did not want the secretariat's staff or its coordination ability upgraded and there were even half-hearted suggestions that the secretariat should be moved from the Prime Minister's Office to either the MFA or the EPA.⁶¹

Council deliberations were dominated by officials who were present at both general and sub-committee meetings to give briefings and to observe. They often outnumbered Councillors and sometimes assembled from 15 or 16 government ministries and agencies.⁶² The format of the meeting, which was fairly formal and of only a few hours' duration, constrained Councillors in freely discussing the items on notice, so they relied on circulated papers to direct debate and often reserved their comments for written submissions made outside the Council meeting. The Economic Cooperation Desk in the Prime Minister's Office was responsible for distributing papers and most of the agenda was supported by ministry prepared documents. Many of these position papers were so contradictory that some Councillors were moved to suggest in sub-committee that ministries do more to coordinate their drafting.⁶³ Officials did not form any bloc in this respect.

Discussion at general meetings was often lively and members were free to raise topics other than those on the prepared agenda. Officials participated in debate, frequently before being asked of their opinion by the Chairman. They were, therefore, more than observers and did not hesitate to disagree with Councillors, who themselves displayed an extremely wide range of opinions about foreign aid and about the system of aid management. Regularly the discussion became a mere dialogue between officials and Councillors rather than an independent, constructive debate between Council members as such.

The efficacy of the Advisory Council can be measured best by the content, and impact, of its recommendations. These were prepared by a drafting committee and were based on sub-committee findings and on other documents arising from Council meetings. Drafting was concentrated in the Economic Cooperation Desk, for this office

collected and edited opinions on drafts from Councillors and from ministries. The influence of bureaucrats on the final composition of drafts is not easy to gauge, but it depended very much on the chairman of the drafting committee. Influence was obviously a two-way process, although some critics of the Council accused it of a "scissors and paste" exercise in combining different ministry papers to produce a report.⁶⁴

Reports testified to the fact that the Council was not so much directed by ministries as overwhelmed by the intensity of their competition. Since the capacity of the Council to formulate its own independent papers was limited (no Councillors had time, for a start), it necessarily relied on ministry material for the bulk of any draft. Ministries vied to get their proposals to the drafting committee quickly and forcefully. The form of the draft and of the final report depended much on the ability of the drafting committee's chairman to counter the generalities imposed on him by the conflict of bureaucratic interests.⁶⁵ The Council had to tolerate generation of heat rather than light in this infighting and its overriding problem therefore was how to ensure that its recommendations were properly implemented. In this, however, it was dependent on the whim of officials, something which the isolation of the Council from the ministries only intensified.⁶⁶

One appraisal of the implementation of the September 1971 report on technical cooperation (which suggested reforms in practically all areas of Japan's technical aid program) revealed that, in that complex and highly specific field of policy, implementation was overseen by twelve ministries and agencies.⁶⁷ This facilitated improvement of a few small, isolated programs (such as Ministry of Education scholarships to foreign students) and there was some effort

in respect of medical and agricultural cooperation, the Japan Overseas Cooperation Volunteers and project survey work, although there were other factors in these last two which pushed programs along independently of Council advice.⁶⁸ These successes constituted, however, a small proportion of total technical assistance and the important policy categories, where cross-ministry coordination was essential - such as the use of technical experts, training in Japan of LDC personnel, setting of policy guidelines and acceleration of the disbursement of technical assistance - met with little improvement.⁶⁹

In formal terms, the Council sat at the apex of the aid administrative structure but in that position lay the reasons for its impotence. Being alienated from the central aid machinery opened the Council to attack from all corners of the aid bureaucracy and left members with no sense of their own status. There was no concept of power (rigai kankei) associated with the Council and it was difficult to appreciate where aid stood in national policy priorities. Likewise, the Council did not have a firm yardstick (kejime) for assessing submissions or the details of aid policy presented to it. While charged with the task of advising, the Council itself lacked a common standard for its advice.⁷⁰ The initiative in policy recommendations rested with the officials, and the Council could not force its ideas upon anyone. It was, ultimately, only an advisory body and the ministries translated those ideas into concrete policy as they wished.

In contrast, the Ministerial Committee (hereafter, "the Committee") was one of several groups of ministers set up by Cabinet decision to discuss issues with which Cabinet as a whole could not deal. Its creation was prompted, according to news reports, by the need to achieve greater unity and "hard" ministerial level coordination

in aid policy and to rationalise private and official economic cooperation programs. The Cabinet decision itself cited the need to draw up "basic policy".⁷¹ At the same time, pressure from within the LDP was instrumental in bringing the question of a committee to the attention of Cabinet. One report suggested that Deputy Prime Minister Fukuda first raised it in April 1975 in connection with attempts to increase aid to South Korea, negotiations about which had been suspended since the Korean Opposition leader, Kim Dae Jung, had been abducted from Tokyo in 1973.

If Fukuda did raise anything, however, it would have been proposals by an LDP Member of the House of Representatives, Minato Tetsurō, made in a paper in October 1974 where he suggested reconstituting the Ad Hoc Ministerial Committee as a full ministerial committee, to be a "control system" for aid policy. This idea originated in talks Minato had had with the Prime Minister, Tanaka Kakuei, in December 1973 on the establishment of the Japan International Cooperation Agency.⁷² The Opposition parties, through the Diet, were also effective in focussing attention on aid in a way which reinforced Minato's good timing (see below, p. 150).

The Committee used as staff the Cabinet Councillors' Office, formally a separate body to the Councillors' Office of the Prime Minister's Office but in fact housed in the same room and administered by the same officers. Apart from the ministers, bureau directors and their assistants, the Chief Cabinet Secretary and the Chairmen of the LDP's Policy Affairs Research Council and the Special Committee on Overseas Economic Cooperation, also attended Committee meetings. No regulations regarding the agenda of the Committee were laid down, but initiation of agenda items rested ultimately with ministry officials.

The Committee met five times between September 1975 and July 1976 but not between December 1975 and June 1976. It did not confer on Japan's UNCTAD policy in April 1976.⁷³ While it could assist in the coordination of all aid policies, its attention was occupied by only a few topics, especially by Japanese participation in large scale development projects overseas. A decision by Prime Minister Fukuda in January 1977 to abolish all ministerial committees put an end to its short life.

The Committee was never considered able to live up to its espoused aims. As a Cabinet sub-committee it was not a forum where the details of policy were discussed and ministers had to rely on briefings from their officials. It was for the raising of issues, not for making decisions, which was the prerogative of full Cabinet. Problems would go up to the Committee from the ministries for discussion and resolution, but this meant that only subjects already enjoying substantial agreement at the ministry level became agenda items. They were "procedural", originating in the ministries, and ministers dutifully reflected the views of their officials, as briefed.

This inertia was inevitable, for in a fixed administrative system such as that for foreign aid a Cabinet committee was powerless to coordinate, or to provide new guidelines for, policy unless it had a full independent staff, a situation which Cunningham found for various European donors also.⁷⁴ For this reason, the Committee was referred to as a "token gesture". Nevertheless, it did help to stimulate ideas from within the bureaucracy for a short period and led to one initiative, an insurance scheme for Japanese contractors posting bonds on the construction of large scale projects. The Committee was effective, but not in terms of its original brief.⁷⁵

The Council and the former Committee represented the only machinery for policy advice and high level policy coordination in the Japanese aid system, but their advisory and coordinating capacities were weak. Since they sat at the top of a diffuse and divided administration, their influence was negligible because of isolation from ministry power structures (in the case of the Council) and inability to focus on general trends in aid policy (in the case of the Committee). The only contribution of the Committee stemmed from hard political and commercial judgements. Ministries directed policy-making unless pressure from outside and above was sufficient to ensure that advisory body recommendations were put into practice.

Political Parties and the Diet

The aid bureaucracy was inadequate as a policy coordinator, the efforts of the Advisory Council to set new directions proved fruitless and the Ministerial Committee did not exist for long enough to reconcile the diversity of official policy emphases. The National Diet, however, as the legislative arm of government, was unable to provide a policy-making forum either.⁷⁶ The concentration of aid policy-making machinery within the ministries remained unchallenged.

There are three main ways in which a legislature can control an aid program: the authorisation of funds (both of overall volume and the timing of expenditure); the general "watchdog" role carried out as part of legislative scrutiny of the executive; and the passing of "charter" legislation for the aid program as a whole.⁷⁷ In Japan, only the first of these powers was exercised over aid policy. The Diet did not possess a formal aid committee and showed little inclination to scrutinise aid policy or to lay down controlling

legislation. Diet committees discussed aid as part of other business, but debate was restricted by the division of committee responsibilities along ministry lines. Aid came within the purview of at least nine committees in each House.⁷⁸

Aid budgets were approved by the Diet in the course of the annual budgetary process and while there would be some debate in the Budget Committee on aid, there was no tradition of dissecting figures which were, in any case, buried in the mass of budget documents tabled. Extraction and analysis of figures were simply too onerous for Members to spend time over. As Chapter 6 will explain, Diet authorisation was necessary for grants (technical assistance, capital grants, multilateral assistance) and for some allocations for the loan agencies. The Diet also had to authorise the carry-over of undisbursed funds but again these figures were included among the detail of the budget papers. There was no Diet control of loan commitments, as in some other DAC countries, although the passing of the Budget represented approval of certain grant commitments.

Aid was peripheral to the business of the Diet, because in Japan aid was not a political issue. The public expressed little awareness of aid and only one or two Members in the whole Diet possessed any professional knowledge of the subject. Aid comprised less than 1 percent of the Budget's General Account and Members gained no votes and little kudos for championing a cause which did not directly affect the vast majority of their electors. Ministries, despite a latent feeling that some sort of legislative control might improve their international image as aid donors,⁷⁹ did not wish to see any aid committees established in the Diet since they would only increase pressure on their own overtaxed staff.

Nevertheless, aid and aid related topics arose frequently in the Diet. The Foreign, Budget, Audit and Trade and Industry Committees usually dealt with aid through legislation before the House which involved aid indirectly (such as revisions of the Export-Import Bank Law in the 65th Diet or the Export Insurance Law in the 63rd), through scrutiny of past expenditure on aid in the Audit Committee or by examination of certain bilateral relationships between Japan and developing countries. Debate was not well informed or incisive, and certainly did not approach the standard of foreign policy debates, which occurred more regularly. Questions or comments on the administration of aid arose periodically, as in the Audit Committee of the 51st Diet, or in the Social Affairs-Labour Committee of the 63rd Diet on the strike of OTCA employees. Government backbench and Opposition Members themselves bemoaned their own unpreparedness, but aid did not advance their political reputations.⁸⁰

The political parties appreciated that aid was an element of foreign economic policy, but the consciousness of aid among them varied considerably. The LDP had the oldest aid committee, the Special Committee on Overseas Economic Cooperation established in 1959. It was one of the PARC's special investigation committees, membership of which was voluntary, and although the lowest level of Party policy-making, it acted as the focus of official LDP aid work.⁸¹

The membership of the Committee stood at 70 in December 1976, the Chairman being Tanaka Tatsuo of the Fukuda faction.⁸² Other high ranking LDP Diet Members were members of the Committee but only about 10 were constantly active. It was said to meet once or twice a week on a range of problems, and its staff consisted of one elderly LDP official.⁸³ The Committee made few formal reports although papers and

recommendations prepared by individual members or groups within the Committee were issued from time to time with its sanction.⁸⁴

The Committee did not produce by itself any Party policy. It was a minor section of the LDP organisation and had no real voice in Party affairs. What weight it could exert in policy resulted from individual members pursuing their own objectives. It was constantly referred to as a "support group" for aid, a back up organisation or "mood builder" for ministry policy.

The Committee's support did not extend to policy in a broad sense, although it was a clearing house for ideas and arguments advanced in its frequent meetings with ministry aid officials. Its energies, or rather those of its members, were channelled more into particular aspects of aid, especially loans projects or bilateral relationships. This feature will be examined in later chapters, for it drew strong criticism from Opposition politicians and from the public. LDP members repeatedly became involved in the shadier sides of aid relationships⁸⁵ and the Special Committee provided an opportunity for these connections to be initiated. The interest of some individual members of the LDP Committee in large and expensive projects overseas to the exclusion of what were, to officials, more pressing issues, prompted many remarks about the pursuit of personal before national interests. In contrast, as will be shown in Chapter 6, the influence of the Committee in the budgetary process could be most helpful to the ministries. As in any policy process, the interaction between officials and politicians always flowed in two directions.

Opposition parties also maintained aid or economic cooperation committees, although none was as active or as informed as that of the LDP.

The Democratic Socialist Party (DSP) kept a watching brief over aid through its International Division and did so with some verve, in contrast to the Japan Socialist Party (JSP), which presented a vague and disordered view of aid. None of the Opposition parties was fully aware of the organisational aspects of aid policy. All parties included statements on economic cooperation in their policy handbooks, but only the LDP and the DSP had a reasonably detailed treatment of the subject.⁸⁶

The Opposition used its limited resources to good effect in the Diet on occasion. A bill presented in January 1975 by the JSP Diet Member, Den Hideo, drew the Government's attention to aid problems. The bill provided for Diet approval of proposed Government aid programs and for the cessation of aid to non-democratic governments, a provision aimed specifically at South Korea. While it was never debated, the bill did coincide with Minato's proposals for a ministerial aid committee and with attempts by Fukuda to recommence aid talks with the South Korean Government.⁸⁷

Opposition members were diligent in attacking the Government on foreign aid. The best known thrust concerned the alleged corruption involving Indonesian reparations, first raised by Yanagida Hidekazu of the JSP in 1959 in the Budget Committee of the House of Representatives, but more recently Den Hideo, Yokomichi Takahiro and Narasaki Yanosuke of the JSP pursued the controversy regarding Indonesian natural gas (LNG) development, and Masamori Seiji of the JCP the South Korean subway construction scandal.⁸⁸ On the other hand, some Opposition members did not follow their party's line so faithfully. A DSP leader, in particular, used his position to force a decision on government assistance to a Japanese private company's development project in

Papua New Guinea, a case which will be looked at in more detail in Chapter 7. In any of these situations, however, it was the individual Opposition member, and not the party, who provided the initiative and the energy for Opposition contribution to the aid policy debate.

Conclusion: Organisation, Politics and Policy

The aid bureaucracy in Japan was well defined, although complex, and a limited sense of unity and community bound its scattered parts, because aid was quantifiable and cast normally in terms of specific amounts of money or services. Organisational factors, however, influenced the aid machinery's effect on aid policy:

- (a) The imbalance between divisional resources (personnel, expertise) and workloads affected a division's ability to assess policy, as did career patterns and the rapidity of staff movements.
- (b) The unequal importance accorded aid divisions in different ministries prevented the concerted articulation of aid policies throughout government, while the impotence of the Advisory Council and the former Ministerial Committee allowed debate between sections of the aid bureaucracy to continue without real purpose. Officials, not the advisers, defined the issues.
- (c) The workplace environment encouraged dispute over policy at the lowest ranks, and jurisdiction became controversial from the bottom up, as argument about substance became argument about territory. Innovation and the pursuit of new policy themes did not often follow from this interchange.

No coordination mechanism spanned ministerial boundaries or effectively drew together the strands of aid policy - grants, loans, technical and multilateral assistance - although one did function actively for loans policy, as we shall shortly explain. Patterns of communication at the working level assisted in forging cooperative horizontal links between officers but these were not institutional arrangements. Later chapters will examine whether this interaction served to clarify common interests or to foster coordinating exchange within the aid system.

Aid structures fitted most comfortably into government when closely integrated with other policy concerns of ministries and agencies. What constituted aid policy depended significantly on the changing fortunes of the aid sections within ministries, since politics did not support an expanded aid bureaucracy or back up an independent aid policy. Aid's limited political and organisational impact resulted in an aid bureaucracy which lacked energy. At the political level, perceptions of aid were confused; no sense of political directions for aid, let alone policy directions, was apparent. This left aid open to cross-cutting political pressures. Furthermore, the ruling Liberal Democratic Party took a less assertive role in aid at home than in many other policy areas. The explanation lay partly in the nature of aid itself, but also in the highly routinised procedures for aid management. We turn now to examine these procedures.

CHAPTER 5

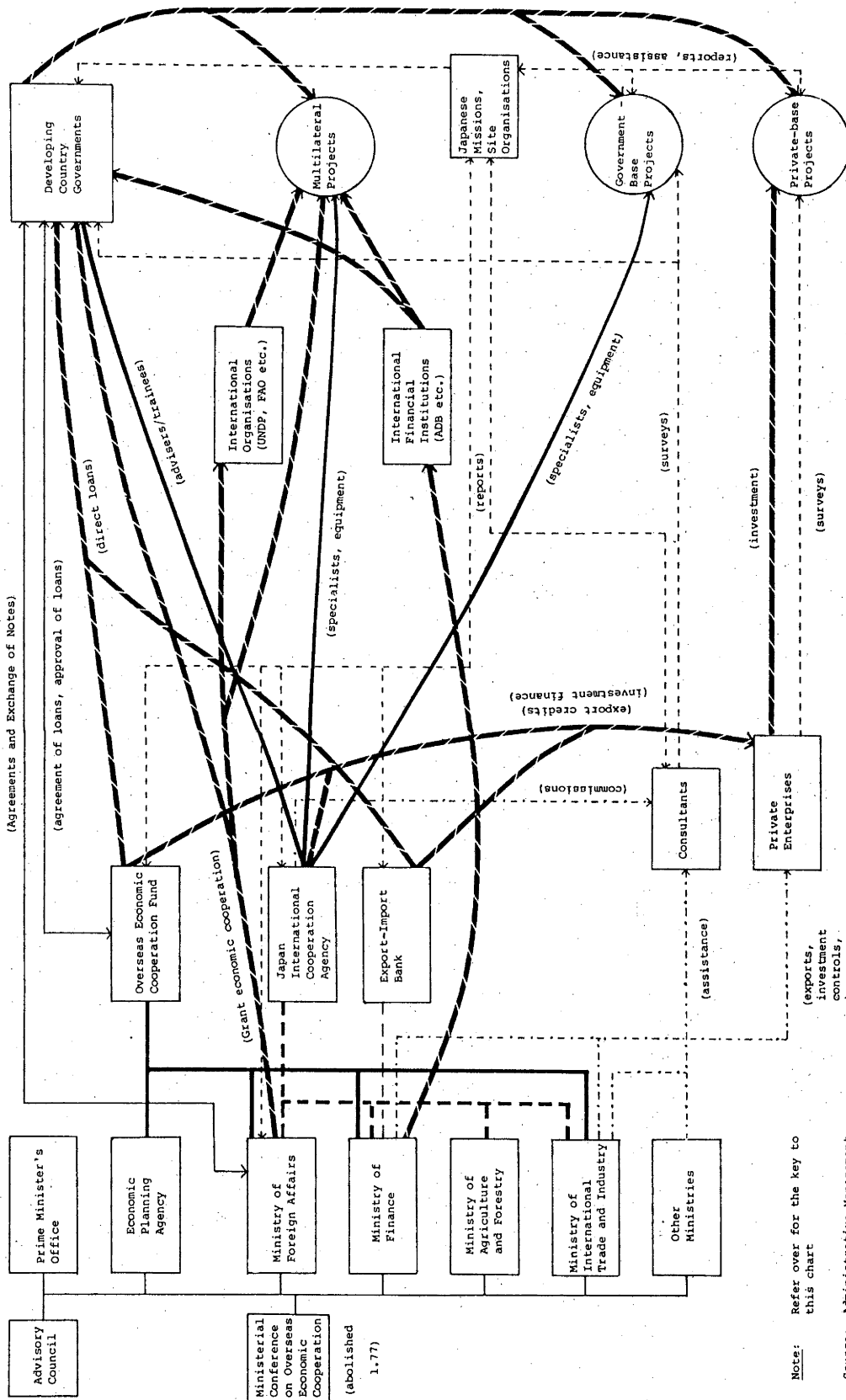
MINISTRIES AND THE POLICY PROCESS

The system of "equal partnership" in aid policy, outlined in Chapter 4, suggested a degree of equality between ministries. The formal outline of the aid administration excluded any overlapping of responsibility, and even interaction between the ministries on policy, but the practice of aid management was rather different. Aid policy was built up on bureaucratic decisions, ranging from determination of the total aid volume to the type of funds committed to recipients and the terms on which they were provided.¹

The emphasis of this chapter is on how the ministries (and, in particular, the "Big Four" of foreign aid, the MFA, the MOF, MITI and the EPA)² directly influenced aid policies. These ministries controlled much of Japan's aid program, but at the same time seriously frustrated each other's ability to perform their respective tasks. As a result of administrative decentralisation, different procedures governed each kind of aid, and affected the shape and content of policy. While the last chapter showed that independent policy advisory functions were weak, this chapter assesses to what extent inter-ministry coordination was a feature of aid policy-making.

Chart 5-1 represents aid flows from the Japanese Government to the less developed countries and to multilateral agencies. The four main categories of aid - capital grants, technical assistance, multilateral aid and bilateral loans - were all separate, with distinct patterns of administrative control. The chart shows clearly how the implementing agencies channelled funds to multilateral and bilateral projects and how home ministries controlled aid operation. Consultants

CHART 5-1
ECONOMIC COOPERATION: STRUCTURE AND PROCESS



Notes: Refer over for the key to this chart

SOURCES: Administrative Management Agency documents.

KEY TO CHART 5-1

1. Aid Flows

Capital flows, including:

- capital grants from the Ministry of Foreign Affairs
- multilateral aid from the Ministry of Foreign Affairs to international organisations (UNDP, FAO etc.)
- multilateral aid from the Ministry of Finance to international financial institutions (ADB etc.)
- funds from the Overseas Economic Cooperation Fund in the form of direct loans to developing country governments (grant element 25 percent +) and investment finance to private enterprises
- funds from the Export-Import Bank in the form of export credits, investment finance and loans (grant element up to 25 percent)
- funds from the Japan International Cooperation Agency in the form of low-cost investment finance to private enterprises

Technical aid flows, to and from the Japan International Cooperation Agency, including:

- advisers to developing country governments
- specialists and equipment to multilateral and bilateral projects
- trainees from developing countries



2. Administrative Controls

Over the Overseas Economic Cooperation Fund by the Economic Planning Agency, Ministry of Foreign Affairs, Ministry of International Trade and Industry and the Ministry of Finance (the four-ministry loans committee).

Over the Japan International Cooperation Agency by the Ministry of Agriculture and Forestry, the Ministry of International Trade and Industry, the Ministry of Foreign Affairs and the Ministry of Finance

By

- the Ministry of International Trade and Industry and the Ministry of Finance over private enterprises, in the form of export and investment controls, export insurance etc.
- the Japan International Cooperation Agency (and ministries) over consultants, in the form of commissions for consultations

3. Information

Consisting of

- surveys by consultants and private enterprises and survey reports to developing country governments and to Japanese Embassies (and then to JICA)
- reports to and from Japanese Embassies in developing countries to home agencies and to the Ministry of Foreign Affairs. Also communication between Embassies and the developing country government

4. Official Contacts

_____ Between

- the Japanese Government and the developing country government as exchanges of notes and government-to-government agreements
- the developing country government and the Overseas Economic Cooperation Fund as approval of loans and loan agreements.

and private enterprise helped survey and finance projects, and the Japanese Embassy in recipient countries handled the flow of information between Japan, recipients and project management teams in the developing country. MITI, the MOF and the MFA were the ministries most actively involved in the aid process.

Bilateral Capital Grants

Bilateral capital grants, like bilateral loans, were intended to promote the economic and social development of the developing countries but, unlike loans, repayment was waived (that is, their grant element was 100 percent). Grants were aimed at the social infrastructure sectors which fell outside the scope of the financing regulations of the Overseas Economic Cooperation Fund (OECF) and the Export-Import Bank (Eximbank), and therefore included housing, education, medical and research fields.³ In principle, capital grants were made mainly to the least developed countries (LLDCs), consistent with the practice of the Development Assistance Committee (DAC), but the Japanese Government contributed capital grant aid even to relatively advanced LDCs where there was a demonstrated need for funds for social infrastructure development, and where loans would be inappropriate. These latter cases were treated on an individual basis.⁴

As Chart 5-1 reveals, the MFA implemented capital grants policy because, in contrast to loans or technical cooperation, there was no agency allotted that task. It was the responsibility of the Economic Cooperation Bureau's Second Economic Cooperation Division, in 1976 a group of 18 officers. The onus on this section was heavy, as

we shall explain, and because of a combination of circumstances surrounding grant aid, pressure on the Division was unlikely to be alleviated to allow capital grants to grow. These restrictions stemmed from:

- (a) the effect of the budgeting process on grants decision-making;
- (b) a general disinterest outside the ministries in grant aid, which was disbursed to projects small and inexpensive by comparison to loan-funded projects;
- (c) the extent of desk work involved in both policy-making and in implementation borne by the Division, as compared to the corresponding divisions dealing with loans.

The difficulty in producing a consistent grants policy was a product and a cause of these problems.⁵

Grant assistance was initiated by a request from the developing country, followed (if necessary) by a study of the feasibility of the project, an MFA request to the MOF for an allocation in the following year's budget, an exchange of notes with the government of the developing country and, finally, the arrangement of banking, settlement of contracts, issuance of export licences and payment of moneys from General Revenue into the recipient's account in an authorised foreign exchange bank. The process was unlike that for loans in several ways, but particularly in one respect: budget allocation had to be secured before the exchange of notes between governments took place. Or, more formally, "in principle, implementation must follow the exchange of notes and be completed within the single-

year budgeting framework".⁶ In one way, this gave the MFA the advantage of implementing grants after making a commitment, but it also implied that until all budget formalities were finalised, no commitment could be entered into by the Government.

Grant aid was subject to bureaucratic rivalries even when the potential recipient first approached the Japanese Government. There was no multi-ministry system of control of grants as there was of loans or technical cooperation. The decision on whether requests would be acceded to or not lay with the Second Economic Cooperation Division and with other sections of the MFA and also with the MOF Budget Bureau via the International Finance Bureau's Overseas Investment Division. Since commitments of grants depended on budget appropriation, it was important to have understandings with the MOF at an early stage, certainly before an official budget application was made.

The Economic Cooperation Bureau's Policy Division was the first to judge requests for aid received by the Japanese Government. It formed its own opinion about the type of aid most suitable (if unspecified) and in passing the proposal along to the specialist division, weighed the request in the light of Ministry policy and precedent. The Second Economic Cooperation Division could refuse a request on its own initiative, which it sometimes did,⁷ although the final arbiter was the Bureau Director. The Division made an appraisal after wide consultation, but favoured requests

- (a) which were "mature" and for projects likely to be completed,
- (b) for projects which had priority in the LDC's own economic plans,

- (c) from those countries which could genuinely be assisted by Japanese grants,
- (d) for projects which would not become associated with commercial profit, and
- (e) for projects which had strong links with technical cooperation.

These criteria did not necessarily match those of the MOF or of other sections of the MFA.⁸

Regional bureaus in the MFA put their opinion about the advisability of a grant to the country in question, based on their assessment of its wealth, strategic position, relations with Japan and so on. Some Economic Cooperation Bureau officials asserted that regional officers did not consider need or feasibility but made purely political judgements,⁹ so there was a distinct divergence of approach, although in most instances it was not wide. Regional bureaus were involved less with grants than with loans, which had greater political and diplomatic relevance (because of their visibility and monetary value), and therefore these bureaus pursued grants policy less vigorously. The country distribution of Japan's grant aid, however, especially the bias towards South Vietnam, was obviously a result of political considerations beyond the Second Economic Cooperation Division's five guidelines.

Once a decision was made in the MFA Second Economic Cooperation Division about the advisability of the grant, budget funds had to be secured. A request was made, as part of the annual MFA budget application, for an amount expected to be agreed upon in exchanges of notes in the coming fiscal year. This amount could then be drawn on

when needed for payment. Official discussions with the MOF took place both at the time of the original budget request and when the MOF examined the state of the project and the need for disbursement. Since the number of grants made each year was small,¹⁰ the Budget Bureau had ample opportunity to scrutinise each one. The MOF was always wary of capital grants in Japan's aid effort for gratuitous aid was not, in its opinion, economically sound. MFA demands in 1975-76 for increased grant aid to balance the fall in reparations met with MOF insistence on more efficient use of grants, greater LDC efforts to help themselves and continued high visibility for grant projects. The MOF seemed to assume that visible grant projects somehow offset the financial burden on Japan.¹¹

This routine was cumbersome and staff shortages in the MFA Second Economic Cooperation Division meant that it worked slowly once budget approval was given. Negotiations with the recipient government on the exchange of notes were time-consuming, for only when the budget was passed could talks begin and the Second Economic Cooperation Division therefore had to conduct them within a strict budget framework. Any alterations to the budget for individual projects needed MOF imprimatur. The requirement to negotiate and make commitments within a precise budget limit removed all flexibility from a system already under strain. The Second Economic Cooperation Division managed all stages of implementation of the grant, closely supervising and verifying the letting of tenders and contracts with Japanese suppliers by the recipient government.¹² It coordinated payments and was intimately involved in the management of projects, in order to watch the disbursement of funds.

Such pressures on officials of the Division meant that grants

often took years to complete. The low rate of disbursement of grant budgets was evidence of the fact that grant funds were not easily spent in the same fiscal year in which they were allocated.¹³ The grant aid administration was caught in a situation which prevented aid being expanded to counter criticism of Japan's lagging grant performance. The MOF was in principle opposed to any large increase in grant aid from the budget unless sound agreement on policy for grants could be reached, but the nature of grant aid was such that only temporary agreement between the MOF, the Second Economic Cooperation Division and other sections of the MFA was likely. Grant aid was not the subject of debate at a higher policy level in the Ministerial Committee or in the LDP Special Committee. The Advisory Council did recommend the expansion of grants,¹⁴ but could not enforce its proposals. While budgets remained low, however, any setting of guidelines was impossible, for a geographically and sectorally balanced array of projects could not be planned. As officials stated, previous policy was maintained for want of funds. If the budget were increased, though, manpower in the implementing division could not handle the extra work and, as we have seen, MFA staff increases came slowly.¹⁵

The problems of bilateral capital grant aid were threefold:

- (a) The structural problems of the MFA grant administration restricted the size of the grant program which could be effectively managed; furthermore, in implementing grants, it could spare less resources for the task of formulating policy.
- (b) The MFA Second Economic Cooperation Division was therefore susceptible to MFA regional bureau demands, and had to

accommodate MOF requirements on budgets and project details.

- (c) Both these factors led to a program slanted towards projects politically and economically acceptable to the MFA and to the MOF, and to strict Japanese Government control of grants given.

Multilateral Aid

There were two main flows of multilateral funds: grants from the MFA (and from other ministries) to the United Nations and its related organisations; and loans and grants from the MOF to international financial institutions such as regional development banks and the World Bank group. They were two distinct policy areas managed by separate administrative units.¹⁶

The MOF was represented by the Overseas Investment Division of the International Finance Bureau and the MFA by the United Nations (UN) Bureau and by the International Organisations Division of the Economic Cooperation Bureau. Because contributions to multilateral organisations were generally governed by international treaty, their inclusion in the budget was automatic, but the extent of contribution was determined within the budget in consultation with the MOF's Budget Bureau. Debate on multilateral aid policy, therefore, was restricted to a narrow group of officials concerned with the disbursement of that assistance. The coordination of separate flows was effected mainly by budgeting, since no part of the aid administration had the jurisdiction to monitor all multilateral aid.

The conditions of Japan's membership of international financial institutions were set by the charters of those bodies and by domestic legislation enabling Japan to take part. The National Diet

approved bills to alter any aspect of Japan's participation, and the timing of Japan's contributions fell within a broad legislative framework. Payment was commonly on a three-yearly basis, with annual equal instalments, which meant that renegotiation with the Budget Bureau came at three-yearly intervals instead of annually, although yearly requests for instalments still had to be made by the International Finance Bureau. Non-regular payments, such as those to the Asian Development Bank Special Fund, were requested when necessary.¹⁷

There was no sustained interchange between the MOF and the MFA on multilateral aid budgets, although they did consult, especially on new requests. The International Finance Bureau was in a sensitive position as the MOF's "window" for aid, because it had to transmit an argument favouring aid to the Budget Bureau while at the same time tempering its independent view of aid to coincide with stricter MOF policy. Relations between the International Finance and Budget Bureaus were not easy, given the former's recognition of the importance of Japan's international standing to domestic economic prosperity, a perception which the Budget Bureau shared less fervently. Attitudes such as these fostered the International Finance Bureau's "foreign" image within the MOF, although its aid requests were not treated severely by the Budget Bureau, in whose catalogue of tests "fiscal soundness" was always uppermost. The possibility of overseas criticism of Japan's aid procedures was of lesser moment. The International Finance Bureau, as an MOF bureau, was also committed to the effective use of Japanese multilateral assistance and was not reluctant to express itself in this respect, as it did in 1976 in the argument about replenishment of the International Development Association.¹⁸

The International Organisations Division of the Economic Cooperation Bureau was the MFA's counterpart of the Overseas Investment Division of the MOF's International Finance Bureau, and its brief covered "international organisations and conferences", which made it the contact for relations with the DAC. This was the International Organisations Division's main duty, a part of its preserving MFA links with international financial institutions.¹⁹ The Division assisted in the development of Ministry policy on multilateral aid and many of its views corresponded to those of the International Finance Bureau of the MOF. Both saw a need for balance between bilateral and multilateral assistance (which implied support for the existing level of multilateral aid) and for continued emphasis on regional banks. The close liaison between the International Finance Bureau and the Asian Development Bank was one reason for the MOF favouring regional banks, but a desire first for the visibility of aid, and secondly for its efficient management, were also to the forefront of MOF thinking. These criteria were valued too by the MFA. The International Organisations Division acknowledged the trend to regional organisations but suggested at the same time that aid to the African Development Bank involved a loss of recognition of Japan in Africa, which did not occur, in contrast, with aid to the Asian Development Bank, a bank generally agreed to be under strong Japanese influence.²⁰

The MFA International Organisations Division had only a small budget of its own to implement, most of which was paid to the Asian Productivity Organisation. Aid to United Nations organisations was the responsibility of the UN Bureau, and Economic Cooperation Bureau communications with that Bureau were supervised by the Policy Division. Assistance to United Nations programs was given either under multi-year

or annual agreements, and the level of contribution was decided within the budgeting process. The MOF, however, regarded United Nations aid as "rather too political" and considered the international financial institutions to be the "strongest" and, therefore, the most appropriate channels for Japan's multilateral aid. In addition, the strained relations between the UN Bureau and the Economic Affairs Bureau complicated the development of policy towards United Nations aid programs. Rather predictably, officials at the working level accused each other of taking an unbalanced view of the United Nations and UNCTAD, and even of administrative incompetence.²¹

The third aspect of multilateral aid policy was the management of relations with the DAC. This was effected primarily through the International Organisations Division of the MFA, and the Japanese team which visited Paris for the annual Examination included officials from this Division, the International Finance Bureau of the MOF and from the Economic Cooperation Department of MITI.²² Chapter 1 explained how Japan joined the DAG and then the DAC, and how at the time she saw the opportunity as being of greater benefit to her participation in the international economic community than to her aid policy. There was little agreement between officials, however, on the impact of the DAC on Japanese policy over the years. To some, the DAC was an unknown quantity until 1970, when the High Level Meeting was first held in Tokyo.²³ This meeting, at which agreement was reached on the removal of tying from aid,²⁴ demonstrated to other ministries the DAC's force as a donor organisation. It helped raise consciousness of aid in Japan.

Membership was something of a status symbol for Japan in the 1960s and the MFA took pride in even this limited recognition of Japan's

aid role. The MFA attitude towards the DAC was far more positive than the marginal interest of the MOF, although both took membership seriously. They acknowledged that the DAC affected Japanese policy on untying, terms, volumes and on sectoral aid programs, but MOF officials were less inclined to agree that DAC influence extended to policy as implemented, or to the details of policy. They noted what the DAC said and accepted the need for a common aid effort but, in their opinion, procedures remained a domestic preserve.²⁵ Certainly Japan made little improvement in the terms on which her aid was given, despite continuous DAC criticism for fifteen years.

Japan's influence within the DAC was restricted, mainly because of her unyielding attitude on terms and, in contrast to the United States, she was not at the centre of DAC policy-making or DAC promotion. The MOF apparently preferred a low profile, wishing to defend Japan against the incipient trend to a greater political role for the DAC in the North-South debate. The DAC could not, however, be entirely divorced from the domestic politics of aid. The MFA regarded the forum as a useful adjunct to its own aid position, although it was selective in referring to DAC statements for support,²⁶ and it sought to use DAC censure of Japan's aid performance in its own power politics, particularly at budget time.²⁷ It was also keen to expose other ministries to criticisms of Japan raised in the DAC and to "work on" the International Finance Bureau in a situation free of the domestic constraints of the Budget Bureau.²⁸ International Finance Bureau reports to its own Ministry on the DAC Examination were important in this exercise. On the other hand, not all officials accepted MFA arguments on aid and sometimes used the DAC session against the diplomats.²⁹

In preparation for the annual DAC Examination, the Government compiled in mid-year a memorandum on its aid work. Being responsible for relations with the DAC, the International Organisations Division of the MFA prepared the first draft, which was then circulated to other ministries for comment. Most response came from the International Finance Bureau, less from MITI and the EPA. The MAF only replied on topics which directly implicated it, such as agricultural cooperation.

The preparation of the memorandum was not complicated, although wording indicated subtle differences between ministry attitudes. While the MFA policy line dominated,³⁰ MOF caution tempered what its officers often regarded as overly optimistic or expansive statements.³¹ The MOF International Finance Bureau, however, experienced conflicts within its own Ministry, concerning the Bureau's position on the draft. The Overseas Investment Division had to consult with the Budget Bureau on the fiscal implications of the draft, and with the Overseas Public Investment Division. This Division was concerned exclusively with management of government loans and tended to regard its neighbours³² as amateurs on bilateral loans, which took up a large portion of the memorandum. Accordingly, it put its view forcefully to the Overseas Investment Division, to check the latter's grasp of loan details. The Overseas Public Investment Division's lack of confidence in the ability of the Overseas Investment Division (the regular channel of communication with the MFA on the DAC memorandum) to effectively argue for the MOF on loans, led them as specialists to bypass regular procedures and talk directly with the MFA.³³

Multilateral assistance consisted, therefore, of more than the carrying out of obligations determined by international agreements. It was true that the outlines of multilateral aid policy were set by the

broad compass of Japan's participation in these organisations but translating that involvement into actual policy drew in a number of ministries and their divisions. Although jurisdictions in this field were well defined, ministry (and even divisional) interests took precedence, and policy became associated with, but not determined by, the budget process.

Technical Assistance

Technical assistance was the most diverse form of aid given by Japan, and the administrative arrangements for the development and management of policy were extremely complex. Chart 5-1 shows all flows of technical assistance emanating from JICA, which was controlled by the MFA in conjunction with the MAF, MITI and the MOF. These flows included the movement of equipment, Japanese advisers and specialists, Japan's intake of developing country trainees and the conducting of feasibility surveys, often through Japanese and overseas consultant engineering firms.³⁴

For many years the DAC criticised Japanese technical aid efforts which, by comparison with other large donors, were meagre.³⁵ The performance gap was long recognised by Japanese officials but intractable problems of policy-making and implementation prevented real improvement. We saw how, for example, in response to the Advisory Council 1971 report on technical cooperation, some smaller programs were upgraded but the main components of aid policy were left much as before. Technical assistance, being another form of grant aid, was subject to Budget Bureau influence regarding the annual allocation, which was one reason for the poor showing of Japan in technical assistance. Weak coordination, however, prolonged the struggle of sections of the

technical aid administration to expand their programs.³⁶

Four ministries were involved in technical aid policy-making. The MFA's Economic Cooperation Bureau contained three divisions which carried the bulk of technical aid management, while MITI and the MAF had specialised technical aid divisions or desks. The MOF participated in its budgeting capacity but the EPA and the MOF International Finance Bureau had no jurisdiction. The system was of a different character to those we encountered in other areas of Japan's aid, not simply because the participants were different, but because here the ministries did not in principle implement policy as well as make it. JICA performed that function. While no permanent grouping of ministries existed to supervise technical aid, however, the dependence of JICA on the specialist ministries for staff to man its technical aid programs, threw much policy implementation onto the policy-making machinery. This, combined with different technical assistance programs carried out by a dozen or so government bodies, led to confusion and blocked effective coordination between the parts of the system.

The Economic Cooperation Bureau of the MFA boasted three technical cooperation divisions, relations between which made the management of JICA very unwieldy:

- (a) The First Technical Cooperation Division handled technical assistance provided independently of projects, such as the despatch of individual experts in response to isolated requests. The burden of JICA supervision fell mainly to this Division, which also undertook technical aid planning.
- (b) The Second Technical Cooperation Division was in charge of "project base" technical cooperation, or the supply of

materials and personnel for technical aid to particular projects, especially training centres. The Second Division separated from the First in 1972 in response to increased budgets for technical assistance and the resulting pressure on the resources of the existing division. The demarcation made was not altogether successful, for it imposed a false barrier between roles which often overlapped. The break was, however, in keeping with the functional organisation of the bureau.³⁷

- (c) The Development Cooperation Division was established in 1975 to assist the coordination of official and private technical cooperation, which specifically included the supervision of JICA development surveys.

The MFA divisions managed technical cooperation in all sectors except those relating to mining, industry and energy, which were under MITI's jurisdiction. The work of the Technical Cooperation Division of MITI's Economic Cooperation Department was divided into two main aspects, personnel and projects. The Division administered the training of developing country students, the despatch of specialists from Japan and the organisation of training centres in recipient countries. Project assistance involved the planning and surveying of potential development projects by the Mining and Industry Departments of JICA.

The MFA and MITI divisions stood aloof in technical cooperation, for there was little overlap of formal authority. The MFA presumed that it was dominant and some officials tended, rather unrealistically, to regard MITI as a subordinate appendage with little

power over JICA. They saw no need for discussions with MITI about the Agency. These attitudes were, however, products of a serious MFA weakness - it could not provide any technical specialists of its own - and reflected an aggressive defence of MFA authority in a policy area where much informal influence rested not only with MITI, but also with the MAF, Construction and other technically oriented ministries which provided JICA with most of its specialist manpower. MFA attitudes neglected the importance of mining and industry-related technical aid to the Japanese program and the strong emphasis on the mining and industry portion of feasibility survey work.³⁸

The technical aid process supposedly began with a request for assistance from the developing country government to the MFA through the local Japanese Embassy, but requests were not necessarily inspired by the LDC government, as later chapters will show. The stated policy of the Japanese Government was a passive one, whereby aid could be initiated only by a request but, as Cunningham shows, for Western donors the balance of the active and reactive in a government's aid role could vary between donors and between parts of a donor administration.³⁹

While the Japanese did recognise the value of an active approach to aid giving, their faithfully maintaining the appearance of non-intervention in recipient policies towards aid, often had ridiculous consequences.⁴⁰ For the LDCs, however, the result could also be extremely serious. The overriding Japanese concern to avoid any stigma associated with being an active donor was overcome only when they relied on the vigour of non-official participants in aid relations to compensate for opportunities lost through official caution. This encouraged the proliferation of technical missions which the LDC neither wanted nor could control - in the words of one official, "survey

pollution" (chōsa kōgai).

Once a request was received by the MFA, a decision had to be made on whether to go ahead with the proposal. Several factors entered here, for while the MFA had the right to refuse, it often consulted with JICA and with other ministries on details. The extent of consultation was up to the MFA to determine. In principle it did not pass on information about every request to other ministries or even to JICA, to prevent unnecessary interference (especially by MITI), but the informal communications network operating through ministry representatives in overseas embassies or JICA offices ensured flows of information outside MFA channels. As one MITI official put it, "We would find out in any case, so there's no point in the MFA refusing a request without consulting us".

As the MFA had no monopoly on information, so its capacity for technical appraisal was limited and it depended on MITI to assess proposals in mining and industry sectors. MFA authority was exerted over broader policy and political issues. Unacceptable requests were usually obvious, particularly those which lacked sufficient detail or those which would clearly breach Japanese policy if accepted, such as requests by South Korea for assistance with nuclear technology.⁴¹ On mining and industry requests, MITI decided whether to approve the aid or not, and the MFA could not force MITI to support a proposal which it considered impracticable or undesirable. There was, in a real sense, an informal balance of interests between the ministries, despite the nominal supremacy of the MFA in policy planning and JICA supervision.

The acceptance of requests did not necessarily imply the approval of aid requested although, except in the case of large and

complex requests, it did suggest tacit commitment. Proposals had to be checked against the availability of funds and of personnel, and against the JICA budget limits which were fairly restricted. There also had to be an indication of whether or not specialists and/or equipment could be allocated. As with grant aid, the scope of Japan's technical assistance was defined mainly by the budget. Quantity was naturally affected, although this depended a great deal on the nature of ministry budget requests and on their appraisal by the MOF. On the other hand, regional distribution was more directly influenced by decisions made in the MFA and MITI, often as a result of exchanges with regional divisions but nevertheless still as a part of preparations for budget requests.

Certainly budget allocation was necessary in principle for the implementation of aid proposals, although budgets were not decided for each individually (in contrast to capital grants) but rather for total numbers of types of specialists or quantities of materials. There was considerable flexibility within the JICA budget and much discretion left with the MFA and MITI in the division of the total budget allocation into specific projects selected from the backlog of aid requests. Firm decisions about the actual aid to be undertaken during the financial year were made between December and March, using as a guide the list of possible projects on which the budget was requested. At that stage some exchange took place between the technical cooperation divisions and the Policy Division of the Economic Cooperation Bureau and between regional bureaus of the MFA. There were also unofficial approaches made to other ministries about the use of technical personnel for chosen projects.

While the budget was a strong constraint on decisions affecting the content of policy, other structural problems were more immediate,

notably those relating to the supply of qualified personnel. This was commonly cited as the chief barrier to improved technical cooperation, both by officials and by other observers.⁴² The system was based on applications from JICA to specialist ministries for personnel to be drawn from their own staff or from the pool in subsidiary organisations. Likewise, JICA asked ministries whether they could accept overseas trainees in their training programs. It was an ad hoc and unsystematic arrangement which could not ensure the long-term provision of adequate and suitable personnel.

Technical assistance policy depended on short-term factors and on the extent of cooperation between ministries for the use of staff. No forward planning capacity was evident in the technical aid administration, since no division had sufficient control of resources to effect rationalisation beyond the single-year budget, although yearly plans for the regional and country distribution of technical assistance were drawn up to prepare budget requests (see Chapter 6). JICA was a large and composite agency whose scope for action independent of the ministries was extremely narrow. The compulsory discussions between ministries in relation to JICA became continual arguments on jurisdiction and led to hesitancy about coordinating at a very early stage in the assessment of requests, and about translating these into budget allocation.

Government Bilateral Loans

Yen loans were the core of Japanese foreign aid policy. They gave impetus to official aid for through them Japan was tied politically and commercially to the world's developing nations. It was out of political and commercial considerations that Japan assessed and acceded

to requests for loans, for they were an essential element of the country's foreign and economic policies.⁴³

For this reason we shall deal only briefly with loans in this chapter. The roots of policy for this kind of aid did not lie in the budgeting process or in the inadequacies of the administrative system, but in the broad reaches of Japan's relations with the developing countries. Loans were not merely a problem for governments; they attracted the attention (and the finances) of Japan's leading private enterprises. Aid projects financed by loans were very much business ventures.

Government loans were given at better than commercial terms and were aimed at assisting economic growth and welfare in the developing countries by supplementing the domestic resources of LDCs. The purpose of the loan varied according to the current level of economic development, but on the whole it was economic and social infrastructure projects which were financed. Commodity loans were also given.⁴⁴

Loan procedures differed from those for grants, because there existed government implementing agencies (the OECF and the Eximbank) and a four-ministry committee to make decisions on loans policy. The standard pattern of request-assessment-decision-implementation was followed, but the stakes were higher than for grants, the participants different and the problems more diverse. No one ministry was pre-eminent and no one policy position predominated. Equal partnership came closest to realisation although policy was very much the sum of project-by-project decisions.

In loans, as in grants and technical assistance, requests were, in principle, the first stage of the bureaucratic round. Chapters 7 and 8 describe, however, how requests and project proposals came towards the end of tangled and informal lobbying, the product of ongoing bilateral relations. Procedures were inviolable nonetheless and rules had at least to be seen to be satisfied, so a government-to-government application was necessary. This applied even to political level aid discussions, for requests often emerged from Prime Ministerial and other contacts between Japan and the developing nations. These approaches were always expected by the Japanese, but the Government required that proposals should still be sent through official channels before the project could be properly assessed and approved.⁴⁵

Requests (except those involving a donor's consortium)⁴⁶ were presented in the first instance to the Japanese Embassy in the potential recipient country. Officers there studied the proposal, although as part of their duties they were expected to have made prior representations to the recipient government to outline Japanese policy. It was seen as important to make it clear to LDC governments that the following ODA loan proposals were unacceptable: those related to military activities and provisioning, or to housing, education, research, shipping, aircraft or consumer goods. Embassy officers were careful to give no undertakings on behalf of the Japanese Government and their contribution was restricted to forward intelligence and advisory functions. Decisions were the prerogative of the ministries at home.⁴⁷

Proposals were then forwarded to the MFA in Tokyo, where the Government had firstly to decide whether to accept the proposal, a decision based on MFA policy and on the result of inter-ministry discussions. There was scope for initial MFA rejection after informal

contact with other ministries, but this was usually for reasons relating to general acceptability and such refusals were clear cut.

The MFA drew up its own policy on the actual project, in preparation for the four-ministry conference which the Economic Cooperation Bureau's First Economic Cooperation Division convened and chaired. In this respect, the Division was the nub of loans policy-making, although its institutional position was not always matched by its influence. Development of MFA policy lay formally in the hands of this Division, but was restricted by the attitudes of regional bureaus and, to a lesser extent, the Economic Cooperation Bureau Policy Division. Likewise, the Treaties Bureau was consulted in the consideration of proposed loan agreements. In any loans situation, the political and diplomatic implications were always closely watched by officials. Regional bureau interests were therefore implicated, although more so in the case of leading loan recipients. The bureaus' resources did not allow them to survey the aid relationships with all the countries for which they had responsibility.

Doubts about the advisability of refusal were resolved in inter-ministry discussions. The MFA First Economic Cooperation Division circulated to the MOF (Overseas Public Investment Division), MITI (Economic Cooperation Division) and the EPA (First Economic Cooperation Division)⁴⁸ details of the request and, if it had already undergone feasibility studies, the results of these. Inter-ministry committee meetings were held initially at deputy division director level and, if necessary, at division director level. About one third of cases were approved by the division directors after desk officer meetings had been held. Most others required a conference of division directors and sanction by more senior officers. Only a very few proposals, for large

and important projects or for aid to recipient countries with which Japan had a special or sensitive relationship,⁴⁹ demanded meetings of bureau directors. Division directors, therefore, were the officers with the strongest and most direct power over loan decisions.

At the first meeting the MFA representatives offered a position paper, outlining the request and its background and setting out the suggested amounts, terms and conditions of the loan. They presented arguments on the technical aspects of the proposed project and on the economic and political implications of the request. While early responses from other ministries, especially the MOF, were guarded, each had an opportunity to put its point of view at these early meetings. There were few surprises, however, for ministries had ample time to prepare their cases, particularly if feasibility studies were already completed. Prior informal talks between responsible desk officers ensured predictability in negotiations but agreement was never guaranteed.

All ministries weighed requests in terms of their own priorities but there were three common to all:

- (a) Suitability of the requesting country as a recipient, which involved analysis of its level of economic development and of its present and future political and trade relations with Japan. Judgements were made on its development potential (based on per capita income), its regional influence, the extent of diplomatic (treaties, degree of cooperation in international bodies) and emigration ties with Japan, its importance as a source of raw materials and as a market and on the state of its trade balance, international payments and

debt burden.⁵⁰

- (b) Appropriateness of the particular project, which required consideration of the extent to which the request fitted the loan conditions of the various agencies, its priority in LDC development plans, the contribution which Japanese assistance could make to the project and to general relations with the country, and of the prospects for the project's proper completion.
- (c) Project details: feasibility report, project content, cost, plans for materials' procurement, etc. were at issue and were not determined until after the feasibility study was finished.

The MOF point of view was a telling factor in policy towards a request. This was because both the MOF International Finance Bureau and Budget Bureau helped prepare the MOF position and the often favourable attitude of the former could be restrained by the fiscal worries of the latter. The International Finance Bureau's Overseas Public Investment Division was the official channel to the Budget Bureau, which studied carefully the financial conditions of the loan, such as quantity, terms, repayment period, Japan's balance of payments and currency reserves and the future impact of the loan on OECF budgets. It was possible for the MFA to make informal representations directly to the Budget Bureau, although the International Finance Bureau did not look kindly on being bypassed. As it was placed between the opposite poles of the MFA and the Budget Bureau, its mediation was easily undermined by unofficial negotiations. The "constructive competition" between ministries (one official's phrase), was easily jeopardised.

The OECF was also involved at an informal level. Its officers attended initial desk officer meetings as observers, but were not present at higher discussions. Their opinions about the technicalities of projects and requests were frank and forthcoming, but did not extend to advice about types of projects or recipients. These were policy questions outside an implementing agency's brief but, informally, officers of the Fund and the ministries mixed easily at a professional and social level, especially because many senior Fund personnel were originally from the ministries. Continual changes in ministry aid division staffs also gave OECF officers the edge in experience and judgement on projects or on details of loans policy.

Requests needing feasibility studies were re-routed to technical assistance divisions for incorporation in their priority lists, if considered appropriate. While Chapter 8 will detail the important place of surveys in the aid process, it is necessary to point out here that a decision to go ahead with a project loan was contingent on completion of a feasibility study and on LDC government approval of the feasibility report. Only on highly political requests could a loan be committed before a feasibility study was made.⁵¹

Once ministerial agreement was reached, the MFA began talks with the recipient government, leading up to an official exchange of notes, which signified a Japanese Government commitment. The Japanese note was drafted in the First Economic Cooperation Division, checked in the Treaties Bureau and shown to other ministries. Negotiations were undertaken in the recipient country by the Japanese Embassy. Cabinet approval of the exchange of notes followed, after which a loan agreement was concluded between the recipient government and the OECF. Payment of the loan was carried out in accordance with

the provisions of the agreement.⁵²

The contribution of all ministries to decisions meant that bureaucratic initiative in loans policy was restricted. Responsibility rested with a committee, not with any one division. Loans policy was hard to quantify, built up on a case-by-case basis. There was no planning for loans policy as occurred, in a minor way, for grants or for technical assistance, except in that ODA disbursement targets required certain levels of commitment and implementation. Guidelines were very broad, even amorphous, and loans performance was hampered by delays at project sites, cost overrun and by the capacity of the OECF to implement efficiently.⁵³ The officials, as later chapters will show, only came in towards the end of a long series of steps to begin a loan project, and their decisions were swayed by their own perceptions of the proposed project. Even at this point there was little consensus between ministries, for each had its own interests to guard and objectives to pursue.

Conclusion: Aid Policy Coordination

Aid policy was piecemeal. Procedures plainly worked against the development of consistent and mutually reinforcing policy for the different kinds of aid. Each had its own group of officials and, more significantly, its own schedule and momentum, but the directions of loans, grants and technical aid were not necessarily in harmony, for there was no means of consciously producing policy acceptable to all officials.

Policy revolved around jurisdiction and coordination, although each separate aid process was subject to those problems to

varying degrees. Multilateral assistance was divided by jealousies and conflicts within and between ministries and the size of flows was determined in the budget context. Simple administrative patterns, reinforced by a widespread disinterest in grants as a policy option, isolated grants from conflicts concerning authority and grant administrators depended on budgeting for coordination. There still remained, however, the dilemma, posed for grants by its minor administrative and policy standing, of how it could expand in an aid program dominated by bilateral loans.

In areas where policy-makers were distinct from policy-implementers - loans and technical assistance - arguments about responsibility and the best policy course were loudest. This was because, in aid policy, the fate of aid contributions and the success of implementation affected the size, quality and direction of future aid flows. Aid policy did not end with payment; in one sense, it was only beginning at that point. Where implementation was removed from the direct control of ministries, problems of jurisdiction were heightened as officials competed to achieve as great an influence as possible over the original decisions. Technical aid policy was rife with issues of competence, and loans policy-making was structured on the premise that differences between ministries could not be resolved.

Coordination was not placed above other ministry priorities. Emphasis on procedures concentrated attention on the separate stages of the policy process and on participants, but not on goals. Officials relied heavily on budgeting to draw elements of aid policy together, although Chapter 6 will demonstrate that this was not effective. Even aid subject to attempts at planning, such as technical aid, could not be extracted from the short-sighted constraints of budgeting. Loans

policy, which aimed at quantity rather than content, was isolated from coordination with other forms of aid.

The nature of aid policy as one encroaching on significant areas of government - tariffs, trade, industrial structure, for example - and, in Japan, a policy with no fixed bureaucratic "home" and no steady political support, meant that fundamental changes in aid policy depended on the extent to which coordination could be effected

- (a) between aid and other national policies;
- (b) between the kinds of aid to a particular country; and
- (c) between different parts of the entire aid program.

This coordination could not come easily, nor quickly, for in all of these categories there was a prior need for a government statement of objectives in aid policy, some set of principles to underpin ministry programs.

(a) Initially, an attempt had to be made to rationalise the relations between aid and other national policies, not to supplant them but to find an appropriate marriage of the policy interests of the main ministries. Accommodation between ministries, however, was premised on consistency within ministries and we saw how difficult this proved. Coordination at the national level required some compromise between the positions of the MFA, the MOF and MITI, but here the MFA was at a disadvantage, for it had no domestic power base, was unskilled at domestic bureaucratic infighting and had few weapons to use in budget negotiations.

(b) If high level political support were not forthcoming, did a "softer" form of coordination take place lower down in the bureaucracy, to assist aid policies towards individual countries? Coordination, in the words of Hecló and Wildavsky, was "knowing what other people ... are saying and doing ... fostered by a functional redundancy, as it were, of overlapping, criss-crossing and repetitive channels of communication".⁵⁴ Precise information about countries, projects and possibilities was vital if aid requests were to be assessed quickly and objectively, but most officials admitted that, while there was much constructive informal contact between aid officials throughout government (especially because of the frequency of the informal meeting in daily work patterns), there was insufficient exchange of substantive information about each other's ideas and tasks. Survey reports, for example, were not circulated widely enough to prevent feasibility studies being duplicated and policy decisions about requests being delayed. The extent to which policy-making for any form of aid was monopolised by one ministry determined the access other ministries had to information. Furthermore, distinctions between the aid needs of small and large recipients were blurred. The inflexibility of procedures (and the absence of aid specialists) hindered officials in creating programs suitable for minor recipients and in establishing new directions for policy, by forcing the aid program as a whole to follow standards laid down for major recipients. This will be explored further in Chapters 7 and 8.

(c) Coordination between different types of aid was based on

- (i) general policy priorities,
- (ii) the patterns of aid to large recipients, and

- (iii) the extent to which bureaucratic controls (budgets, inter-ministry committees etc.) offset the rigidity imposed by the spread of functions.

Such measures had not worked well in the past and budgeting was often harmful in prolonging decisions between ministries when aid budgets were involved, and building into the system - by allowing incrementally increasing aid budgets - barriers to the matching of ministry functions (as the next chapter will demonstrate). Budget requests could only be harmonised if the administration were centralised to some degree. Calls for the creation of a central aid agency became fewer, however, and while inter-ministerial committees were used, they tended to ensure representation of ministry views in the formulation of loans policy rather than to assimilate diverse ministry programs. High level committees certainly did not prevent loans policy being made on other than an ad hoc basis, achieving the lowest common denominator of agreement.

CHAPTER 6

BUDGETING FOR FOREIGN AID

In its 1969 Aid Review, the Development Assistance Committee (DAC) pointed to some of the important policy issues facing developed countries which gave aid to the developing nations. It recognised that aid agencies continued to work under severe constraints, including (a) the lack of systematic long-term planning of programs, (b) the battle for adequate and sustained budgetary appropriations, and (c) the need to accept political realities in aid policy-making. The DAC report also emphasised that recognition of the long-term character of development assistance had to be translated into suitable arrangements for the financing, planning and administration of assistance programs. In particular, aid had to be protected from short-term economic and budgetary difficulties by the use of budgetary planning for aid programs.¹

These constraints meant that annual budgeting was a feature of aid policy-making in most donor countries. All DAC members set aside yearly a portion of their central government's budget for development assistance, the share of these allocations within the total budget ranging from less than 1 percent to over 3 percent. Most Western donors provided nearly all of their aid in this way, but some lessened their reliance on budgetary funds by using other sources. Likewise, there were procedures which affected the flexibility of appropriations, although, commonly, specified disbursements were voted yearly. In many countries there existed provisions for the carry-over of unspent funds, for forward budgeting in the form of advance commitments which could be charged to future budgets, or for indicative medium-term plans.² These practices were usually the result of several conditions, including

tradition and the significance of aid in government policies.

"Expenditure is policy; policy is expenditure", Heclo and Wildavsky tell us.³ The power of the purse over policy was entrenched in Japan and, as Campbell explained in his study of Japanese budgeting, "the budgetary mode of decision-making occupied more 'space' in the total government decision-making system in Japan than is true in the United States".⁴ In other words, more policy decisions were left to "budgeters". This was encouraged, Campbell held, by systemic factors, including political stability and the tendency for the rules of budgetary compilation to substitute for the rules of decision-making.⁵ Previous chapters of this thesis described the uneasy relationship which existed between aid and the national government in Japan, the active participation of the MOF in the aid administration and the influence of annual budgeting on sections of the Japanese aid program. While many aspects of foreign aid in Japan were intimately related to expenditure and budget compilation, this chapter will show that aid policy-making was not entirely dependent on MOF budget officials. Budgeting affected aid policy but did not determine it.

Aid Flows and the Budget

Government finances provided over half of total Japanese aid (see Table 6-1), and the authorisation of expenditure took place when the Diet passed the Government Budget bill in March each year for the financial year which began on 1 April.⁶ The voting of funds represented official legislative control of both the volume of expenditure and its timing, for any carry-over of moneys needed Diet sanction. The legislative power, however, did not extend to all government aid and, in practice, the passiveness of the Diet in budgeting meant that

TABLE 6-1

OFFICIAL FLOWS AS PERCENTAGE OF TOTAL JAPANESE ECONOMIC COOPERATION, 1965-1975
(US\$ million, net disbursements)

	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975
(a) Official Development Assistance and Other Official Flows	243.7	285.3	390.6	678.3	811.4	1151.6	1161.8	1467.5	2189.9	1915.1	2517.1
(b) Total Official and Private Flows	485.5	538.8	855.3	1029.8	1263.1	1823.9	2140.5	2725.4	5844.2	2962.3	2980.1
a/b %	0.50	0.53	0.47	0.66	0.64	0.63	0.54	0.54	0.37	0.65	0.87

Source: OECD, Development Assistance Efforts and Policies of the Members of the Development Assistance Committee (or DAC Review), Paris, various years.

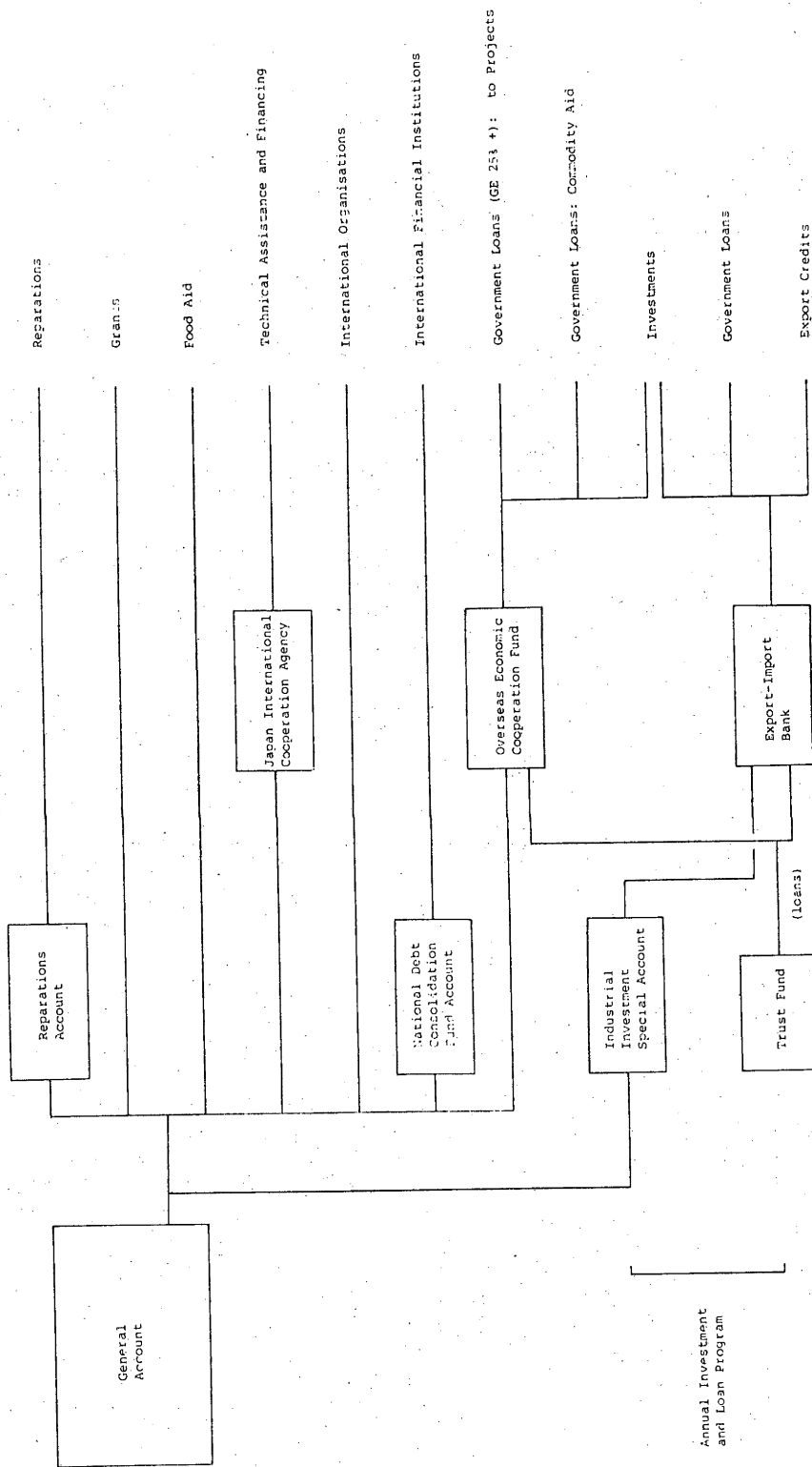
de facto authorisation occurred during the actual preparation of the budget some months before.

Aid was voted through different budget sections (see Chart 6-1 and, for 1965-75 figures, Table 6-3). Bilateral and multilateral grants and government capital subscriptions to the Overseas Economic Cooperation Fund (OECF) were all defrayed from the General Account (ippan kaikei). They were listed under the "Economic Cooperation" subsection of the General Account in the MOF's compilation. The Export-Import Bank (Eximbank) received capital from the Industrial Investment Special Account. Both the OECF and the Bank were able to borrow from the Trust Fund up to limits specified in the budget each year.⁷ While the single-year budgeting principle (budgets had to be spent within the one fiscal year) was a firm tradition of the MOF, some aid categories were provided for by allocation to special accounts for disbursement over several years. Reparations were transferred from the "Economic Cooperation" subsection to the Special Account for Reparations and other Special Foreign Obligations (Baishō nado tokushu saimu shori tokubetsu kaikei), while bonds for subscriptions to multilateral financial institutions were managed through the National Debt Consolidation Fund Special Account (Kokusai seiri kikin tokubetsu kaikei). Both these accounts allowed multi-year disbursement.⁸ There were also provisions for the carry-over of some unspent funds which, in the case of capital grants, was often a considerable proportion of the year's allocation.⁹

The Industrial Investment Special Account and the Trust Fund were part of the annual Investment and Loan Program which was compiled by the Financial Bureau of the MOF. As Tables 6-2 and especially 6-3 show, the proportion of the official economic cooperation budget which was derived from the Investment and Loan Program and from the General

CHART 6-1

SOURCES OF BUDGET FUNDS FOR OFFICIAL AID



Source: adapted from Gaimushō Jōhōbunkakyoku, Nihon no Keizai Kyōryoku (Ministry of Foreign Affairs, Public Information and Cultural Affairs Bureau, Japan's economic cooperation), March 1974, p. 54.

Account was evenly balanced over the period 1965-75 at approximately 3:1, since increased capital for the OECF from the Trust Fund was offset by a fall in outlays to the Eximbank from the Industrial Investment Special Account. This reflected an enlarged responsibility for the OECF in government loan operations and, at the same time, an increased percentage of total aid given as bilateral loans. Correspondingly, the share of official funds devoted to capital grants declined as reparations tapered off. The continued balance also represented a desire by the MOF to ensure that the drain on the General Account budget caused by economic cooperation did not increase in proportion to Japan's expanding aid effort. Over the ten-year period, the use of loans from the Trust Fund rose in gross terms (Table 6-2) and as a percentage of the total aid budget (Table 6-3), by more than General Account subscriptions to the OECF.¹⁰ This policy was also applied to the Eximbank, the Industrial Investment Special Account capital of which was itself originally transferred from the General Account. Over the period 1965-74, loans from the Trust Fund to both agencies rose nearly sevenfold (6.82 times), higher than increases in the total General Account, and the Trust Fund was favoured in each half of that decade. Industrial Investment Special Account disbursements only just doubled (2.07) over the period (Table 6-4).

The low political priority of foreign aid (compared with other budget categories) encouraged the MOF to soften the expanding aid program's impact on the General Account by shifting the burden of financing bilateral loans onto the Trust Fund. This in itself was politically important, because the annual Investment and Loan Program (of which the Trust Fund was the main component) was not subject to Diet approval. Table 6-5 shows the shares of the General Account held

TABLE 6-2

ECONOMIC COOPERATION BUDGET, ACCORDING TO DAC CATEGORIES, 1965-1975
(fiscal year, Yen million)

	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975
1. Bilateral Grants:	26177.0	36216.0	39881.9	44460.7	44455.0	43776.9	44935.5	47476.2	56261.1	68847.4	70832.0
Grants	7264.1	15063.5	16444.1	17312.0	19654.2	18539.6	17356.0	18625.5	23143.8	29059.8	24947.1
Technical	2713.0	3752.6	5437.8	6588.7	7742.9	9288.0	11475.4	15015.0	19086.1	25656.6	31638.0
Reparations	16200.0	17399.9	18000.0	18000.0	11908.8	10800.0	10800.0	9240.0	9240.0	9240.0	9240.0
Food aid	-	-	-	2574.3	5148.9	5148.9	5148.9	4405.4	4651.6	4713.2	4713.2
2. Multilateral:											
Grants	1630.4	1857.6	2092.3	2577.2	2629.8	3129.0	3662.4	4408.4	7352.1	9902.5	21524.0
Subscriptions	8787.6	12150.0	12150.0	14400.0	30427.2	35352.0	32400.0	35356.0	40296.0	69448.2	61784.0
3. Bilateral Loans:											
OECF	1000.0	7500.0	9000.0	6000.0	22400.0	29000.0	33000.0	42000.0	56000.0	65000.0	65000.0
Eximbank	29000.0	37000.0	48000.0	48000.0	63500.0	76000.0	65000.0	63000.0	63000.0	60000.0	60000.0
JICA	-	-	-	-	-	-	-	-	-	3252.0	7000.0
4. Total	66595.3	94723.6	111124.4	115437.6	163411.2	187257.9	183197.9	195740.6	226225.2	276698.1	297190.0
5. Trust Fund:											
OECF	1000.0	7500.0	9000.0	20000.0	27600.0	31000.0	40000.0	61000.0	69500.0	77000.0	94500.0
Eximbank	91900.0	115000.0	185000.0	215000.0	282000.0	273000.0	314000.0	420000.0	486500.0	556500.0	559500.0
6. Grand Total	159495.3	217223.6	305124.4	350437.6	473011.2	491257.9	537197.9	676740.6	782225.2	910198.1	951190.0

Notes: 1. Eximbank finance was not all provided for economic cooperation.

2. Borrowings by the OECF and Eximbank from the Trust Fund were limits only. Not all funds are drawn upon.

3. The large increase in technical cooperation funds between 1973 and 1974 was due to the inclusion of an item previously recorded under multilateral contributions.

4. Eximbank funds for bilateral loans were drawn from the Industrial Investment Special Account.

Source: Gaimushō keizai kyōryōkukyoku, Keizai kyōryōku kankei shiryō, (Ministry of Foreign Affairs, Economic Cooperation Bureau, Materials on economic cooperation) 1973, 1974 and 1976. 1965-1969 figures were converted from US\$ equivalents given in the 1973 volume, at a rate of US\$1 = yen 360.

TABLE 6-3

BUDGETARY SOURCES OF OFFICIAL AID FUNDS, 1965-1975
(fiscal year, percent of total)

	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975
1. General Account Total,	23.6	26.6	20.7	19.2	21.1	22.6	21.2	19.1	20.5	23.4	23.0
of which: Grants (including reparations)	16.4	16.7	13.1	12.7	9.4	8.9	8.4	7.0	7.2	7.6	7.4
Multilateral (including bonds)	6.5	6.4	4.7	4.8	7.0	7.8	6.7	5.9	6.1	8.7	8.8
OECF	0.6	3.5	2.9	1.7	4.7	5.9	6.1	6.2	7.2	7.1	6.8
2. Industrial Investment Account: Eximbank	18.2	17.0	15.7	13.7	13.4	15.4	12.1	9.3	8.1	6.6	6.3
3. Trust Fund: OECF	0.6	3.5	2.9	5.7	5.8	6.3	7.4	9.0	8.9	8.5	9.9
Eximbank	57.6	52.9	60.6	61.4	59.6	55.6	58.5	62.1	62.2	61.1	58.8
4. Total Investment & Loan Program (2 + 3)	76.4	73.4	79.2	80.8	78.8	77.3	78.0	80.4	79.2	76.2	75.0

Source: Same as for Table 6-2.

by main policy categories, and their annual growth.¹¹ It is evident from the table that "Trade Promotion and Economic Cooperation" was a very small percentage of the General Account when compared with other categories, although over the ten-year period 1965-74 it rose from 0.4 percent to 1.0 percent. Growth was not steady, however, and since 1969, when "Economic Cooperation and Trade Promotion" reached a high of 1.2 percent, its share declined regularly to the point where it was only 0.74 percent in 1977.¹² Indeed, between 1965 and 1969 it grew by 640.3 percent, but dropped to 73.8 percent between 1969 and 1974. The declining share of economic cooperation in the General Account contrasted with the increasing share of social security expenditures over the period, a stable proportion for education and a high, but slightly falling, allocation to public works. It was clear, therefore, that foreign aid in that period was losing in the competition for public funds.¹³

The economic cooperation budget grew after 1965 in a way completely different from the total General Account. The annual increase of the economic cooperation vote was erratic, compared to the increase in the General Account and in its other categories. This suggested that the weak domestic impact of economic cooperation weighed heavily on MOF thinking, and that problems such as the balance of payments and foreign exchange reserves influenced economic cooperation more directly than they did other areas of the budget. Certainly these factors were prominent in reviewing particular aid relationships and accordingly came into play in budget compilation. Successive government budget explanations always emphasised them,¹⁴ but the politics of budgeting for aid took officials well beyond the rational assessment of the main economic indicators, as Harrell pointed out.¹⁵

TABLE 6-4

INCREASES IN BUDGET CATEGORIES FOR OFFICIAL FLOWS, 1965-1974
(fiscal year)

	1969-1965	1974-1970	1974-1965
1. Bilateral Grants:	1.70	1.57	2.63
Grants	2.70	1.57	4.00
Technical assistance	2.85	2.76	9.46
Reparations	0.74	0.86	0.57
Food aid	-	0.92	1.83
2. Multilateral:			
Grants	1.61	3.16	6.07
Subscriptions	3.46	1.96	7.90
3. Bilateral Loans:			
OECE	22.40	2.24	65.00
Eximbank	2.19	0.79	2.07
4. Total	2.45	1.48	4.15
5. Trust Fund:			
OECE	27.60	2.48	77.00
Eximbank	3.07	2.03	6.06
6. Grand Total	2.96	1.85	5.71
(General Account Total)	2.66	1.92	5.67
(Trust Fund Total)	3.33	2.08	6.82

Source: Same as for Table 6-2.

TABLE 6-5

SHARES OF VARIOUS POLICY CATEGORIES IN THE BUDGET'S GENERAL ACCOUNT, 1965-1975
(fiscal year, yen thousand million)

	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975
Social Security	516.4	621.7	719.5	815.6	946.9	1137.1	1344.0	1641.5	2114.5	2890.8	3926.9
% of Total	14.1	14.4	14.5	14.0	14.1	14.3	14.3	14.3	14.8	16.9	18.4
% Increase	-	20.4	15.5	13.6	16.1	20.1	17.8	22.1	28.8	36.7	35.8
Education & Science	475.7	543.3	624.6	702.4	805.7	925.6	1078.9	1304.4	1570.2	1963.3	2640.1
% of Total	13.0	12.6	12.6	12.1	12.0	11.6	11.5	11.4	11.0	11.5	12.4
% Increase	-	14.2	15.0	12.5	14.7	14.9	16.5	20.9	20.4	25.0	34.5
Defence	301.4	340.7	380.9	422.1	438.8	569.5	670.9	800.2	935.5	1093.0	1327.3
% of Total	8.2	7.9	7.7	7.3	6.5	7.2	7.1	7.0	6.5	6.4	6.2
% Increase	-	13.0	11.8	8.2	14.6	17.7	17.8	19.7	16.9	16.8	21.4
Public Works	692.6	880.4	1000.5	1070.0	1206.4	1409.8	1665.6	2148.5	2840.8	2840.7	2909.5
% of Total	18.9	20.4	20.2	18.4	17.9	17.7	17.7	18.7	19.9	16.6	13.7
% Increase	-	27.1	13.6	6.9	12.8	17.3	18.1	29.0	32.2	0.0	2.4
Trade Promotion and Economic Cooperation	12.9	28.1	36.5	48.1	95.5	91.9	101.1	115.2	-	-	-
% of Total	0.4	0.7	0.7	0.8	1.2	1.1	1.1	1.0	-	-	-
% Increase	-	118.6	29.4	31.8	98.5	-3.7	10.0	13.9	11.7	-	-
Economic Cooperation	5.4	17.7	21.4	22.5	72.8	80.2	89.0	102.4	128.8	166.0	176.7
% of Total	0.2	0.4	0.4	0.4	1.1	1.0	0.9	0.9	0.9	1.0	0.8
% Increase	-	224.3	21.1	5.2	223.5	10.0	11.1	15.0	25.8	28.9	6.5
Total	3658.0	4314.3	4950.9	5818.6	6739.6	7949.8	9414.3	11467.7	14282.1	17099.4	21288.8
% Increase	-	17.9	14.8	17.5	15.8	18.0	18.4	21.8	24.6	19.7	24.5
GNP	32650.4	38399.5	45322.1	53368.0	62997.2	73237.2	81446.4	95564.4	115263.1	135920.0	149501.0
General Account/ GNP (%)	11.2	11.2	10.9	10.9	10.7	10.9	11.6	12.0	12.4	12.6	14.2

Note: In 1973 "Trade Promotion and Economic Cooperation" was restructured as "Economic Cooperation". Figures in the latter category in the period 1965-1972 represent the economic cooperation component of "Trade Promotion and Economic Cooperation".

Source: Zaisei chōsakai, Kuni no yosan (The nation's budget), various issues.

The growth of the economic cooperation budget was affected by its size within the total budget. Economic cooperation as a category was always a minimal part of the General Account and increases in the late 1960s did not influence the broader dimensions of the budget, although MOF officials were ever cautious about the possibility of rapidly expanded aid. Japan became a large aid donor while herself striving to achieve high economic growth and improved standards of living, which demanded priority in the budget. Even as these pressures eased towards the end of the 1960s, however, there was no steady increase in total aid budgets and certainly no improvement in aid's policy standing represented by its share of the General Account.

Because of the close links between budgeting and the continuing implementation of aid, growth in aid budgets was tied to growth in some individual programs. This was the case in the late 1960s, for example, when aid budgets expanded quickly. The 1966 Budget included a new item for subscription to the Asian Development Bank and enlarged funds for the OECF. In 1967, there were new outlays for technical aid and in 1969, food aid, capital grants and increased OECF subscriptions more than doubled the economic cooperation budget. In the seventies, however, the large fluctuations in the economic cooperation budget flattened out and increases were derived mainly, but not entirely, from incremental additions to the majority of budget items and from across-the-board rises in ministry shares. Aid allocations from the General Account were in 1976 divided among fourteen ministries and agencies, each of which made its own budget request and disbursed those funds, although some of the MFA and MITI budgets were passed on to JICA, and some MOF requests (such as reparations) were actually managed by the MFA. Table 6-6 shows those ministries which received the largest aid budgets between 1965 and 1975.

The table reveals no obvious pattern in the annual percentage increases for the three main recipient ministries (the MFA, the MOF and MITI), because of the irregular rise and fall of allocations to large programs. The Asian Development Bank subscription swelled the MOF budget in 1966 as did food aid in 1968, the MFA received a substantial initial amount for capital grants in 1969 and the MITI budget was boosted by assistance for LDC market development in 1971.

While growth was uneven, the balance between ministries was maintained, especially after 1970 as shares stabilised and share changes were regularised. With new ministries beginning aid programs in the seventies, shares diverged and the monopoly of the MFA, the MOF and MITI began to weaken. The most apparent change was between the MFA and the MOF, with much larger annual increases in the former's budget, principally because of dwindling reparations payments which had always been attached to the MOF budget. While expenditure by the MFA was consolidated, however, the total aid budget was spread further across other ministries, whose programs grew steadily, although from a small base. This represented both a strength and a weakness for the MOF: with more participants needing year-round attention, its coordinating and organising of the aid effort were bolstered, but its influence on decisions affecting aid commitment was dissipated.

Budget Requests

The power of the Budget Bureau was exercised not only in the one-to-one (Budget Bureau-ministry) relationship of the budget request but also in a pattern occurring throughout the year, which reached a peak at budget compilation as the extent of aid disbursement in the fiscal year became apparent. The MOF, including its Budget Bureau, was

TABLE 6-6

ECONOMIC COOPERATION BUDGET: CHANGES IN MINISTRY SHARES, 1965-1975
(fiscal year, yen million)

	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975
MITI	749.3	839.5	946.1	960.1	1121.6	1357.4	2726.2	3426.7	5128.7	7225.9	6477.8
Increase	-	90.2	106.6	14.0	161.5	235.8	1368.8	700.5	1702.0	2097.2	-748.1
% Increase	-	12.0	12.7	1.5	16.8	21.0	100.8	25.7	49.7	41.0	-10.4
% of Total	13.8	4.8	4.4	4.3	1.5	1.7	3.1	3.4	4.0	4.4	3.7
MFA	3697.3	5724.1	7844.2	8401.9	9863.5	11702.7	15874.1	20606.6	29255.9	56850.0	69686.7
Increase	-	2026.8	2120.1	577.7	1461.6	1839.2	4171.4	4732.5	8649.3	27594.1	12836.7
% Increase	-	54.8	37.0	7.1	17.4	18.7	35.6	29.8	42.0	94.3	22.6
% of Total	67.9	32.4	36.7	37.3	13.5	14.6	17.8	20.1	22.7	34.3	39.4
MOF	1000.0	11100.0	12600.0	13146.4	61838.1	67048.9	69729.9	77543.4	92175.7	98077.5	92352.7
Increase	-	10100.0	1500.0	546.4	48691.7	5210.8	2681.0	7813.5	14632.3	5901.8	-5724.8
% Increase	-	1010.0	13.5	4.3	370.4	8.4	4.0	11.2	18.9	6.4	-5.8
% of Total	18.4	62.8	58.9	58.4	84.9	83.7	78.4	75.8	71.6	59.1	52.3
MAF											
Increase						27.2	27.2	38.9	1262.0	2640.3	4145.6
% Increase						-	-	11.7	1223.1	1378.3	1505.3
% of Total						0.0	0.0	0.0	1.0	1.6	2.4
Education							643.6	744.9	940.2	1186.2	1548.8
Increase						-	-	101.2	195.3	246.0	362.6
% Increase						-	-	15.7	26.2	26.2	30.6
% of Total						0.7	0.7	0.7	0.7	0.7	0.9
Welfare											
% of Total										2493.6	1.4
Total	5446.6	17663.5	21390.4	22508.5	72823.2	80109.1	89001.0	102360.5	128762.5	165979.9	176705.1
Increase	12216.9	3726.9	3726.9	1118.1	50314.7	7285.9	8891.9	13359.5	26402.0	37217.4	10725.2
% Increase	224.3	21.1	21.1	5.2	223.5	10.0	11.1	15.0	25.8	28.9	6.5

Note: Figures were not strictly for ODA. Grants to Burma and South Korea were included from 1969 only, under the MOF allocation. MITI allocation included funds from JETRO after 1970.

Source: Same as for Table 6-5.

involved in constant monitoring of commitments of loans and grants and of the disbursement of grants. Budget requests for bilateral capital grants were for a fixed amount expected to be committed in the following financial year, whereas requests for multilateral grants and technical assistance (for JICA) included expected disbursements plus an allowance for further commitments. Requests for loan moneys (for the OECF and the Eximbank) were for anticipated disbursements (the MOF having previously assented to Government loan commitments formalised in an official exchange of notes) and for small amounts for prospective commitments. Through the compiling of the budget in September-December each year, the scope for the MOF to affect aid commitments was limited mainly to capital grants, and its ability to influence the committal of loans was exercised chiefly in the ongoing four-ministry loans committee.

Ministry aid budgeting followed the usual budget timetable. The Japanese fiscal year runs from 1 April each year to 31 March of the following calendar year, and ministries began formulating the next year's requests soon after the fiscal year commenced. During the summer, ministries developed new policies requiring budget allocation and bureau and divisional requests were arranged as the official ministry application. This was presented to the MOF by the end of August, normally after brief discussions with divisions of the Liberal Democratic Party's Policy Affairs Research Council (PARC).

In September there were ministry explanations (setsumei) of requests to the Budget Bureau, which in turn compiled draft allocations for each ministry over October and November. In December, the MOF Budget Conference ratified the Draft Budget, which was released about mid-December. This was followed by a week or so of "appeals (or revival) negotiations" between ministries, the LDP and the MOF - the

final step in budget discussions. Cabinet then approved the Draft Budget, which was sent to the Diet as the "Government Draft".

Preparation of budget requests drew on the resources of all divisions associated with economic cooperation.¹⁶ In the case of the MFA, the Policy Division of the Economic Cooperation Bureau coordinated the demands of divisions within the budget limits laid down by the Ministry's Accounting Division and by the MOF. Negotiation was carried on in an atmosphere of earnest intent, the emphasis being on fairness and direct dealing, in a wider context of budgeting strategy. The rules were known, understood and obeyed; mutual trust and confidence led to a certain predictability in approach and response.

Early talks between ministries and the Budget Bureau took place in May-June, before Government policy on the budget requests was decided and before ministries had settled on their own priorities. This allowed both sides the benefit of prior calculation of needs and of the extent of flexibility in the eventual position each would take. The Budget Bureau could generally gauge the size of economic cooperation requests even at this initial stage, as a result of discussions at two levels.

On the one hand, official talks were held between the Bureau and the Accounting Divisions of the respective ministries and, on the other, between the Budget Bureau and its client economic cooperation divisions, often in the course of routine implementation briefings. The Economic Cooperation Bureau, for example, would frequently press for greater planning in aid budgeting.¹⁷ In May 1976, it put to the Budget Bureau a scheme premised on growth in Japanese ODA to a conservative level of 0.33 percent of GNP, a target set by the 1976

Government Economic Plan, and on substantial improvements in the disbursement rate of Japanese aid committed.¹⁸ Its proposal involved an increase of the share of economic cooperation in the General Account of the Budget from 0.82 percent in 1977 to 0.97 percent in 1980, a demand which the Budget Bureau indicated it was not prepared to meet. "There are limits", said one Examiner, "to how far it can go".

This early manoeuvring, in which the MFA often tried to secure acceptance in principle of forward targeting for aid budgets, worked two ways, for the same documents could be drawn upon by both parties. One example was a World Bank report cited as being too negative by the MFA in its 1976 paper on budget planning: the report projected Japanese ODA as 0.18 percent of GNP by 1980, a figure which prompted a DAC response that Japan's 1980 ODA would be 0.36 percent of GNP. The MOF, however, regarded the World Bank analysis as "appropriate" and was careful to remind the MFA that the report implied slower-growing aid budgets.

Such arguments represented tactical positioning rather than desperate Budget Bureau attempts to cut back on expected requests or MFA moves to weaken the Budget Bureau stance. Both ministries knew the content of the World Bank and DAC reports in question, and the tenuous assumptions about future GNP growth on which each was based. The effective budgeting tools were the compiling of the intra-ministry budget request and the preparation of MOF budget policy for the year.¹⁹ Accounting Divisions could sense the ceilings within which the MOF expected them to operate. While the 1977 Budget compilation policy was not approved by Cabinet until 30 July 1976, when it imposed a limit on 1977 Budget requests of 115 percent of 1976 allocations,²⁰ one ministry Accounting Division Director, in early July, already assumed that

Budget Bureau attitudes and the prevailing economic climate gave little hope of more than the 115 percent imposed for the 1976 Budget. Of course, it was left to the discretion of this officer, the main budgeting official in ministries, to fit the various components of the ministry application into the request ceiling. The economic cooperation budget request, according to one Director, would obviously go above 115 percent but this could be balanced out within the total ministry figure.

Ministry requests originated in each division and in the implementing agencies but, as was pointed out in the previous chapter, the requests of different divisions depended on the aid they administered and the effect of the budget on its commitment and disbursement. The pressures of past budgets, ongoing policy and projects, and the interests of participants determined the size of the request from the division.

(a) The grant aid budget covered projects to be committed and budgeting itself was important in policy-making, in setting limits to new projects and policy directions. Since, however, both the MOF and the MFA each requested some grant aid, there had to be discussion between them. Food aid budgets were stable and the MFA took into account their impact on its own staff resources (for the MFA implemented food aid) while at the same time trying to increase its project grant aid allotment. The MFA had still to be sensitive to its capabilities, both in manpower and in the size of its budget. Thus grant aid to Mongolia of ¥5,000 million, which was originally proposed by an MFA regional bureau, was incorporated in the MOF budget request, not only because it was quasi-reparations but also because the Economic Cooperation Bureau feared that the large amount for this aid would upset the balance within the total MFA budget. This arrangement also permitted the Second Economic Cooperation Division to claim the projects

it originally desired, free from the imposition of that type of politically motivated policy item. According to officials of the Division, its budget was small enough without having to be defended against inroads by other MFA bureaus.

(b) The direct policy impact of the budget was strong also for multilateral aid, although it affected United Nations aid more than aid to international financial institutions, which was always given multi-year disbursement in the MOF budget. Multilateral aid brought in another bureau to MFA budgeting, the United Nations Bureau, which requested and implemented United Nations assistance budgets. Because of their size, large subscriptions to international agencies were often not finalised until late in the budget timetable.²¹

(c) Technical cooperation budgets were designed mainly to meet JICA needs, and here the MFA had to discuss its own requests with divisions of other ministries. The JICA Law required consultation (kyōgi) between MITI, the MAF, the MOF and the MFA concerning the JICA budget²² but, in fact, MITI and the MFA operated fairly independently. JICA drafted requests in June which were based on forecasts of the following year's disbursement by JICA agreed on in meetings between the relevant MFA/MITI/MAF divisions and corresponding JICA departments. The MFA Economic Cooperation Bureau's Policy Division had the power to express an opinion on the JICA budget, but mostly the responsible MFA division directed JICA. MITI and the MFA constructed plans for regional and country distribution of technical assistance and used these to prepare budget requests for technical aid programs. JICA was able to discuss with ministries the practicality of these plans and its view was respected, provided that Agency officials did not press too hard; MFA officers never hesitated to point out their officially subordinate

status.²³

In respect of agricultural aid, the MFA had to consult with the MAF, both directly (in the case of JICA loan funds) and indirectly through the JICA agricultural cooperation departments (for ordinary technical assistance). Since the MFA actually requested the agricultural portion of the JICA budget (which was not so for the mining and industry portion requested by MITI), the MFA was able to assert its influence over agricultural development policy. It was careful, however, to secure MAF agreement on budgets, for the MAF in the end provided the main technical staff for agricultural projects and controlled the agricultural departments of JICA. MAF officials emphasised that their opinion predominated if problems arose about the content of requests, and while they could be "direct and positive" in their approach, they were not always effective in forcing adjustments since, ultimately, the MFA made the request. Future cooperation demanded MAF support, however, and the Economic Cooperation Bureau was mindful of its own political weaknesses. On the other hand, it was ready to play off the MAF against MITI in any three-cornered argument, which often developed about the size of the budget for JICA loan finance.²⁴

This haphazard and rather tense process of MFA-MAF coordination was not followed for the JICA mining and industry-related budget, almost all of which was derived from MITI commissioned funds (itakuhi). It was requested independently of other ministries' aid budgets by MITI's Economic Cooperation Department, after talks in mid- to late June with the Economic Cooperation Bureau of the MFA on levels of request. There was no exchange of details. The Technical Cooperation Division of MITI drew up mining and industry technical cooperation policy²⁵ and, after reviewing this with JICA, incorporated

the amount in its own budget application.

Budget requests themselves were highly specific. Those for feasibility studies to be undertaken by JICA departments, for example, cited proposed projects by name, although these lists could be altered once the budget was finalised, provided no increase in expenditure was necessary. Likewise, intended project-base technical cooperation had to be clearly designated, but budgets for trainees and specialists had only to indicate proposed numbers of persons.²⁶

The JICA request was then included in the technical cooperation section of the Economic Cooperation Bureau's budget request, which usually totalled about 130 percent of the previous year's allocation. The First Technical Cooperation Division and Policy Division fitted it, after amendments, into the Bureau budget, which received its first test at meetings between the Accounting Division and Directors of the Policy and General Affairs Divisions of the MFA bureaus in early July. The Accounting Division next attempted to organise the requests as the Ministry budget application. This, again, was a task involving individual programs and expenditures weighed by directors whose influence was, of course, as dependent on their own personality and negotiating strength as on the intrinsic importance of their bureau's budget. These adjustments were also shaped by Ministry budget policy drawn up, in the case of the MFA in 1976, by the Director-General and General Affairs Counsellor of the Minister's Secretariat and the Accounting Division Director, and issued in mid-July. Economic cooperation always featured in MFA budget policy because it occupied about 47 percent of the whole Ministry budget. In contrast, aid was only a minor element of MITI's expansive budgetary priorities.²⁷

(d) Preparation of the budget for government loans involved an altogether different set of participants, principally the OECF, the Eximbank, the EPA and bureaus of the MOF. Similarities existed, of course, and the relationship between the agencies and their supervising ministries was close but by no means one-sided. Loan budgets were given for moneys to be disbursed in the following year and for some uncommitted disbursements (such as commodity aid); the actual budget preparations were largely divorced from commitments (and therefore from policy) in a way which grant aid was not. Loans budgeting was not entirely confined to the ministries as with other aid, mainly because funds for the OECF were not allocated to a ministry and then to an implementing body - as the JICA appropriation was - but were placed nominally in the MOF aid budget and drawn on directly by the OECF.²⁸ In formal terms, therefore, MITI and the MFA could not participate in loans budgeting. They were, however, members of the four-ministry committee which approved government loans commitments and affected levels of future disbursement and, consequently, budgetary allocation. They were also informally involved in low level discussions between junior ministry officers and OECF/Eximbank loans departments about individual projects and their effect on the budget.

The OECF presented its official request to the EPA, its supervising body, which passed it on to the MOF. The size of the request was based on: the results of early EPA discussions with the MOF on budget possibilities and EPA advice to the OECF on a suitable request limit; the level of commitments on new projects and expected commitments; and, more importantly, the progress of disbursement to ongoing projects. This last was the main information on which the Budget Bureau assessed OECF requests, for substantial undisbursed funds

implied blockages in implementing which new budgets would not remove. Indeed, only the OECF was really aware of its exact cash flow, and it provided a monthly statement to the MOF via the EPA in order to draw on General Revenue. Continuing loan commitments prevented the MOF, or even the EPA, from detailing the progress of disbursement.

Once the OECF and the EPA agreed on the request size, the OECF divided that sum into the amount to be drawn from General Account and the borrowing limit it wanted from the Trust Fund, ensuring that the cumulative balance of each remained in a ratio of 1:1. Requests were sent to the Budget Bureau and to the Financial Bureau respectively and the final balance was left to these two bureaus to settle, although disagreements were common. Conflict between the two about the proportion of amounts from General Account and the Trust Fund to be budgeted to the OECF appeared also in respect of the Eximbank budget. The MOF was not one ministry, it seemed, but many.

Differences were not permanent, however, as relations between the Budget Bureau and the International Finance Bureau concerning the OECF budget allocation demonstrated. Before making a request, the OECF discussed with the International Finance Bureau's Overseas Public Investment Division the structure and size of the request and the condition of projects included in it. It did this to provide the Ministry, through its specialist division, with knowledge of the details of the application, and advice from the Division assisted the Budget Bureau when deciding on a final allocation. The International Finance Bureau thus advised both parties, acting as mediator. On occasions, however, the Division appeared to have a split, rather than an integrated personality, on the one hand advocating the OECF view to the Budget Bureau and, on the other, modifying the OECF request by

arguments for restraint.

Before formal budget requests were made by the end of August, ministry submissions were discussed with appropriate committees of the LDP's PARC. These talks took place both before and after the official Ministry Budget Conference (yosan shōgi) which ratified the request. Officers met with the Special Committee on Overseas Economic Cooperation and with the Foreign Affairs Committee (for the MFA), the Commerce and Industry Committee (for MITI), and so on. In the case of the MFA, briefings were officially undertaken through the General Affairs Division of the Minister's Secretariat, not through the Accounting Division, and were said to be general explanations which altered few items. The earlier talks, however, which bureau directors attended, were an opportunity for the Ministry to put its budget submission to the politicians, to seek their support and to allay complaints. As one former Accounting Division Director explained, it was necessary that Diet Members' support be assured, their wishes catered for but their zeal often restrained. This was revealing about the limits within which ministry officials had to work and about the intricate relationships built up between ministries and Diet Members.

The focal point for this budgetary politics was the Director of the ministry's Accounting Division, and the last two holders of the position in the MFA were officers with considerable experience in the Economic Cooperation Bureau. Campbell likened finance officers to their American counterparts, hard-working, sincere men, but cunning and sensitive also, as Heclo and Wildavsky pointed out in relation to Britain.²⁹ The skill of the Principal Finance Officer there, they observed, lay in balancing internal demands with external conditions, understanding the market in budget politics. He had therefore to be

something of the lion and the fox, to possess a double character. In Japan, it was said, his skill was that of haragei, or "belly talk", the politician's style of negotiation. It was his duty to know, despite his formal isolation from the political process, what politicians wanted and how far they could be manipulated or accommodated. While relationships of trust were vital, these had to be interpreted in the context of the demand for budgets. The finance officer had to act as the "Budget Bureau" in his own ministry, and put his ministry's case firmly enough to Diet Members to garner their support when required, but not so strongly that the trust built up between him and the MOF was jeopardised.³⁰ The formal complexities of personal relations in Japan, however, meant that duty, obligation and honour had to be seen to be fulfilled, although in a policy area such as aid, the demands of politicians on ministry budget officers were less onerous than on officers dealing with domestic issues.

Request and Response

Requests for economic cooperation budgets were made independently by the ministries, to the Foreign Affairs-Economic Cooperation Desk of the MOF's Budget Bureau. Some of the ministries with small aid budgets requested directly to the Examiner responsible for their own ministry, whereupon the aid portion was re-routed to the Economic Cooperation Desk.

The request was compiled with the MOF directive on request limits in mind and a ministry Accounting Division chopped and changed bureau requests to fit the broad ministry budget. Table 6-7 reveals that total ministry requests for fiscal years 1975-77 kept very near the limits imposed by the MOF, but that their economic cooperation

request usually exceeded them by a wide margin. This indicates not that economic cooperation budgets were excluded from these guidelines but rather that ministries, especially those with aid budgets which were a minor portion of the total ministry budget (such as the EPA and Ministries of Education, Welfare, Transport, Labour, and Construction), absorbed the increases in the overall request. In the MFA, where economic cooperation took about half of the Ministry budget, restraint in requests for other programs was strictly enforced. Furthermore, there was no regularity between the size of ministry aid requests, which reinforces the evidence that officers in charge of aid budgeting in the ministries did not communicate with each other about their requests, except in a perfunctory way where it was legally required.

The fluctuation in the amount requested by most ministries was also an indication that single programs could determine the eventual scale of that request, especially when a ministry had only a few aid budget items. This is borne out by Table 6-8, which shows, for fiscal years 1975 and 1976, the size of ministry requests and allocations, and the increase in annual allocation in both bilateral and multilateral grants.³¹ It can be seen there that increases in economic cooperation requests varied greatly between ministries, although some levelling was apparent for 1976 in bilateral grants. Likewise, MOF response to requests (allocation/request) reflected their size, but there was no simple relationship between a large request and a proportionately small allocation. Substantial requests (such as those from the Welfare or Labour Ministries for 1975) brought different percentage allocations (77.5 percent to 56.8 percent respectively) and therefore increases of allocation in 1975 over 1974 diverged greatly (140.9 percent to 103.2 percent respectively). These phenomena were

TABLE 6-7

TOTAL BUDGET REQUEST AND ECONOMIC COOPERATION BUDGET REQUEST PER MINISTRY
 FY1975-FY1977: REQUEST DIVIDED BY PREVIOUS YEAR'S ALLOCATION
 (percent)

	FY 1975		FY 1976		FY 1977	
	Total	Economic Cooperation	Total	Economic Cooperation	Total	Economic Cooperation
EPA	n.a.	433.4	n.a.	120.9	n.a.	115.2
MFA	127.3	132.2	115.0	118.9	113.5	129.5
MOF	124.1	99.6	113.7	117.3	112.2	136.8
Education	124.9	153.7	115.0	125.1	114.3	125.6
Welfare	129.7	156.0	122.8	121.4	121.6	105.8
MAF	85.9	175.6	113.5	131.5	113.1	205.0
MITI	123.8	158.3	114.4	137.0	111.5	126.2
Transport	123.9	132.1	114.8	113.0	114.1	253.6
Labour	124.8	161.7	114.8	163.1	113.3	191.6
Construction	124.7	212.3	114.5	164.0	114.6	134.3
Total	123.5	113.5	116.8	119.0	118.7	134.5
Request Limit	125.0		115.0		115.0	

Note: n.a. = not available.

Economic cooperation requests represented requests for capital grants, technical assistance and multilateral aid. The EPA, Education, MAF, and Construction gave bilateral assistance only (technical assistance).

Source: Nihon keizai shimbun and MFA budget documents.

more apparent for multilateral grants because fixed, non-budgetary allocations (such as reparations or subscriptions to multilateral financial institutions) were either rising or falling, and Budget Bureau officials, although mindful of the need for restrained incremental growth, examined individual programs on their own merits. Increases or decreases approved were large enough to give rise to the patterns in Tables 6-7 and 6-8.

Tables 6-9 and 6-10 support this conclusion, for they demonstrate that when those items determined by non-budgetary factors were eliminated (by neglecting the MOF aid budget, which comprised reparations and contributions to international financing agencies) most allocations in 1975 and 1976 remained within the range representing incremental increase (100-129 percent of the previous year's allocation). A high proportion of items still lay outside this 30 percent band, however. While the previous year's allocation was an important determinant of new allocations (although 20 multilateral grant items received no increase), the MOF scrutinised individual programs, both in the small and in the large aid budgets, and approved increases where warranted. The outcome of the tussle over programs is one indication of the seat of power in the aid bureaucracy, but adequate data is, unfortunately, not available to test correlations between requests, size of single programs, allocations and size of total ministry budget. The most that can be said on the evidence of Tables 6-8 and 6-10 is that success in budget requests was variable and could not be a reliable measure of generalised power in aid policy. For example the MFA's relative success in 1975 (87.7 percent of request being approved and 29 of 100 items requested receiving an allocation of 130 percent or more) was not matched in 1976 (88.9 percent approval but

TABLE 6-8

ECONOMIC COOPERATION BUDGET FY1975 AND FY1976: SIZES OF ALLOCATIONS AND REQUESTS
(percent)

Ministry	FY 1975				FY 1976							
	Bilateral Grants (including technical assistance)		Multilateral Grants		Bilateral Grants (including technical assistance)		Multilateral Grants					
	75R/74A	75A/75R	75A/74A	75R/74A	75A/75R	75A/74A	76R/75A	76A/76R	76A/75A	76R/76R	76A/75A	
EPA	433.3	25.4	110.3	-	-	-	120.9	88.5	107.0	-	-	-
MFA	130.2	87.7	114.2	136.1	91.0	123.8	126.5	88.9	112.5	104.3	95.2	99.3
MOF	95.2	93.5	89.0	101.2	87.8	89.0	50.3	96.9	48.7	142.4	94.9	135.1
Education	153.7	81.0	124.5	-	-	-	125.1	85.7	107.2	-	-	-
Welfare	181.8	77.5	140.9	155.3	99.5	154.6	135.5	66.7	90.3	121.0	100.0	121.0
MAF	175.6	72.4	127.1	-	-	-	131.5	72.9	95.8	-	-	-
MITI	156.2	75.5	117.9	253.9	52.5	133.3	137.6	79.9	110.0	113.2	95.5	108.1
Transport	136.9	48.3	66.2	115.8	259.1	300.0	111.6	112.5	125.6	114.0	96.9	110.5
Labour	181.6	56.8	103.2	119.0	100.0	119.0	134.9	87.9	118.6	215.9	97.3	210.1
Construction	212.3	54.3	115.4	-	-	-	164.0	87.8	144.0	-	-	-
Total	119.9	87.5	104.9	108.4	88.7	96.2	102.5	88.9	91.0	132.9	95.0	126.3

Note: A = allocation, R = request, 74 = FY 1974, 75 = FY1975, 76 = FY1976.

EPA, Education, MAF and Construction gave no multilateral grants.

Source: MFA budget documents.

all other ministries (except one) increasing their approval rate, and only 15 items receiving 130 percent or more and 32 items in fact falling below 100 percent). Approval of MITI items showed a similar trend in the two years.

If the economic cooperation budget were subject to mostly incremental increases, despite irregularity in some programs, the MOF Budget Bureau probably considered ministry requests and explanations in much the same way as it did domestic budget programs. Most observers stated that the Budget Bureau was wary of the potential drain on budgetary reserves by aid budgets. The appeal by ministries for balance and fair treatment, their attempts to initiate planning, or reference by them to international aid trends and the dire implications of a stagnant foreign aid effort (perhaps the most common weapon in the aid officer's budget strategy), could be countered by an astute Budget Examiner. The expansionary effect of the built-in "contract" aspect of loans budgeting, for example, whereby advance commitments preceded budget allocation, was to some extent dampened by the implementation difficulties pointed to by the Budget Bureau. The same applied to requests for capital grants, the disbursement rate of which was normally low. The Budget Bureau's tendency to keep the discussion at the general level, avoiding details and individual projects (in loans at least), inhibited negotiation on policy and strengthened the Bureau's superiority in the broader issues of budgeting. Thus arguments against the OECF's request often concerned levels of disbursement and the proposed scope of new commitments and their fiscal impact. Ministry supplicants admitted, however, that the Budget Bureau recognised the need to increase aid budgets but only in balance with other categories. As ministry budget officials indicated,

TABLE 6-9

ECONOMIC COOPERATION BUDGET FY1975 AND FY1976:
ALLOCATION DIVIDED BY PREVIOUS YEAR'S ALLOCATION

Allocation/ Previous Year's Allocation (%)	FY 1975		FY 1976	
	Items	%	Items	%
under 80	4	2.3	16	8.4
80 - 89	2	1.2	28	14.7
90 - 99	2	1.2	27	14.1
100 - 109	68	39.5	61	32.0
110 - 119	24	13.9	25	13.1
120 - 129	24	13.9	13	6.8
130 - 139	13	7.6	3	1.6
140 - 149	8	4.7	4	2.1
150 - 159	2	1.2	6	3.1
160 - 169	2	1.2	1	0.5
170 - 179	3	1.7	2	1.0
180 - 249	8	4.7	3	1.6
250 & over	12	6.9	2	1.0
Total	172	100.0	191	100.0

- Notes:
1. Excludes reparations and contributions to multilateral financial institutions (part of the MOF budget), but includes aid budget items for MFA, MITI, MAF, Education, EPA, Construction, Labour, Transport, Welfare, Justice and the Administrative Management Agency.
 2. Budget requests were classified as headings, sub-headings, programs and sub-programs. Items counted included sub-programs, programs without sub-programs, sub-headings without programs, etc., budgeted in 1974, 1975 and 1976 and those budgeted in just 1975 and 1976, making 172 items in 1975 and 191 items in 1976.

Source: MFA budget documents.

TABLE 6-10

ECONOMIC COOPERATION BUDGET 1975 AND 1976: ALLOCATION DIVIDED BY PREVIOUS YEAR'S ALLOCATION, BY MINISTRY
(fiscal year, number of items)

	MFA		MITI		MAF		Education		EPA		Construction		Labour		Transport		Welfare		Justice		AMA		Total		
	75	76	75	76	75	76	75	76	75	76	75	76	75	76	75	76	75	76	75	76	75	76	75	76	
Under 80%	1	3	2	5	3	4											2						4	16	
80 - 89	1	17	5		1	1	1	1	1	1	1	1	2	1	1	1							2	28	
90 - 99	2	12	5	3	4	1	1	1	1	1	1					1						1	2	27	
100 - 109	42	39	6	7	3	4	4	5	1	1	4	4	2	2	1	2	2	2	2			1	68	61	
110 - 119	9	16	8	2	1	3	1	1	1	1	1	2	2	1	2	1			1				24	25	
120 - 129	16	10	3	1	2	1	2	1				1					1	1				1	24	13	
130 - 139	8	2	2	2	1	1																	13	3	
140 - 149	5	4	2	1																			8	4	
150 - 159		5	1														2						2	6	
160 - 169	1			1							1												2	1	
170 - 179	2		1			1										1							3	2	
180 - 249	6	2		1		1							1										8	3	
250 & over	7	2		1		3									1								12	2	
Total	100	112	22	22	11	16	15	17	2	2	4	4	6	6	5	5	5	5	5	1	1	1	1	172	191

Note: AMA refers to the Administrative Management Agency.

Source: Same as for Table 6-9.

then, there were many MOF approaches to aid budget requests: balance, the restrictions of broad ministry fiscal and budget policy and the implications of those for individual expenditures, and especially the skill of each Budget Examiner in understanding the nature of aid programs and their effect on the Budget.³²

The need for a Budget Examiner to be familiar with aid was upset by the tendency for career officers (which the Examiner (shukeikan) and his Investigators (shusa) always were) to move from post to post within the Ministry every two years or so.³³ Other ministries complained that by the time an Investigator began to understand aid, he was due to be transferred. Their complaints were all the more pertinent because the Examiner and his staff exhibited the "double character" of ministry Finance Officers. It was the Investigators who had to argue for economic cooperation at the Budget Bureau Conference (kyokugi) on each ministry's budget in late October or early November. On the other hand, claimed the MOF, regular movement of officers imbued examining staff with the "amateur's eye" necessary for a common sense assessment of aid and, in a wider context, ensured that officers remained uncommitted to any one policy area.

Budget Bureau examinations were undertaken with the Examiners adopting a strict MOF approach to foreign aid. That approach was based above all on domestic considerations: the effects of aid policy on the home economy and on the benefits accruing to the Japanese people, in other words the "cooperative" aspects of economic cooperation. For this reason, it was said that the people had to endorse aid giving, and that the MOF's self-appointed task was to ensure that aid was economically sound and was kept within the limits imposed by fiscal restraint. Not only should aid be justified in sound economic terms,

but it had also to be used efficiently. This austere attitude was essentially no different from those standards applied to other public funds, but the diffuse aid administration allowed the MOF view to prevail when the "market in budget politics" might otherwise have prevented it.

Furthermore, this attitude was expressed strongly and frequently in inter-ministry negotiations throughout the year on budget implementation and on pending projects, and during extensive pre-budget informal discussions. Both ministries and the Budget Bureau agreed that the outlines of requests and opposing positions were well known before the requests were actually made. Constant communication fostered expectations of incremental change.

Despite the reasoned treatment of requests, the final meetings in the Budget Bureau to settle ministry allocations were, in the words of one Investigator, "a fight for the spoils" (bundori gassen). Investigators had to know their subject and how far they could push for a fair share within the whole budget. The Investigator therefore was one of the few individuals substantially to affect the size of the aid budget.

Mood Building

Success in achieving increased aid budgets was often dependent on the ministries' ability to build a climate within the Government favourable to aid. In this vein, for example, overseas criticism of Japan's aid effort had a telling effect on aid budgeting. A severely critical response at the DAC annual Examination of Japan in 1976 brought newspaper calls for a thorough restructuring of Japan's aid, including budgeting.³⁴ It also prompted agreement by the MFA and the MOF that

every effort would be made to hold Japan's ODA at 0.24 percent of GNP in 1977 by increasing grant and multilateral aid budgets.³⁵ In addition, the Policy Division of the MFA Economic Cooperation Bureau would try to direct pressures onto the MOF to improve the chances for favourable allocations to foreign aid. From its own intelligence work the Policy Division could build up a complete picture of the aid requests of the ministries and from that it could judge where and how best to lobby. The Policy Division Director himself often made the difference between a successful and an unsuccessful campaign, since he was the Bureau contact with the political and business world most aware of trends in policy. He cooperated with those politicians interested in more progressive aid policies, one of whom was Minato Tetsurō. Indeed, a paper written and published in Minato's name in a respected development journal, which argued strongly for the implementation of a long-term budget framework for aid, was in fact originally drafted by the Policy Division.³⁶ The need for a public relations campaign to raise public awareness of aid was also catered to by the MFA.³⁷

While the MFA was not over-concerned with the effect of its aid budget on domestic client groups, preparatory informal negotiation and "mood building" (nemawashi) were not neglected. In 1976, its Policy Division seemed pleased with its tactics in this respect. Not only had it encouraged September statements by the Advisory Council and the Keidanren on the need for a more positive government response to aid policy,³⁸ but also it worked with reporters from the Nihon keizai shimbun and Asahi shimbun attached to the MFA to publicise Japan's low aid commitment and loan disbursement, in an effort to prevent the MOF using these figures as a pretext for cutting budgets.³⁹ The resulting articles brought a sharp informal reaction from the MOF and an official

response in a counter-article.⁴⁰

Other ministries mobilised domestic client support, or rather used the momentum initiated by clients, to promote budget requests despite MOF reservations. One clear example was the approval in the 1977 Budget of a scheme for bond insurance, part of a MITI campaign to step up exports of Japanese plant and equipment. The MITI budget request for 1977 was built around the need to increase exports,⁴¹ although MOF policy was slanted towards public works expenditure and away from export drives which it saw as causing adverse reaction overseas.⁴² This policy included restrictions on the growth of allocations to the Export-Import Bank.⁴³ The bond insurance scheme was first proposed in 1975 because of Japanese failures to secure contracts on large scale projects. It was heavily backed by large construction companies (notably Kashima, which was able to go ahead with studies of the Nigerian rapid transit railway once the scheme was approved),⁴⁴ overseas trading companies and consultants, the Aid Advisory Council, Keidanren and by numerous politicians. It was finally agreed to in appeals talks between the Minister of International Trade and Industry, Tanaka Tatsuo, and the Minister of Finance, Bō Hideo, on 19 January 1977.⁴⁵

Before the appeals negotiations, the LDP was also active, at all three levels which Campbell describes: rank and file members, unofficial groups and official party organs. After hearings with ministries before requests, little happened over the summer. Informal talks by ministries and agencies with LDP aid-related members, such as the Chairman of the Special Committee on Overseas Economic Cooperation (in 1976, Tanaka Tatsuo), were held before and after requests,⁴⁶ but it was not until the Diet reconvened in September that the Party became

fully occupied with the budget. There was a chance for individual members to use the Diet forum for their contribution to the aid debate,⁴⁷ but total Party participation did not eventuate until after the MOF Draft was completed. The LDP's Compilation Program, released shortly before the MOF Draft, was a vague and, in relation to economic cooperation, quite useless document in any policy or budgeting sense.⁴⁸

The Final Phase

The MOF Draft was shown (naiji) to the ministries in December or early January, after which about ten days of renegotiations took place. The 1977 budget naiji occurred on January 13 and the Government Budget Draft was ratified by Cabinet on January 20. The publication in the newspapers of the MOF Draft was the first occasion on which the economic cooperation budget became publicly known as a single policy expenditure, since no one ministry requested all or most of the aid budget.

Between 1965 and 1975, the economic cooperation budget was always increased during appeals negotiations. Whereas rises in other budget categories were consistently small (with only Public Works allocations being raised by over 5 percent at any time), economic cooperation was allowed wide increases, although the variations flattened out towards the end of the period (see Table 6-11). These extreme changes during the appeals negotiations suggested that attention was directed towards specific programs within the economic cooperation budget since, as the economic cooperation budget increased in gross terms and as a percentage of the General Account (see Table 6-5), so changes due to appeals negotiations stabilised.

TABLE 6-11

BUDGET GENERAL ACCOUNT: MOF DRAFT AND GOVERNMENT DRAFT ALLOCATIONS FOR VARIOUS CATEGORIES, 1965-1975
(fiscal year, yen hundred million)

	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975
Social Security											
MOF	4910.1	5989.0	6909.9	8122.0	9448.1	11252.4	13386.2	16338.5	21056.7	28812.0	38476.3
Govt	5164.2	6217.1	7181.9	8156.6	9469.6	11371.1	13440.8	16414.7	21145.4	28906.8	39269.2
Increase	254.1	228.1	272.0	34.6	21.5	118.7	54.6	76.2	88.7	94.8	792.9
% Change	5.2	3.8	3.9	0.4	0.2	1.1	0.4	0.5	0.4	0.3	2.1
Education & Science											
MOF	4634.1	5303.6	6000.3	6943.9	7982.6	9129.2	10612.5	12858.9	15266.0	19154.5	25983.5
Govt	4757.4	5432.7	6246.1	7024.5	8057.4	9256.4	10788.8	13043.8	15702.3	19632.8	26400.7
Increase	123.3	129.1	245.8	80.6	74.8	127.2	176.3	184.9	436.3	478.3	417.2
% Change	2.7	2.4	4.1	1.2	0.9	1.4	1.7	1.4	2.9	2.5	1.6
Defence											
MOF	2975.2	3366.9	3736.4	4220.7	4838.1	5965.2	6709.3	7998.4	9354.6	10930.2	13273.2
Govt	3104.2	3406.5	3809.0	4220.8	4838.1	5695.2	6709.0	8030.0	9354.6	10930.2	13273.2
Increase	129.0	39.6	72.6	0.1	0.0	0.0	-0.3	31.6	0.0	0.0	0.0
% Change	4.3	1.2	1.9	0.0	0.0	0.0	0.0	0.4	0.0	0.0	0.0
Public Works											
MOF	6587.7	8378.0	9615.2	10485.6	10934.8	13678.8	15979.0	20921.0	27464.7	28156.1	28864.1
Govt	6926.7	8804.0	10005.0	10700.6	12063.6	14098.8	16655.9	21484.7	28407.7	28407.1	29095.2
Increase	339.0	426.0	389.8	215.0	1128.8	420.0	676.0	563.7	943.0	251.0	231.1
% Change	11.4	5.1	4.1	2.1	10.3	3.1	4.2	2.7	3.4	0.9	0.8
Trade Promotion & Economic Cooperation											
MOF	107.5	188.2	301.9	460.3	637.5	899.0	965.5	1082.0	1210.4	1534.8	1677.4
Govt	129.3	282.4	365.4	481.5	835.4	909.1	1011.0	1152.2	1287.6	1659.8	1767.1
Increase	22.8	94.2	63.5	21.2	198.9	10.1	145.5	170.2	77.1	125.0	89.7
% Change	21.2	50.1	21.0	4.7	31.2	1.1	15.1	15.7	6.4	8.1	5.3
Total MOF and Govt	36580.8	43142.7	49509.1	58186.0	67395.7	79497.6	94143.3	114704.7	142840.7	170994.3	212888.0

Note: The total size of both MOF and Government budgets (General Account) was the same.

Source: Nihon keizai shimbun, various issues.

Campbell sees appeals negotiations to be essential to the Japanese budget process, allowing broad participation in bargaining, MOF ascertainment of ministry priorities and the allocation of policy expenditures. Some officials referred to them as an operation stage-managed (furitsuke) by the MOF to assess real ministry wishes. The division of appeals into four stages, involving division directors, bureau directors, vice-ministers and then ministers in separate talks, allowed the MOF to manage negotiations. As appeals went higher, available options became clearer and ministerial stances more or less obvious, while preserving "face" and "playing to the galleries" occupied more time. Most allocations were solved before vice-ministers were called upon and problems which then advanced to the ministerial talks were those in which considerable political investment had been made.

As far as economic cooperation was concerned, the same items appeared regularly. Capital allocations to the OECF, Export-Import Bank and to the OTCA (now JICA) were settled before or at the vice-ministerial discussions, but the OECF amount was often not approved until ministerial negotiations. Table 6-12 shows that appeals negotiations increases for the OECF and the Bank were always made from both the Trust Fund and General Account/Industrial Investment Account. Additions were frequently made to the MFA grant or technical assistance budget, or to emergency aid. That loan allocations came up each year, however, suggested that, while vital to aid expenditures, the OECF budget was very political, and perhaps beyond the authority of the MOF to control. The MOF could only seek to restrain the expectations of ministries and politicians and, as Table 6-12 reveals, it may have been successful in this. Appeals increases for both sources of

TABLE 6-12

BUDGET ALLOCATIONS FOR OECF AND EXPORT-IMPORT BANK, 1965-1975: MOF DRAFT AND GOVERNMENT DRAFT
(yen hundred million)

	OECF												
	General Account					Export-Import Bank							
	MOF (a)	Govt (b)	b/a%	MOF (a)	Govt (b)	Trust Fund b/a%	MOF (a)	Govt (b)	Industrial Investment Account b/a%	MOF (a)	Govt (b)	Trust Fund b/a%	
1965	10	10	100.0	-	10	-	-	275	290	105.5	919	919	100.0
1966	60	75	125.0	60	75	125.0	350	370	105.7	1090	1150	105.5	
1967	75	90	120.0	75	90	120.0	370	430	116.2	1750	1850	105.7	
1968	60	60	100.0	60	200	333.3	460	480	104.3	2290	2150	93.9	
1969	214	224	104.7	276	276	100.0	595	635	106.7	2860	2820	98.6	
1970	280	290	103.6	292	310	102.7	740	760	102.7	2710	2730	100.7	
1971	305	330	108.2	380	400	105.3	630	650	103.2	3075	3140	102.1	
1972	380	420	110.5	540	610	113.0	600	630	105.0	3950	4200	106.3	
1973	530	560	105.7	628	695	110.7	580	630	108.6	4815	4865	101.0	
1974	600	650	108.3	720	770	106.9	450	600	133.3	5565	5565	100.0	
1975	610	650	106.6	840	945	112.5	550	620	112.7	5565	5595	100.5	

Note: (a) = MOF draft budget, (b) = Government draft budget.

Source: Nihon keizai shimbun, various issues.

OECD funds were not large.

Campbell's conclusion about the appeals negotiations - it was "the [budget] period in which the influence of the Liberal Democratic Party is brought to bear most obviously and directly" - held for economic cooperation, although as a rule the articulation of political interests concerning aid was less noticeable in budgeting than at other points in the lengthy development of aid policies. The Party participated formally when ministries lobbied the LDP Special Economic Cooperation Committee, and the PARC Divisions, for increases in programs and items. These approaches were incorporated in Party representations to the MOF, depending on the Party's own priorities and on the likelihood of settlement early in appeals. The personal interests of politicians were sometimes involved, for example in the creation of the bond insurance scheme or in the representations made by individual Diet Members in the course of pursuing private political ends.⁴⁹ The Prime Minister himself, or senior ministers, could urge general increases in the aid budget, which occurred in early 1977 when economic cooperation was taken to the final Party-Government talks as Prime Minister Fukuda unsuccessfully tried to achieve an aid budget which represented a future commitment to 0.30 percent of GNP.

Conclusion: Did Aid Equal Budgeting?

The structure of the Japanese aid system affected budgeting in two distinct ways:

- (a) Because there was no central aid agency or ministry in Japan, the MOF, especially its Budget Bureau, scrutinised ministry programs and, because of the lack of comprehensive forward

planning for aid, provided the only overall coordination. Differences between ministries regarding their own needs and poor coordination between their individual programs meant that there was no advance determination of the total size of the annual aid appropriation. Aid items were spread throughout the budget under different votes and the original negotiations about these were carried out separately with the Budget Bureau by fourteen agencies and ministries. The total aid budget was not known publicly until the MOF released its Draft Budget in December.

MOF control of a ministry's participation in aid imposed severe constraints on that ministry in determining its own aid priorities. The gross amount of aid commitments was decided on budgetary considerations, and annual budgeting tied levels of aid committed to levels of past commitments. While the budget allowed opportunities for the growth and development of aid, they were restricted, and incremental expansion of many ministry aid budgets was, in the long term, harder to control and harmful to policy coordination. Aid policy as a budget category was assessed more as a collection of individual programs than in macro-budgeting terms and, because there were no specific country policies, bilateral aid relationships could not be separated from domestic Japanese fiscal problems.

- (b) The dispersion of the aid system and the predominance of loan allocations within the aid budget weakened Budget Bureau and MOF control of the eventual size of the aid budget. Request compilation by ministries illustrated how budget

deadlines concentrated ministry thinking and forced decisions at low levels of aid decision-making, balancing the strong influence of the Budget Bureau on the broader outlines of policy. The resources of the Budget Bureau were not large enough to provide coordination of all aid flows, even if it so desired. While the Budget Bureau surveyed the whole span of aid policy, it was a fleeting and limited view, in contrast to the detailed scrutiny of separate sections of MFA programs required when the MFA Economic Cooperation Bureau prepared its request. The MOF shared in decision-making on loans within the four-ministry committee system, and budgeting became a segment of loans policy-making and a link in the continuing cycle of bilateral aid relationships. There was increased scope for politics to enter into budgeting, and political constraints on the MOF in aid budgeting multiplied. The wider participation of the MOF in decisions on the allocation of aid (compared to systems with an independent aid agency) was countermanded by greater politicisation of aid policy.

The nature of aid financing, predominantly commitments to long-running projects, encouraged incrementalism in aid budgeting. The small size of the total aid budget, however, enhanced the impact of individual programs on it, contributing to instability in budget increases, fluctuations in the shares of ministries and to changes in the share of aid in the General Account. Budget inertia restricted aid to some extent, for the natural stability in budgeting practices reinforced traditional MOF suspicion of foreign aid as a worthwhile government pursuit.

Being unable to extract aid from the single-year budgeting framework constituted a fundamental barrier to a more flexible aid policy and one in which forward planning and commitments could benefit recipient countries. This inflexibility contributed to the quantitative growth of the aid program rather than to improvement in its content. Ministries were played off against the MOF and against each other and, as a result, debate centred not so much on policy per se but on the merits of one program against others. Individual programs and projects were emphasised and ministries confronted the MOF on that basis. While budgeting provided a salutary pressure for ministries to review and justify their own programs, it could not, by its very nature, coordinate different levels of aid to produce a cohesive and forward-looking policy. Budgeting looked to the past to order its short-term future.

CHAPTER 7

BILATERAL AID RELATIONSHIPS

Budgets and procedures were imperative in determining the directions, quantities and terms of Japanese aid flows, but were not, however, the only factors: also important was the way in which a demand for aid arose and was turned into a request for assistance. It was a request from a potential recipient which first set officials working on an aid problem and initiated the series of decisions which we described in the previous two chapters.

This and the following chapter will examine how bilateral relationships influenced policy-making by providing the external stimulus which the bureaucracy lacked. We show that while requests were treated on a case-by-case basis, the background of each request and the total bilateral relationship involved in each circumscribed the freedom of choice which officials enjoyed in policy. Selected recipients were favoured in special relationships which came to dominate the swelling "cycle" of aid flows.

Bilateral Loans and Aid Policy

Japanese aid policy-making displayed five characteristics, which led to the preoccupation of officials with bilateral loans to Asian nations above all other aspects of the program:

- (a) a donor oriented emphasis on "economic cooperation" rather than on "aid", this being the easiest way of constructing a program identified with the view of no single ministry;

- (b) a preference for government loans, fostered by MITI's stress in aid management on the linkage between trade and aid, a desire by the MOF to minimise the economic burden on Japan's finances, and by political objectives pursued by the MFA's regional bureaus in assessing aid requests;
- (c) career structures which hindered the growth of special expertise;
- (d) a tendency to focus on the details of the aid program, on individual projects and cases, rather than on the general picture. This micro-approach resulted from the absence of policy guidelines, the importance of budgeting in all areas of policy and the diversity of unrelated procedures for deciding on and managing aid;
- (e) the low political relevance of aid and, correspondingly, the switching of political interest to types of aid profitable to contractors and pressure groups.

The effect of these biases showed clearly in the functional distribution of Japanese aid. Bilateral loans formed 33.1 percent of total Japanese ODA in 1960, rose to 54.7 percent in 1970 and dropped slightly to 51.4 percent in 1976. Between 1970 and 1976, loans never fell below 50 percent of ODA (see Table 1-1). According to Table 1-2, furthermore, official aid flowed in the main to Asia, especially to Southeast Asia. Table 7-1 shows how slowly the range of recipients of government loans expanded: in the late 1960s new Asian recipients increased but it was only after 1973 that the number of recipients in regions other than Asia grew rapidly and, by 1975, 15 countries in

TABLE 7-1

NUMBER OF NEW RECIPIENTS OF GOVERNMENT BILATERAL LOANS, 1957-1975
(fiscal year)

Year	New Recipients	Asia	Middle East	Africa	Central & South America	Other	Cumulative Total
1957	1	1	0	0	0	0	1
1958	0	0	0	0	0	0	1
1959	2	1	0	0	1	0	3
1960	0	0	0	0	0	0	3
1961	2	1	0	0	1	0	5
1962	0	0	0	0	0	0	5
1963	0	0	0	0	0	0	5
1964	0	0	0	0	0	0	5
1965	6	3	1	0	2	0	11
1966	7	2	0	4	0	1	18
1967	1	1	0	0	0	0	19
1968	4	4	0	0	0	0	23
1969	1	1	0	0	0	0	24
1970	1	1	0	0	0	0	25
1971	2	0	1	0	1	0	27
1972	3	1	0	2	0	0	30
1973	6	0	0	4	2	0	36
1974	7	1	2	3	1	0	43
1975	4	0	0	2	2	0	47
Total	47	17	4	15	10	1	47

Source: Computed from Tsūshō sangyōshō, Keizai kyōryoku no genjō to mondaiten (Ministry of International Trade and Industry, Economic cooperation: present situation and problems), 1976, Appendix, Table 16.

Africa had received direct loans, rivalling the 17 in Asia. In value (Table 7-2), however, the African share (7.3 percent) paled beside that of Asian countries (83.6 percent).

A startling 85 percent of all loans made by the Overseas Economic Cooperation Fund (OECF) until the end of 1975 went to Asia, 78.1 percent going to 6 countries alone (Indonesia, South Korea, the Philippines, Thailand, Burma and Malaysia).¹ The 10 main recipients of Japanese (OECF and Export-Import Bank) loans were, in order, Indonesia, India, South Korea, Pakistan, the Philippines, Thailand, Malaysia, Iraq, Bangladesh and Egypt, all but two being Asian nations (see Table 7-3). Indeed, Tables 7-4 and 7-5 show what little change there was between 1965 and 1974 in the pattern of recipient regions and nations. The accumulated value of yen loans as distributed geographically was concentrated in South Asia up to 1960 but by 1965 the Southeast Asian tally nearly matched this. After 1965, Southeast Asia was well ahead as the leading recipient region and the Middle East and Africa only became prominent in the first half of the 1970s. The top recipient nations have seldom varied, with India, South Korea, Pakistan and, after 1965, Indonesia always being the leading four. Minor placings show Taiwan, Malaysia, the Philippines, Thailand and Burma consolidating their positions over the latter half of the 1960s and into the 1970s, while others entered the list with occasional loans, such as Nigeria, Brazil and Iraq in 1965. Those countries whose place as important recipients resulted from the gradual accumulation of loan commitments from Japan were all Asian, and Indonesia's rise was perhaps the most remarkable.²

The strength of Japan's ties with a few countries was confirmed by her ranking as a donor in their total aid receipts. In

TABLE 7-2

GEOGRAPHICAL DISTRIBUTION OF ACCUMULATED VALUE OF
JAPANESE GOVERNMENT LOANS COMMITTED UP TO NOVEMBER 1976

Region	Value (yen 100 million)	%
Southeast Asia	14663.7	58.1
South and West Asia	6446.7	25.5
Central and South America	821.0	3.3
Middle East/Europe	1453.5	5.8
Africa	1836.3	7.3
Total	25221.2	100.0

Note: "Europe" was included because of loans to Yugoslavia in 1966 and 1972.

Source: Keizai kyōryoku no genjō to mondaiten, 1976, Table 1-8, p.213.

TABLE 7-3

THE TEN MAIN RECIPIENTS OF JAPANESE GOVERNMENT LOANS COMMITTED UP TO NOVEMBER 1976
(Yen million)

Country	Type of Loan				Total	% of Loans to ALL Recipients
	Project	Commodity	Debt Refinancing	Food		
Indonesia	408366	145600	54133	37419	645518	25.6
India	120444	164817	96160	-	381421	15.1
South Korea	166808	55000	-	121594	343402	13.6
Pakistan	72090	49488	16250	19283	157111	6.2
Philippines	46569	49820	-	9932	106321	4.2
Thailand	102440	-	-	-	102440	4.1
Malaysia	90000	-	-	-	90000	3.6
Iraq	74500	-	-	-	74500	3.0
Bangladesh	4500	33500	24513	7467	69980	2.8
Egypt	43805	25580	-	-	69385	2.8

Source: Same as for Table 7-2.

1975, according to MITI, Japan was the largest contributor of aid to Indonesia, Burma, Thailand, Malaysia, the Philippines and Peru and ranked first with the United States in aiding South Korea. Japan's position as a supplier of aid was high in Asian countries but low in Africa, where French and British aid predominated. In some South American countries (such as Brazil) Japan's aid performance improved in the mid-1970s.³ As Table 7-6 reveals, in fact, those countries to which Japan's aid was directed in greatest quantities often depended on Japan as the largest source of their foreign aid receipts. This interdependence served to strengthen bilateral aid relationships.

The distribution of government loans suggested an inflexibility of bilateral flows and negative attitudes to an active donor role by Japanese officials.⁴ The unswerving Japanese demand for government-to-government requests to initiate aid was indicative of cautious conservatism and of a strong desire to avoid accusations of intervention in LDC domestic affairs. Initiative in policy was inhibited by this, and by the reluctance to give a greater proportion of aid as multilateral assistance, a demand that aid given be visible, the lack of budget and country planning and by Japanese Government acceptance of the "international division of aid labour" concept, whereby her own comparative advantage was seen to lie in assisting Asian development.⁵ The corollary implied that aid relations with nations in Africa, the Middle East or Latin America, except in special circumstances, should be restrained.⁶

TABLE 7-4
 GEOGRAPHICAL DISTRIBUTION OF JAPANESE GOVERNMENT LOANS:
 ACCUMULATED VALUE OF COMMITMENTS UP TO SELECTED YEARS
 (yen 100 million)

	1965		1968		1971		1974	
	Value	%	Value	%	Value	%	Value	%
Southeast Asia	1287	40.5	3138	50.1	6654	58.7	12568	60.1
South and West Asia	1584	49.7	2588	41.3	3784	33.4	5358	25.6
Central and South America	253	7.9	301	4.8	531	4.7	724	3.5
Middle East and Europe	61	1.9	79	1.3	209	1.8	1165	5.6
Africa	-	-	158	2.5	158	1.4	1099	5.2
Total	3185	100.0	6264	100.0	11336	100.0	20915	100.0

Source: Keizai kyōryoku no genjō to mondaiten, 1975, Table 1-5, pp.194-5.

TABLE 7-6

GROSS RECEIPTS OF ODA BY, AND JAPAN'S RANKING AS A DONOR TO,
 SELECTED DEVELOPING COUNTRIES, 1969-1972
 (US\$ million, gross disbursements, annual average)

Country	Total DAC Bilateral	Japan	Donor Ranking	Japan as % of Total
Philippines	87.7	50.4	1	57.5
Burma	31.7	20.8	1	65.6
Taiwan	16.6	14.5	1	87.3
South Korea	322.3	111.4	2	34.6
Indonesia	482.2	110.2	2	22.9
Thailand	63.4	15.7	2	24.8
Malaysia	38.1	10.0	2	26.2
Singapore	24.7	4.9	2	19.8
Sri Lanka	50.7	7.0	3	13.8
Iran	28.7	4.8	4	16.7
Bangladesh	52.0	4.4	4	8.5
Peru	35.9	2.5	4	7.0
Nigeria	90.2	3.2	6	3.5

Source: OECD, Development Cooperation: Efforts and Policies of the Members of the Development Assistance Committee, 1974 Review, Paris, 1974, Table 73, pp.272-5.

Viewing Bilateral Relationships

David Wall concluded in his book, The Charity of Nations, that "there are no objective criteria which can be used to determine the allocation of aid". It is necessary, he added, for some people to "be selected and called on to exercise their subjective judgement in determining how much (if any) should be made available, who should get it, in what forms, for what purposes and on what terms".⁷ In Japan, however, these people still had to operate within a fixed institutional environment. It was not simply a matter of balancing political, diplomatic or economic factors in favour of one policy course or decision, for influences were often quite erratic or operated in a way which confirmed identifiable objectives.

(a) International Effort and Aid Giving

Japan was party to 20 separate aid consortia in 1976.⁸ These groups did not necessarily determine future levels of aid from donors but attempted to coordinate the policies of aid givers with the domestic economic policies of the recipient government.⁹ On the other hand, as the Indian example revealed, consortia were not always able to maintain the flow of aid at levels which the recipient desired, nor even to assure donor concurrence with a recipient government's economic priorities.¹⁰ Donor priorities could even dominate. From the donor's point of view, consortia regularised assessment of recipient needs and the willingness to give aid in the light of international effort, and isolated bilateral aid relationships from political criticism in both donor and recipient countries.

Japan was a member of the Inter-Governmental Group on Indonesia (IGGI) from its inception in 1967 and always bore one of the

largest donor burdens. "The IGGI arrangement", wrote Viviani, "has been of crucial importance for the reconstruction of the Indonesian economy";¹¹ it was also essential to the development of Japanese-Indonesian aid relations and of Japan's aid policy itself. It was the most influential aid consortium of which Japan was a member, and Indonesia was the only recipient of Japanese aid which received a total volume commitment before the specific purposes of loans were agreed upon. The arrangement reflected a secure and self-satisfied approach to the bilateral relationship by donor and recipient and a structured bureaucratic response in Japan to the thorny problems of aid to a country both close and unknown.¹² International and domestic pressures upon aid relations with Indonesia removed much management responsibility from officials, whose control of aid flows was weakened by the dependence of the IGGI system on adequate preparation of projects and requests for financing approvals.

Meetings of the IGGI were held annually in Amsterdam about the middle of each year. The Japanese team comprised officials of the MFA, the MOF and MITI and an OECF observer and was headed by senior officers of the MFA's Economic Cooperation Bureau.¹³ While there were bilateral talks preceding the IGGI conference until 1974, the only annual official bilateral contact after 1974 consisted of a visit by top Indonesian officials or ministers to Japan immediately before the Amsterdam conference. The former system involved Indonesian requests for total volume of aid, followed up by an OECF "identification mission" whose report guided decisions on project selection.¹⁴

Under the system operating in 1976 projects were not selected until after the Japanese Government had fixed on its total commitment to

the year's IGGI assistance and after this was pledged at the IGGI meeting. Projects were, however, never very far from the minds of member government officials. The Indonesians favoured certain projects, as did Japanese ministries (even those not involved in loans decisions) and, as a Government, Japan intended its pledge to be used to finance projects which it regarded as the most suitable (according to the criteria outlined in Chapter 5). Before IGGI convened, Japanese officials ranked candidate projects according to two documents: the World Bank report on Indonesian economic conditions, and the listing by Bappenas (the Indonesian planning authority) of 200-300 projects both being undertaken and yet to begin.¹⁵

The Japanese Government fixed on a level of commitment shortly before the IGGI meeting, after loans consultations between the four ministries on the loans committee. According to officials, this decision was easy to reach, since the general parameters had already been established by the previous year's commitments, Indonesian demands, expected pledges from other donors and by the likelihood of Japan's supporting particular projects. The IGGI conference included discussions of Indonesia's economic outlook and projects by themselves were not an agenda item.

Official bilateral discussions between Indonesian and Japanese officials were held several months after the IGGI met. Before these talks, at which the projects for the year were settled, Japanese missions visited Indonesia to discuss possibilities and Indonesia, like any other recipient, sent an official request for projects through diplomatic channels to the Japanese Government.

Requests from Jakarta reflected clear Indonesian Government

policies on project development. As a general principle, according to Tokyo Embassy officials, Indonesia preferred the same donor which had financed feasibility studies on a project to take up any project loan. The detailed implications of this are examined in Chapter 8, but this policy helped strengthen bilateral ties and the links between technical aid for surveys and project loan aid. When projects were undertaken from start to finish by Japan, it lessened the uncertainties in the bilateral relationship, and made these aid flows self-generating and self-reinforcing.

Bilateral meetings were devoted to the technical details and relative feasibility of projects, and at this conference-table venue the final shape of Japan's loan program to Indonesia was determined. The options were greatly narrowed by this time, and although differences between Japanese and Indonesian representatives still appeared regarding methods of financing projects,¹⁶ the two governments agreed substantially on the functions of the IGGI and on the kinds of project to be funded through it.¹⁷

Japan was well served by the IGGI, for most of her bilateral aid to Indonesia, indeed a large slice of her total government aid, was thus ostensibly removed from overt political pressure and benefited from the legitimacy it derived from an internationally coordinated aid program. Criticism of non-IGGI Japanese aid to Indonesia, which had continued since the 1958-59 scandals surrounding reparations agreements,¹⁸ did not flow on to IGGI aid, except insofar as the total share of Indonesia in Japan's development assistance was seen to be too large.¹⁹

The bilateral relationship was affected by methods of project

selection necessary for financing under commitment through the IGGI. Japanese Government criteria for loans projects were not abrogated in the choice of suitable projects for Japan's IGGI aid, and the assumptions on which this was made indicated that the objectives of donor and recipient overlapped considerably. Project choice, without doubt, demonstrated the usefulness of the IGGI, defined by Posthumus as "the extent to which the development objectives of donor governments and organisations can be adapted to or fitted into Indonesia's development objectives",²⁰ to both Governments.

The fact that aid pledged at the IGGI was managed through formalised procedures was important, for the following reasons:

- (i) promoters of Indonesian projects were guaranteed regular opportunities for the exposure of their proposals to an international forum and to the world's largest aid donors (an assurance not given for other recipients to nearly the same extent);
- (ii) Japanese officials knew that, because of commercial interest in using IGGI-base aid to finance development schemes, their responsibility for identifying and promoting feasible projects would be lighter than for other recipient nations, especially those outside Asia.

In this sense, the accumulation within the Japanese Government of information about Indonesian economic conditions was partly automatic, and continually expanding, with less effort needed from officials.

Officials, however, should not be underestimated. The OECF, even though it was an implementing agency, had great influence with

regard to Indonesia in domestic loans policy-making, because of its expertise and the extent of personal rapport built up over the years between itself and the Indonesian Government, especially with officials of Bappenas. While career officials in the ministries changed posts regularly, OECF staffing was more stable but, more importantly, systems and procedures for aiding Indonesia were soundly institutionalised, and the OECF fitted easily into the structure of loans management as a specialist loans agency.

(b) Broader Policy Perspectives

The stability of the IGGI arrangement typified Japanese attitudes to its largest aid recipient and as an aid policy mechanism, the IGGI was very efficient.

In comparison, therefore, it is worth examining the Japan-South Korea Ministerial Meetings, which formed the apex of an aid relationship which was always special. The Ministerial Meetings occurred annually and incorporated discussions of topics other than aid, but projected levels of Japanese commitment were announced to coincide with them. Japanese aid to South Korea was affected by the vicissitudes of the political relationship in a way unique among Japan's aid recipients.²¹ The inter-relationship of their history, geography and culture helped forge close links between Japanese aid administrators and South Korean officials, and some Japanese even claimed that only the South Koreans truly understood the Japanese aid system.²²

The South Korean ability to use the Japanese administration effectively was a telling weapon in the bilateral aid dialogue. It was a clear example of (i) the closest working relations between Japanese and any recipient government officials, and (ii) the subordination of

aid policy to a political relationship. The South Koreans alone enjoyed a linguistic heritage similar to the Japanese and were able to build upon an economic base formed by lengthy Japanese occupation. We shall not attempt here to analyse the politics of the Japanese-South Korean aid relationship, but it is worth noting that Indonesia was not the only country for which aid relations were continuously governed by institutionalised contacts between senior bureaucrats and ministers.

The Indonesian and South Korean aid relationships with Japan were "special relationships", where economic feasibility was easily subordinated to political necessity.²³ Aid for "special" recipients was managed more carefully and often by higher officials than aid to other developing countries. The imprimatur of a bureau director or vice-minister came to be required, and both the IGGI and South Korean commitments automatically required approval from bureau directors or ministers. Large projects in these countries were also ratified at this level, especially because ministers sometimes had a personal interest in the loans in question.²⁴

Many pressures made some aid relationships "special". Simple political and economic necessity, for example, meant that Japan's aid relations with the Middle East became very "special" after 1973.²⁵ Whatever the cause, an élite group of recipients emerged, outside the normal classification of LDCs by per capita income. This, in turn, reinforced existing biases in Japan's aid administration (the emphasis on bilateral project loans) or created new ones, such as preferences for joint government-private financing of massive resource projects. Because, however, not all sections of the donor administration looked on special relationships as warranted, inconsistencies could develop in donor policy. As a case in point, the MOF regarded aid to Indonesia as

having been too freely spent and tried unsuccessfully to hold down IGGI commitments.

Special relationships persisted, nevertheless. Not even the MOF foresaw in 1976 any change in the status of Indonesia as a recipient²⁶ or a lessening of the aid flow to that country. The view that Indonesia occupied a strategic place in Southeast Asia was not confined to the MFA. Indonesia as a source of raw materials and as a suitable target for Japanese direct investment figured prominently in the minds of MITI and MOF officials. The size of Japanese loans to Indonesia for oil and natural gas development testified to the strength of these views and of political and business articulation of similar ideas. The Asahan project, for which an initial government loan was made in August 1976, was an excellent example of how private initiative and leadership encouraged government assistance necessary for overseas private investment.

Plans to develop the Asahan region in Northern Sumatra and to tap the waters of Lake Toba had a long history.²⁷ The Dutch first made studies of the water resources in the area in 1908 and plans for a hydro-electricity scheme were being considered at the outbreak of World War II. During the Japanese Occupation of Indonesia a survey of Northern Sumatra resources was partially completed by a team led by Kubota Yutaka, head of the Yalu River Hydro-Electric Power Company, and the idea of using hydro-electric power to operate an aluminium refinery was rekindled. After the war, Kubota (as President of Nippon Kōei, Japan's first firm of consultant civil engineers) tried unsuccessfully to interest both the Indonesian and Japanese Governments in Asahan as a possible reparations project, and other leading industrialists, including Iwata Yoshio, Matsunaga Anzaemon and Ayukawa Gisuke, attempted to

initiate the scheme, but its cost proved prohibitive.²⁸

It was not until 1967 that Kubota again raised the question of the Asahan project with the Indonesians, and with the backing of a Japanese Government loan, a full-scale survey was made between 1970 and 1972. Four years of negotiations followed, involving the Indonesian and Japanese Governments and Japanese business, and an agreement was concluded in 1975 in which five Japanese aluminium companies and the trading firms agreed to undertake Asahan development using Japanese Government finance.²⁹ The "Asahan formula", for supporting large projects underlined the complex ties existing in such schemes even when political and economic interests were in harmony. The question of donor leadership was important and Asahan negotiations were, until the final stages, directed by the group of aluminium companies chaired by Sumitomo Metal.

The companies originally disagreed with the Government when tenders were first called in 1972. Officials were not keen to support a costly dam-plus-refinery package, and the MOF was doubtful of granting a concessional loan (eventually 3.5 percent over 28 years with 7 years' grace) for private investment, while the MFA was worried about the imbalances which could arise between IGGI donors. Despite these reservations, it seems that high policy - industrial relocation, support for Indonesia's political and industrial decentralisation, establishment of a Japanese presence in the Malacca Straits area - prevailed in both countries. Only when the Japanese Cabinet agreed on 4 July 1975 to designate Asahan a "national project" (one given full Government support because of its acknowledged importance in Japan's own policies) was Government assistance assured. MITI officials coordinated efforts to secure Government financing³⁰ and the "Asahan method" was deemed a model

of effective Government-business cooperation in overseas development.³¹

Japanese Government support for other private business activity in Indonesia also arose directly from pursuit of official policy objectives. One result of the enthusiasm which appeared in Japan in the late 1960s for overseas development of agricultural commodities, especially foodgrains, was the Mitsugoro project in the Lampung region of Southern Sumatra, a joint venture between Mitsui Bussan and Kosgoro, one of the business organisations of the Indonesian Veterans' Association. OECF financing³² for the project continued for seven years and originally resulted from: (i) Mitsui eagerness to push ahead with the first project in overseas maize development, coupled with strong backing from its Indonesian counterparts and from the Indonesian Government; (ii) support from Japanese officials (especially the MAF) offered out of considerations of development import and the need to diversify import sources; and (iii) a hurried, incomplete survey of the proposed site and of the future of the project.

The plan was far more attractive on paper than in reality. A catalogue of the misfortunes which befell the Mitsugoro project prompted speculation on why finance was first approved and why it was continued even when the joint venture was losing about US\$400,000 per year in 1976-77. Officials explained it as simple enthusiasm for development import policy, and as confidence in Mitsui's ability to complete the project successfully. While that confidence was to some extent misplaced, the project was of such symbolic value to the bilateral relationship, as the pioneer agricultural development project, that the OECF continued its funding.

The primacy of official and private policies in aid

relationships also appeared in Japanese ties with Brazil. This relationship was similar in many ways to that with Indonesia, and both were, to the Japanese, close and friendly partners in a "special relationship". Japanese Government capital assistance to Brazil stretched back to an early yen loan in 1961 under consortium arrangements. Up to November 1976, Japan lent a total of ¥22,839 million to Brazil, slightly less than the ¥24,500 million to the other large Latin American recipient, Peru. Total technical cooperation between 1954 and 1975 was ¥1,454 million, which surpassed that to any nation in South America although it was well below the leading Asian recipients.³³ In September 1976, a far reaching aid agreement between the two countries was signed, opening the way for greatly increased Japanese participation in Brazilian economic development.³⁴

The agreement was an overt response to purely political and economic considerations, promoted by politicians and influential bureaucrats,³⁵ since complementarity of the Japanese and Brazilian economies (especially in respect of resources) was well understood,³⁶ as was the desire of private enterprise to move ahead with government assisted investment. The same government-business cooperative pattern which emerged in the Asahan case was followed in an aluminum smelter-refinery project at Belem.

Other issues underlay the politics of the relationship. As with Mitsugoro, the MAF argued strongly for the overseas development of primary products, which culminated in JICA loans to maize development at Serad. This project was pushed by MAF International Cooperation Division officials, but was supported also by widespread bureaucratic pressure to activate JICA financing and, possibly, to test the JICA legislation itself.³⁷ These were temporary phenomena but they certainly had an

effect in translating perceived economic potential into policy. Another longer-term factor was the impact of emigration policy on Japan-Brazil relations. Of 69,933 government assisted emigrants who left Japan between 1952 and 1974, 51,267 (80.2 percent) went to Brazil.³⁸ The contribution of Japanese emigration policy to Brazilian development was acknowledged in the joint communique between Prime Minister Miki and President Geisel in September 1976.³⁹ The link between Japan and Brazil created by emigration directly affected the policy-making process, it seems, for Japanese officials claimed an affinity with their Brazilian counterparts not expressed except in other special relationships with Indonesia or South Korea. It was asserted that official negotiations were easier when certain cultural understandings could be taken for granted by both sides.⁴⁰

This argument was a serious one and demonstrated a perhaps unconscious rationalisation of an aid relationship strongly criticised within Japan.⁴¹ The "cultural alliance" thesis was, however, a handy exception to the common Japanese theme of geographical proximity as a determinant of aid flows, or to the international division of aid labour concept.

(c) The Minor Politics of Aid

In addition to the "high politics" described above, bilateral aid relationships were subject to lesser influences. "Special relationships" did not constitute the whole of Japan's foreign aid policy; the pawns as well as the knights of the aid process profoundly affected the outcomes in bilateral relationships and policy-makers accommodated the interests of many politicians, businessmen and "hangers-on". Policy was not simply the result of rational calculation

of the economic options.

The minor politics of aid was most evident in the preparatory stages of ordinary requests, but Chapter 8 will describe in detail why this was so. There were few predictable patterns, but desk officers in the ministries to whom came requests from LDC governments were the first targets of pressure which was directed upwards if necessary. For a country in which aid had low political relevance, Japan had an active aid business lobby, although aid bureaucrats assiduously denied the influence, even the presence, of interest groups. Decisions, they claimed, were organisational and rational.

It is true that aid officials made the decisions, although only from the options which they perceived. Budget officers, as we have seen, were more realistic since they expected and accepted pressures and were able to balance them with the constraints of MOF policy. Aid officials, however, were reluctant to acknowledge the LDP's Special Committee on Overseas Economic Cooperation, but admitted nevertheless that they frequently attended its meetings and provided it with whatever information it required. At budgeting time also they sought its support and tried to temper its demands. This was indicative of at least some latent power which could be exercised by the Committee and our evidence has already shown the influence of the Committee in the establishment of JICA and in the creation of the bond insurance scheme.

Individual members of the Committee were active in aid relationships which personally interested them, as occurred in the Japan-Brazil Agricultural Development Cooperation Committee which lobbied for aid to Brazil. Minato Tetsurō, who has been cited throughout the thesis, was a man publicly committed to the development

of Japan's aid program, but even he had his political career to consider. Minato happened to be born in the same prefecture as Noguchi Hideo, one of Japan's most revered scientists, who discovered the cause of yellow fever and eventually died of the disease in Accra on the Gold Coast (now Ghana) in 1928. Minato represented the Second Fukushima constituency, the one in which Noguchi's birthplace was situated, from 1963. The centenary of Noguchi's birth in 1976 led Minato to try and secure Japanese Government funding of a Noguchi Memorial Research Centre in Accra.

This incident showed how a minor aid relationship expanded for reasons unrelated to normal development criteria. Ghana received a small amount of Japanese aid, mainly technical assistance, although some debt rescheduling was made through the Ghana Aid consortium in 1968 and 1975 and Kennedy Round food aid was donated in 1975. In that year Ghana received the fourth largest share of Japan's technical assistance in Africa after Kenya, Tanzania and Ethiopia, and over one third (39.2 percent) of this was medical aid.⁴² Assistance began in 1968 after the visit of a mission to the country in 1966 under Shirahama Nikichi, an LDP Member of the House of Representatives and Chairman of the Medical Aid Sub-committee of the Party's Special Committee on Overseas Economic Cooperation.⁴³ Until 1974, 29 experts had spent time in Ghana and 17 study missions had visited the country. The Fukushima Prefectural Medical University acted as the sponsoring organisation in Japan and Honda Kenji, Professor at the University, led the first project survey mission to Ghana in June 1968.

The concept of the Noguchi Centre originated at this time. Minato was said to have discussed the idea first with Honda; it certainly did not originate with the Ghanaian Government. It was

Minato, university authorities and the Noguchi Hideo Centenary Remembrance Action Committee who lobbied the MFA, the MOF and the Ministry of Education over a period of years. Talks took place between officials of the two governments in May 1976 and a joint statement on 2 November 1976 announced the plan and the proposed construction. The MFA requested ¥1,000 million for the project as part of its grant aid request for the 1977 Budget. The MOF attitude was cool but it had little room to refuse in the light of Noguchi's place in Japanese cultural history and on the occasion of his centenary. The proposal was well timed, well planned and matched the MOF's criteria for grant aid: it was both feasible and visible.⁴⁴ Whether it coincided with Ghana's own priorities for aid projects was less certain.

Smooth and efficient lobbying by Minato and those associated with the Fukushima group contrasted with the aid activities of another Diet Member in regard also to a minor recipient of Japan's aid. This incident demonstrated how easily bilateral aid relationships were jeopardised, because of bureaucratic susceptibility to political pressures, inadequate procedures, or the perceptions in recipient countries of the working relationships between business and government in Japan and of the way they affected aid policy decisions.

The country involved was Papua New Guinea (PNG), then peripheral to the central interests of Japanese aid policy-makers, even though Japan was regarded as a potentially important aid donor by PNG. Aid to PNG up to 1976 was mainly given as technical assistance, although a ¥660 million grant was made in November 1975 for the construction of a fisheries college, the first Japanese grant made to a South Pacific nation. A bilateral agreement in December 1977 for loans on extremely favourable terms was evidence of a positive Japanese response to the

articulation of consistent recipient aid policies.⁴⁵ A feasibility study of the Purari hydro-electricity scheme was financed by JICA from MITI funds and in 1976 was the most expensive survey then being undertaken by JICA's Mining and Industry Department.⁴⁶ Japanese private investment in PNG in 1975 totalled US\$8.20 million, well above the US\$5.43 million of 1974 but only one third of the US\$24.87 million invested in 1973.⁴⁷

The present example concerns Japanese Government support, through the OECF's "general projects" assistance scheme (the same funding provided for the Mitsugoro project in Indonesia) for Japanese private investment in PNG. Financing "general projects" (ippan anken) was the original work of the OECF before it began to make direct government loans in 1965, but in 1975 financing (yūshi) and capitalisation (shusshi) of private Japanese companies' overseas development projects made up only 16.9 percent of total OECF overseas funding,⁴⁸ and budgets for ippan anken generally took about 10 percent of the total OECF allocation.⁴⁹ The loan in this instance came under guidelines laid down in 1961, when an agreement with the Export-Import Bank determined that the OECF would finance projects in agriculture, forestry and marine sectors but would not be involved in plant export financing (a further agreement in July 1975, which gave the Export-Import Bank the responsibility for all funding to private enterprise, still left the "experimental stages" of projects to the OECF).⁵⁰

When assessing applications from companies for funds, the OECF used four main criteria to eliminate the numerous unsatisfactory requests:⁵¹ (i) the company and its experience in the kind of project proposed; (ii) the likely benefits to the LDC deriving from the project (based on the country's own stated priorities, if any); (iii)

the MOF attitude (although except in large or special applications, approvals for overseas investment were given automatically by the Bank of Japan on behalf of the Finance Minister);⁵² and (iv) the MFA attitude. The regional bureaus of the MFA were naturally watchful of the potential political implications of such financing, particularly if projects were on a wide scale or made up a significant proportion of the flow of funds to the country in question. The OECF had a stronger voice in decisions concerning these company loans than it did on direct government loans (see Chapter 5), provided that the proposal did not breach MOF or MFA guidelines on direct investment.

In spite of the OECF's authority, it was still susceptible to external pressure, as in the case of a loan to a company named Tōkai reberā kōgyō, an engineering firm based in Nagoya with capital of ¥50 million. It was founded in 1959 by its President, Matsumoto Saburō.⁵³ The company received a loan of ¥800 million from the OECF in early 1972 to develop oil palm on the island of New Britain in PNG, which was the company's first ever overseas development work and certainly its first oil palm venture. A joint agreement was entered into with the PNG Government in March 1972, but a dispute arose in 1975 over the design and manufacture of the oil palm mill (among other things). Despite mediation, settlement could not be reached. After precipitate intervention by the Japanese MFA, which demanded a reconsideration of PNG's position, the PNG Government introduced legislation in August 1976 to nullify the joint venture agreement⁵⁴ and expropriated the company's assets. An independent assessor was called upon to draw up a settlement and compensation was made to the company by the PNG Government.

While the incident revealed problems on both sides, there were serious weaknesses in Japanese decision-making. OECF officials

admitted that, in retrospect, it was a mistake to have approved a substantial loan to a company totally inexperienced in oil palm development and undertaking its first overseas project on a large scale in a remote part of a country relatively unknown to the Japanese. In addition, Japanese companies had done little oil palm development and the fact that the OECF loan was tied to procurement in Japan meant that similar problems of inexperience may have arisen even with other Japanese investors. Intensive study of the proposal had been necessary, but approval was forced by the intervention of a Member of the Japanese Diet. The company was registered in his electorate and he was said to maintain a financial interest in its operations, and to have wartime associations with the New Britain area. This politician was not, however, a Member of the Liberal Democratic Party but the Secretary of the opposition Democratic Socialist Party, Tsukamoto Saburō.

It was at Tsukamoto's insistence that the loan was originally approved and with his support that Tōkai reberā pursued its case in Japan when compromise could not be reached in 1976. Tsukamoto asked a question of Prime Minister Miki in the House of Representatives on 1 October 1976 concerning the Government attitude to what he saw as a high handed reaction by the PNG Government. This brought a response from his own Party, since the statement bore no relation to Party policy and was made, it considered, purely out of personal interest.⁵⁵ Tsukamoto's involvement (and the MFA's early aggressive stance) hindered officials in the OECF and MITI in their attempts to arrange agreement between the company and PNG in late 1976.

Although for a short time the continuance of economic cooperation between Japan and PNG was brought into question, the OECF considered the affair to be instructive. Japanese officials were made

more aware of the frailty of some government financed operations, particularly where normal decision-making processes were replaced by pressures which diverted attention from established procedure. In PNG, the need to ensure that foreign investors clearly understood and followed investment guidelines became obvious.

(d) The Information Gap

What each of these bilateral relationships had in common was a problem of information or intelligence. All were isolated examples, but each was in some way affected by the state of information available, information being one of the basic resources of policy-makers.⁵⁶ The difference between these cases, and the variations in bilateral relations represented by them, resulted from an "information gap", which constituted an overall problem for Japan's foreign aid administration.

The essence of the "special relationships" between Japan and some recipients lay in familiarity. Indonesia, South Korea and Brazil (among others) enjoyed favourable treatment in policy terms, because of the cumulative weight on policy-makers of flows of financial, human and informational resources between Japan and those countries. The realising of Japan's economic and political aspirations and the coincidence of recipient governments' development priorities with Japan's desire for secure and visible projects, were possible because of the ease with which "proximate policy-makers" conversed. In regard to Indonesia, the existence of formal aid giving structures was helpful, but even before the IGGI began there were intimate ties between Japanese and Indonesian élites.⁵⁷

The other cases we examined - Asahan, Mitsugoro, the Noguchi Hospital and PNG oil palm development - can also be discussed in terms

of knowledge of local conditions, history or culture. Relationships founded on precise information were likely to be beneficial to donor and to recipient. Japanese private enterprises, especially engineering consultants whose own future depended on their success in promoting economic cooperation, acted as middle-men, often compensating for the inability of the Japanese Government to appreciate local situations.

Problems of information were related directly to attitudes to aid giving and their effect on the distribution of aid flows. We mentioned above the concept of an "international division of aid labour" and how it was entrenched in the Japanese official mind. While the Japanese were not alone in holding such a view,⁵⁸ it helped reinforce other influences on the dispersion of aid:

(1) The desire that aid should be visible (perhaps a natural donor response) was zealously expressed in Japanese policy. The kudos attributed to a donor was regarded by Japanese aid officials as a justification necessary to the aid process, and from this sprang the perception of aid as an exchange, or as "cooperation". There may have been cultural roots to this tendency, for Japanese social custom stressed ninjō, or compassion, an essential element of relationships between two people which developed together with bonds of obligation in a tight fabric of emotional accounting. This led to an overriding concern to foster a few close relationships at the expense of many others. There was a demand for compensation for favours and the avoidance of relations in which exchange was absent. One writer suggested that the weak Japanese understanding of noblesse oblige was a result of these social customs. That they were one influence on aid policy was confirmed by the stated relevance of ninjō to bilateral aid.⁵⁹

Such attitudes affected aid relations with and limited Japanese understanding of Africa in particular. The African continent received, until the mid-1970s, only a minute portion of Japanese official assistance (see Table 1-2). The first government loan was made to Uganda in 1966, followed by credits to Tanzania, Kenya and Nigeria in the same year. The country which received the greatest amount of Japanese loans was Egypt and, of Black African nations, Zaire.⁶⁰ A sudden increase in the number of African recipients was not apparent until after 1973, coinciding with the visit of the Japanese Foreign Minister, Kimura Takeo, to Black Africa in late 1974 and with heightened Japanese diplomatic interest in the region.

The policy that second loans were not approved to a new recipient African country before a period of five years elapsed was rigidly adhered to, except in the case of Egypt, and then only because of a loan given in 1975 to help reopen the Suez Canal. Of other African recipients, only Kenya and Nigeria received two or more loans up to 1975, Kenya in 1966 and 1972, Nigeria in 1966, 1972 and 1973. Clearly, concern about the ability of these nations to use loan aid effectively influenced request assessment. Of the 17 countries to which capital grants were given until November 1976, only one (Tanzania) was African, despite the policy of giving to least-developed countries (LLDCs) and to most seriously affected countries (MSACs) and the greater concentration of these nations in Africa.⁶¹ The total value of Japanese technical assistance to African countries between 1954 and 1975 was ¥8,741.5 million, 12.3 percent of total Japanese technical assistance. ¥1,432.6 million of this consisted of medical aid, 21.2 percent of total Japanese medical assistance. Japanese Overseas Cooperation Volunteers (JOCV) were active in Africa also, 21.5 percent (¥1,969.3 million) of total JOCV

aid between 1965 and 1974 going to the continent.⁶²

Africa was regarded by aid officials in Japan as distant and difficult to deal with. They complained, rightly or wrongly, that Africans thought differently from Southeast Asians and that aid negotiations were correspondingly more protracted. They predicted that these difficulties would not soon diminish, despite growing aid flows to the region. Japanese knew little about Africa and about the conditions upon which aid requests were made, and loan officials cited this as one reason why decisions on aid to Africa took much longer than on similar requests from Asian countries.⁶³ At a more materialistic level, they perceived that trading benefits to Japan from aid to Africa were insufficient to warrant a shift in priorities. Africa was regarded as something like the "dark continent" into which Japanese aid disappeared with no acknowledgement of its origins. Even multilateral aid officials saw the African Development Bank as unsatisfactory, for it offered Japanese multilateral assistance far less visibility than did, for example, the Asian Development Bank.⁶⁴

In short, prevailing attitudes towards countries in Africa as recipients only strengthened the bias in favour of Asia and the established decision-making and information gathering procedures. Patterns of aid proved hard to redirect.

(2) Structural factors also influenced the flow of information. We have discussed previously the lack of professional aid officers and of regional aid specialists in government service,⁶⁵ but there was no "intellectual infrastructure" in the Japanese aid bureaucracy which gave officers a background broader than their immediate desk responsibilities. Concern for career obviated the need to develop expertise in aid, least

of all towards minor recipients. There was no country programming, except for some planning of directions of technical aid for budgeting. As a result, the official policy emphasis on a broader distribution of aid flows was not subjected to consistent internal appraisal, nor was the concentration of aid on a few special relationships countered by a bureaucratic presence, in the form of specialist officers or programs, representing small aid recipients.

(3) This was the result not only of biases in attitudes and information gathering but also of poor information systems in Japan. The Administrative Management Agency report on economic cooperation of 1974 identified the following problems:

- (i) poor preparation for pre-feasibility surveys in LDCs, unsatisfactory surveys and resulting inappropriate assistance;
- (ii) insufficient collecting of information in overseas embassies and poor communication with home ministries, leading to the despatch of the wrong specialists and equipment and to delays in surveys;
- (iii) lack of proper information systems in Japan, to link ministries, agencies and research institutions;
- (iv) misuse of specialists' reports and surveys.

The report recommended the establishment of information storage and retrieval within the aid bureaucracy to enable technical reports to be fully utilised, improved embassy reporting of conditions and requests and of recipient government priorities, and reform of the method of preparing official surveys overseas. It also suggested better use of project finding and project identification surveys and the creation of

the means of professional assessment of aid completed and in progress.⁶⁶

Ministry responses to the report were vague and non-committal. There was in 1976 no central information bank for the reference of aid-related sections, nor any systematic exchange of information, except of embassy derived material. Ministries continued to collect their own sources and the functional distinction between the MFA and MITI, for example, was exacerbated. There was no clearing house for survey reports, access to which was said to be difficult even on an informal basis. Both JICA's annual report in 1974 and a senior official of the Agency, Tanaka Tsuneo, recommended improvement of the survey process, especially in regard to applying reports to national planning of the survey program.⁶⁷

In 1976, there were two development research centres in Japan associated with the aid bureaucracy, but neither organisation effectively aided the distribution of information, and work done on commission was in theory for the commissioning agent alone. The Institute for Developing Economies (Ajia keizai kenkyūjo, or Ajiaken) was set up under legislation in 1960 and was responsible to the Minister for International Trade and Industry,⁶⁸ while the International Development Centre (IDC) was founded in 1971 with support from government, private and academic circles. About 90 percent of the Ajiaken's budget was provided from the MITI budget, while IDC's working capital was made up of contributions from seven different ministries, mainly for specified development surveys.

(4) Japanese embassies were at the forefront of the bilateral aid relationship. Aid requests were channelled through them and embassy officers handled much of the negotiation leading up to an exchange of

notes between governments. The Administrative Management Agency, however, regarded the reporting functions of embassies as inadequately fulfilled, and other writers have observed notable intelligence failures on the part of the MFA, which had serious diplomatic consequences.⁶⁹

The embassy in any foreign service is the nucleus for intelligence gathering networks, even though its direct effect on policy-making may be limited. Officers posted overseas by the Japanese MFA were closest to events in recipient countries and desk officers in Tokyo relied on them for initial assessments of aid proposals (see Chapter 5). As Fukui states in his study of the MFA, however, there was a fine line between policy formulation and the gathering and processing of information.⁷⁰ Certainly in foreign aid, the latter continually defined options in the former.

The embassy's participation in aid policy was restricted but still necessary. William Wallace, echoing the 1969 Duncan report on Overseas Representation, considered the "buffer" function of British overseas missions to have remained valuable. "The role of the embassy", he wrote, "has become much more one of establishing and maintaining contacts with the ministers and officials of foreign governments ... of providing 'the essential "door-opening" function' for 'experts flown over from London for short meetings', of providing an element of continuity".⁷¹ In the Japanese situation, where embassies did not house the specialist staff of a central aid agency as British missions did, this function was even more valuable. Maintenance of smooth relations with recipient governments by senior and junior embassy officers partly offset the lack of aid expertise within the embassy. Negotiations carried out on orders from Tokyo were more manageable.

The status of the embassy as seen from Tokyo was low. It was allowed little initiative in aid and its staff responded to their own bureaus or ministries. MITI and MFA officers were often at odds in their attitude to relations between Japan and the particular LDC and a sense of competition regarding aid proposals was frequently present. The functions of the embassy reaffirmed the tendency of the aid administration to favour domestic, not LDC, priorities. The embassy was not in a position demonstrably to affect the flow of aid other than in exceptional circumstances. The foreign mission reinforced prevailing patterns in aid policy-making.

OECD or JICA offices in developing countries⁷² often took much of the load of economic and aid reporting and their staff acted as unofficial aid attachés. One former OECD representative in Indonesia certainly conceived his post in such a light, although embassy officers stressed that only they had any official authority. In contrast to their useful reporting, however, the local presence of agency officials strengthened flows of information and magnified, rather than mitigated, the bureaucratic inclination to favour those recipient countries.

The career management policies of the MFA did not lead to officers from economic cooperation desks being sent to the corresponding overseas mission. There were examples of senior officials moving from the level of counsellor in the Economic Cooperation Bureau to senior positions in the Japanese Embassy in Indonesia, but on the whole between 1965 and 1975 there was no distinct pattern of movement of officers in the Embassy in Jakarta to or from positions related to Indonesian economic cooperation.⁷³ A period of service in the Economic Cooperation Bureau usually entailed a few years in a developing country embassy afterwards, but this did not seem to be carried through in any consistent

way. Indeed, the generalist traditions of the Japanese MFA worked against that, and officials in 1976 noticed no divergence from this principle.

The MFA saw no need to alter established practice. Policy was still directed from home and the overseas despatch of Tokyo-based officers on aid business as it arose was a regular feature of policy-making. The need to staff small embassies in minor recipient capitals did not warrant changes in career policies. Periodic visits from headquarters officials associated with policy developments in the ministries were seen as more effective than the posting of officers with aid experience. Even though the information gathering functions of the overseas mission could not be fulfilled by Tokyo officials (especially because of the poor communication between ministries and the representatives of most LDC embassies in Tokyo),⁷⁴ its duties were limited both by tradition and by the manoeuvrability of ministry personnel.⁷⁵

Conclusion: Aid Allocation and the Aid Cycle

David Wall's conclusion about aid relationships - that no rational criteria are used in the problem of aid allocation - can be applied equally to Japanese foreign aid. In Japan, many policy questions concerning distribution and geographical and sectoral emphasis, were answered by inbuilt structural characteristics and by the "information gap". A "cycle" of aid to selected recipients was apparent, one which built up some individual aid flows as policy continued to be slanted to a few countries. This cycle was effective not only in increasing the quantity and diversity of aid to those countries, but also in lessening the opportunities for the adequate assessment of aid to alternative

recipients.

The "aid cycle" had several implications for policy-making:

- (a) "Special" relationships were not very susceptible to bureaucratic politics or to the influence of officials on the size and scope of aid flows. Officials were responsible for the details of policy implementation. As the following chapter will explain, however, the options for diversifying policy were significantly narrowed by the mechanisms of project management.
- (b) Bilateral aid policy-making was open to non-bureaucratic pressures because of the multiplicity of leverage points in a dispersed aid system. In some instances these pressures worked to severely limit the options for loans (IGGI, South Korean and Brazilian aid, for example), while in others pressure was brought to bear directly on officials in responsible policy positions (Mitsugoro, Noguchi Centre, PNG oil palm development, for instance), or acted to reinforce trends in policy (Asahan).
- (c) Minor aid relations were particularly sensitive to the availability of precise and adequate information; the lack of such information opened aid to outside pressures so that decisions, and policy, became bound up with unstable forces. This reflected the need for strong data collection and management, or for a greater LDC input into Japanese policy-making, since the Japanese bureaucracy was only able to act with initiative and independence when supplied with the information on recipients adequate for their procedures. This

was an important link in the "aid cycle", and one in which the chief recipients maintained their clear advantage.

- (d) Bilateral pressures reinforced the tendency for policy to fragment further under the absence of accepted policy guidelines and threw responsibility onto officials to control aid relationships at the working level.

At this level lay the system's plodding strength. Procedures were necessary: they ensured the implementation of aid policies and helped counteract the unpredictability of bilateral relationships; they were resilient, even though predictable. Their inflexibility, however, in the early stages of the "aid cycle" - project identification and assessment - left it largely to those outside the bureaucracy to initiate aid relationships. The way this was done, however, only supported the bilateral aid policies described above.

CHAPTER 8

SURVEYS, PROJECTS AND CONSULTANTS

This chapter completes the analysis of bilateral relationships and patterns of allocation of Japanese aid, by examining the development survey as an element of policy-making. We take up the "aid cycle" concept to discuss how surveys, and engineering consultants, were instrumental in tying aid to future allocations. We discuss to what extent this

- (a) constituted a pre-selection of options for later allocation of aid;
- (b) replaced conscious choices by officials;
- (c) was a form of information collection and use; and
- (d) had a cumulative effect in expanding the larger bilateral aid flows.

Surveys for Projects

Projects were the "building blocks" of Japanese aid policy. They gave aid administrators a fixed standard to guide procedures and a visible result for their efforts. The pursuit of project aid served to bind the donor country to a routine of project identification, appraisal, design, approval, implementation and evaluation,¹ although this was only an ideal representation of the domestic policy-making process. While the aid bureaucracy endeavoured to follow projects through to completion in this manner, it was unable to do so because of its own structural deficiencies (lack of specialists for total project appraisal and evaluation, competing ministry viewpoints etc.)

and because of wider political forces, as outlined in the previous chapter.

Assessment and selection of projects were not the grounds for decisions on aid giving by virtue of rational economic criteria alone. The nature of aid requests and their associated projects were dependent on the entire bilateral aid relationship, and the very way in which projects were brought into the policy-making process was in itself a restriction of options. Project identification and feasibility studies (or development surveys) were the usual method by which projects were made ready for official decision on loans or grants.

The development survey was the most common form of project assessment. The Japanese Government required project proposals from prospective recipients to be accompanied by a completed feasibility study, and preparation to that point was regarded as the recipient's responsibility,² although the Japanese Government still assisted by financing feasibility studies within its technical assistance program. This work was carried out under the supervision of the Japan International Cooperation Agency (JICA). It could involve teams of officials, or companies contracted to do the work, spending weeks or months (even years if the project were a big one) in the field, often under extremely difficult conditions.

The aid program incorporated many kinds of official surveys, in the three main categories of project finding and identification, feasibility study, and project design. Funds for this technical aid were drawn from the MFA and MITI budgets and most were passed on to JICA for implementation (see Chapters 5-6). Table 8-1 shows the budgets allocated for survey work by the Overseas Technical Cooperation

TABLE 8-1

TRENDS IN DEVELOPMENT SURVEY BUDGET, 1962-1974
(yen million)

	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
1. General	129	145	145	155	274	195	219	248	297	462	737	1047	1377
Pre-feasibility									3	26	31	30	52
Feasibility									291	381	470	557	851
Long-term											53	116	110
After-care									3	11	12	12	12
Mapping										44	171	332	352
2. Project Research										7	9	10	10
3. Jumna River Special												100	276
4. Salary Supplements												14	11
5. Detailed Design							100	65	150	150	150	150	460
6. Special Projects													184
7. Development Planning	45	65	65	75	80	95	88	118	138	138	223	351	557
8. Resources Survey									165	337	509	679	859
Total	174	210	210	230	354	290	407	431	750	1094	1628	2351	3734

Source: Kokusai kyōryoku jigyōdan, Kokusai kyōryoku jigyōdan nenpō, (Japan International Cooperation Agency, Japan International Cooperation Agency yearbook), 1975, p.97.

Table 8-2

NUMBER OF DEVELOPMENT SURVEY TEAMS SENT, 1962-1974

	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	Total
1. MFA Budget														
Feasibility	14	12	12	11	13	11	13	16	16	17	20	26	26	207
Pre-feasibility				1	1			1	1	9	13	11	12	48
Detailed Design				1	1		4	2	3	1	3	3	2	20
2. MITI Budget														
Development Planning	4	9	8	7	6	8	8	8	10	8	10	12	18	116
Resources								1		3	5	6	8	23
3. Other	1				1						1			3
Total	19	21	20	19	22	20	25	26	31	38	52	58	66	417

Source: Same as for Table 8-1.

Agency (OTCA) (1962-73) and by JICA (1974). The massive rise over the period (from ¥174 million to ¥3,734 million), however, was not matched by increases in the number of survey teams actually sent (from 19 to only 66, Table 8-2). Groups which received government subsidy for commissioned surveys included the International Development Centre (IDC), Institute for Developing Economies (Ajia keizai kenkyūjo), Japan Consulting Institute (Nihon puranto kyōkai) and the Engineering Consulting Firms Association (ECFA), among others.

The geographical distribution of surveys carried out (Table 8-3) reflected the spread of Japanese aid itself. Of the total number of 417 teams sent between 1962 and 1974, 263 (or 63.1 percent) went to Asian countries, with an even balance of the remainder between South America and Middle East/Africa. The weight of the latter two regions in surveys increased later in the period, although it was not until after 1973 that it broke above one third of the total. Similar patterns showed in the spread of funds for surveys (Table 8-4), although the emphasis was slightly more biased to the Asian region until 1973. Overall, however, the distributions were the same, for 63.1 percent of survey teams and 64.1 percent of total survey funds (Items 1 and 2, Table 8-4) went to Asian countries.

In 1973, JICA carried out 67 surveys in the following categories: master plan 16, mapping 4, project finding 11, feasibility 19, capital assistance-related 6, design 3, resources development 7, and after-care 1. 42 surveys were made in Asian countries, 12 in the Middle East and Africa, and 11 in Central and South America. 1974 witnessed a similar program, although geographical distribution was slightly less Asian-oriented, with only 38 being for that region. 17 were undertaken in the Middle East and Africa in 1974, 14 in Central and

TABLE 8-3

NUMBER OF DEVELOPMENT SURVEY TEAMS SENT, BY REGION, 1962-1974

	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	Total
Asia	13	10	11	13	15	17	18	20	24	22	32	37	31	263
Middle East and Africa	1	5	4	2	2	2	4	4	5	8	8	11	18	74
Central and South America	5	6	5	4	5	2	3	2	2	6	10	9	15	74
Other										2	1	1	2	6
Total	19	21	20	19	22	20	25	26	31	38	52	58	66	417

Source: Kokusai kyōryoku jigyōdan nenpō, 1975, pp.98-99.

TABLE 8-4
GEOGRAPHICAL DISTRIBUTION OF DEVELOPMENT SURVEY EXPENDITURE, 1954-1974
(yen million)

	1954-67	1968	1969	1970	1971	1972	1973	1974	Total
Asia									
1	345.5	121.1	161.0	290.0	292.3	644.1	912.7	1270.9	4037.7
2	143.4	55.4	61.2	216.1	153.9	438.3	490.7	418.6	1977.5
Middle East									
1	86.2	-	14.8	3.0	10.5	31.1	7.6	30.9	184.2
2	6.1	20.7	7.1	-	13.3	22.7	47.3	115.5	232.7
Africa									
1	32.1	22.7	40.5	62.9	89.5	47.8	279.8	340.6	915.9
2	42.7	-	11.2	28.9	12.3	3.9	98.8	212.0	408.7
Central and South America									
1	70.7	8.0	11.6	12.2	78.4	98.4	52.7	128.0	460.0
2	149.5	20.7	23.3	8.2	94.6	187.1	203.6	245.2	932.2
Oceania									
1	-	-	-	-	14.2	-	-	15.0	28.7
2	-	-	-	-	-	-	-	68.2	68.2
Other									
1	-	-	-	-	5.0	-	52.2	3.2	129.2
2	-	-	-	-	-	3.3	-	-	3.3
Total									
1	534.5	151.7	227.9	368.2	490.0	890.1	1305.1	1788.1	5755.7
2	341.7	96.8	102.7	253.2	274.1	654.3	840.3	1059.6	3622.7

Note: 1 = development surveys of different types, from MFA budget (Item 1, Table 8-2).

2 = development planning surveys and resources development surveys, from MITI budget (Item 2, Table 8-2).

Source: Kokusai kyōryoku jogyōdan nenpō, 1975, Statistical Annexe, Tables 6 and 16, pp. 357-8 and 382-3.

South America, 2 in Papua New Guinea and 3 elsewhere.³

As general aid flows favoured certain recipient countries, so did development surveys. Indonesia received the most surveys, 62 between 1962 and 1974, followed by Thailand (34) and the Philippines (28).⁴ There was, however, no direct link between surveys completed and aid approved, for the decision time lag could be substantial and while feasibility was a necessary condition for Japanese Government approval of a request for project aid, it was not a sufficient condition. Nevertheless, the concentration of project aid on a few recipients - especially Indonesia - was matched by the concentration of surveys. One was impossible without the other and each "fed off the other".

Because different surveys were needed at successive stages to complete a project, the implementation of one project could require three or four surveys. Even though the identification and conception of projects could be informal, the survey could help formalise and organise the project and enable it to be more readily assessed. Surveys themselves could provide a vital link in the "aid cycle" beyond the emergence and completion of individual projects. By their nature, surveys involved the analysis of conditions outside the immediate project site; they laid the foundation not only for later aid to the project, but also to other projects. Surveys, and those who carried them out, were a motive force in the "aid cycle".

JICA and Surveys

Official funds for surveys were incorporated in the JICA budget after the MFA and MITI budget requests. In 1976, the development survey vote was ¥4,081 million and, from MITI, ¥2,658 million

for overseas development planning surveys. The total of ¥6,739 million represented 16.7 percent of the whole JICA budget for 1976.⁵ In 1977, however, this figure rose to ¥8,710 million, 29.2 percent above the 1976 allocation. Development surveys were a growing area of JICA's work, particularly with new allowances for surveys of large scale projects and increased government assistance to private organisations undertaking surveys.⁶

JICA's development survey functions were coordinated by four of its departments, each (except for the Planning and Coordination Department) concerned only with its specified tasks and supervised by a different ministry. The Technical Cooperation and Development Cooperation Divisions of the MFA's Economic Cooperation Bureau set guidelines in their coordination of technical aid budgeting, but the translation of these into concrete programs was left to the operating departments of JICA. The Mining and Industry Planning and Survey Department came under the indirect control of MITI's Technical Cooperation Division and, to a lesser extent, the Resources and Energy Agency, from which it received commissions of resources development surveys.⁷ The Agricultural and Forestry Planning and Survey Department worked in close cooperation with the International Cooperation Division of the MAF's International Department, although formally contact was made via the MFA's Economic Cooperation Bureau. The Social Development Cooperation Department administered development work in other sectors, such as construction, transport, welfare and so on. While the Department was responsible to the MFA, other ministries (Construction, Welfare, Transport, Posts and Telegraphs) had a voice in its management.

The year's program for development surveys resulted from budget talks between JICA and ministry officials, the budget request and

the MOF response. JICA departments were able to influence the structure of the request and its distribution by region, country and sector through informal and formal channels, usually through personal and working relationships between individual officers. The backlog of requests for surveys was often three times the limit of available resources, so the final selection was subject to many pressures. Surveys linked to loan-base projects were given priority, after talks with the First Economic Cooperation Division of the MFA Economic Cooperation Bureau. Some critics rather ungraciously dubbed the JICA survey budget domburi kanjō, or "scrambled egg accounting", in which post-budget expenditure bore no relation to pre-budget itemisation. Certainly the names of surveys requested at budget time were only a preliminary ordering of priorities. The final sorting was done after the budget was decided in January-February, by the different JICA departments in consultation with ministries. The priorities for final selection went beyond the rational process of semi-programming leading up to budget request. Survey policy was as dependent on the pressures of the bilateral aid relationship as any loan approval.

Selection of survey proposals was subject to more than administrative criteria and economic arguments, for the same systemic distortions appeared at the level of surveys as they did for other aid. Indonesia, Thailand and similar well-placed recipients were given precedence and, in the Indonesian case, the IGGI project listings were the reference for choice. Links to loan aid were weighed in the light of the availability of loan credits to particular countries: new loan recipients usually had to wait between four and five years for the next credit, which affected the timing of surveys. Project expense was another consideration, for recipients were said to be ranked according

to allowable cost of project, presumably calculated by credit worthiness, economic prospects and the like.⁸

Other criteria were also applied, and not only by the immediately responsible officers. Development surveys undertaken by technical assistance charted the way for capital aid in the years ahead. Regional bureaus and other divisions in the MFA Economic Cooperation Bureau (or MITI) could be involved, depending on the country or the interests at stake. After the budget negotiations certain aid relationships and certain projects impinged on policy details. At this point pressures from companies likely to carry out surveys were apparent.

A further consideration was the type of survey envisaged. The three successive stages in project surveying - investigation, feasibility, design and supervision - were separate policy items, the success of one being a prerequisite for approval of the next. It was possible for all stages to be carried out by the same group, frequently a firm of engineering consultants, but this would not always happen. Preliminary studies were made by teams of officials from JICA and related ministries, although project finding and identification were sometimes contracted out to organisations like the IDC. Surveys could be undertaken by groups of private firms under the sponsorship of the ECFA or by single companies themselves. The results of surveys conducted by groups were, in principle, made available only to the commissioning agent but, in practice, were dispersed irregularly to other interested parties. IDC teams, for instance, could comprise specialists from government, business and academic circles.⁹

It was usual for the later, technical stages of project

assessment, such as feasibility and project design and supervision, to be contracted to engineering consultancy firms. This practice was derived from the traditionally close association of the industry with aid projects and from the fact that in 1976 JICA still had insufficient technical staff or experience to itself carry out surveys on any large scale. This was in spite of the conviction of many officials that JICA should develop this capability. Engineering consultants were a growing industry which was dependent on government assistance and on work derived from government sponsored projects. At the same time, they filled an important gap in the life of projects at a stage where problems were numerous and could easily lead to the breakdown of the aid process. Rondinelli lists as difficulties: (i) differences in perceptions and goals among funding agencies, recipients, technical experts and others; (ii) insufficient appreciation of local conditions; and (iii) inadequate preparation and design skills.¹⁰ Consultants bridged stages in project development by the Japanese; they could offset these problems and compensate for the lack of expertise and local knowledge in the Japanese domestic administration. Interdependence with the decision-making process was their watchword, however, since aid policy was, for some companies, their own raison d'être.

The Engineering Consultants' Industry

In contrast to the West, where engineering consulting services developed first in the nineteenth century, Japan's industry was still young in 1976.¹¹ It grew after the Second World War under the influence of a few energetic and determined men. While firms depended on an upsurge in the domestic economy for their survival, the extension of the Japanese economic presence into Asia was assisted by the industry;

so too was the expansion of exports of Japanese heavy manufactures.¹² The early years after the war saw the establishment of a number of consulting firms, largely independent of existing business interests, and by 1951 two of the most active in 1976 were in existence, Nippon Kōei (established June 1946) and Pacific Consultants (September 1951). With the increasing expansion of the Japanese economy after the mid-1950s, the consulting industry grew, and between 1954 and 1965, 31 firms were set up. In 1964, the ECFA was established. Japanese reparations contracts were responsible for much of the early growth in the overseas consulting industry, and its further development in the 1960s was closely associated with the expansion of Japanese Government aid flows and with contracts resulting from assistance by multilateral organisations to Asian countries.¹³ Southeast Asian economic development provided consultants with their most valuable market.¹⁴ This experience was typified by the case of Nippon Kōei, the oldest and, in 1976, the largest civil engineering consulting firm in Japan.

Nippon Kōei Company Limited

The roots of the Nippon Kōei Company extended to prewar days, when Kubota Yutaka founded the Korea Power Company (Chōsen denryoku kabushiki kaisha) and the Yalu River Hydro-electric Power Company (Chōsen-manshū ōryokkō suiryoku hatsuden kabushiki kaisha).¹⁵ His companies completed many major development projects in Korea and Manchuria during the latter days of the Japanese Occupation, particularly dams and water resources projects. Before and during the Second World War, their work continued in China and Vietnam also and Kubota was called on in 1942 to survey the Lake Toba-Asahan region of Northern Sumatra for the Japanese Occupation Forces.¹⁶

After the war, former members of the companies reassembled in Tokyo and Kubota formed the Shinkō sangyō kensetsusha in June 1946 with a capital of ¥190,000. Its name was changed to Nippon kōei kabushiki kaisha in October 1947. The company undertook several domestic reconstruction projects, including water resources, electricity and other civil engineering contracts. The company's postwar overseas operations began with a foreign tour in late 1953 by Kubota, which proved a successful gamble in opening up markets for the company and, it seems, resulted in a broader relationship between Japan and countries of Southeast Asia.

Kubota was not one to lose an opportunity. In Burma, he is said to have "come across" United States consultants' reports on proposed electricity generation schemes and one, at Balu-Chaung, attracted his attention. Subsequently, on the plane to Europe he drafted, and from Paris sent, a letter requesting permission from the Burmese Government to survey the project further. The acceptance reached him in Mexico, he flew back to Burma in December 1953 and, as a result, a team of six Nippon Kōei engineers undertook an initial study. A contract for the later stages of the project was not signed until April 1954 because of competition from an English company. The Burmese had originally intended to raise finance for the project themselves, but decided to request funds from the Japanese Government through a reparations agreement, and Kubota claimed that reparations were in fact first mooted because of the Burmese need for finance for Balu-Chaung development.¹⁷ The project, costing ¥10,390 million,¹⁸ was the largest single item in the reparations agreement and over a ten year period Nippon Kōei undertook consultancy and supervisory responsibility for all stages.

Kubota went to South Vietnam in 1955 and offered to survey the Da Nhim Dam scheme, part of the Mekong River development program, and a site he had known of during the war, when it was surveyed by the Japanese Government. After a decision by the Economic Commission for Asia and the Far East (ECAFE), Nippon Kōei won out over a tender by a French company, but finance again proved a problem. The Export-Import Bank (Eximbank) was considered, but reparations talks were then in progress and it was decided to make Da Nhim development the main reparations project. An Eximbank loan of ¥2,700 million was made in November 1960 for the purpose.¹⁹ Between 1955 and 1964, Nippon Kōei saw the project through to its completion and followed this with a survey of the Da Nhim power station and repairs to it in 1971-72 under Japanese Government grant aid, and restoration of the Da Nhim-Saigon transmission line in 1973-75, also under grant aid. These early successes in South Vietnam assisted in Nippon Kōei being asked by ECAFE's Water Resources Bureau to undertake studies of a section of the Mekong Basin development scheme, which led eventually to active Japanese participation in the Mekong Committee.²⁰

Work done for the United Nations helped extend Nippon Kōei's links with Laos initiated at the 1955 Tokyo meeting of the ECAFE. The company was selected to undertake feasibility studies in the Upper and Lower Nam Ngum River, and these were made between 1959 and 1962 through a contribution from the United Nations Development Program (UNDP). After the creation of the Nam Ngum Development Fund in 1966, Nippon Kōei was retained as engineering consultant and carried out surveys, design and construction supervision of the Nam Ngum hydro-electric project.²¹ The Japanese Government made a grant to Laos for the Fund in 1966 and loans in 1974 and 1976.

This Laos connection was maintained. Japanese grants for extensions to Vientiane airport in 1969 and 1970 were the result of a Nippon Kōei feasibility study and were implemented under its supervision. Other projects were carried out for the Mekong Committee and for the Asian Development Bank (ADB), and a Japanese Government grant for refugee resettlement in Na Phok was contracted to Nippon Kōei in 1973 for design and construction supervision.

Links established with the UNDP through Laotian projects helped Nippon Kōei gain the contract for survey of the Karnali Dam site in Nepal from 1962 to 1965. The company carried out a pre-feasibility study on the Kulikhani hydro-electric scheme under commission from the OTCA in 1962-63 and completed the project with a further study in 1973-74 sponsored by the Japanese Government, and design and supervision under a loan from the International Development Association (IDA) in 1975.²² Nippon Kōei also assisted in a study of Janakpur district agriculture sponsored by the OTCA, which led to a grant of machinery worth ¥45 million in 1972.²³

Nippon Kōei's ties with Indonesia - the strongest with any of its country clients - were initiated by the reparations agreements with Indonesia concluded in 1958. In fact, as Nishihara shows, "Kubota's company ... gained nearly an exclusive hold over Indonesia's infrastructure projects under the reparations fund."²⁴ It did this together with Kajima Construction Company, which built the projects. Kubota's desire to develop the Asahan region was not fulfilled under reparations, but his work on the so-called "3K dams" and development of the Brantas River region laid the foundation for a long and profitable relationship between the company and the Indonesian Government, and a widening aid relationship between Japan and Indonesia.

Nishihara considers that major projects under the reparations agreements were first proposed by "private experts" outside the official reparations negotiations. He claims that Kubota lobbied successfully with high Indonesian officials, including President Sukarno and others in the Ministry of Public Works, to gain the contracts.²⁵ The first reparations projects involved surveys, design and supervision of the construction of the South Tulungagung reclamation scheme near Surabaya in East Java, which included construction of a new Neyama Tunnel for the diversion of water from the Brantas River. An earlier tunnel built during the Japanese Occupation had proved inefficient and Nippon Kōei carried out the new work between 1959 and 1961. It became the first of a number of other projects in the Brantas region.

Two of the 3K dams were related to this development, those on the Karangates and Konto Rivers, both tributaries of the Brantas. The third, the Riam Kanan dam, was located in South Kalimantan. All three were designed for hydro-electric generation. Studies were begun in 1959 for the Karangates project and in 1961 for the Kali Konto and Riam Kanan dams. Work on them was not completed until 1973, however, despite expectations of 1967 as a target date, and the high cost necessitated further IGGI-base loans in 1968, 1969 and 1973 totalling ¥16,398 million. This huge expenditure and the delays in construction occasioned some criticism of the selection of these particular projects under reparations agreements and of the methods employed by Nippon Kōei in supervising the construction.²⁶

Despite delays, other projects in the East Java region fell to Nippon Kōei tender, a connection which has continued to the late 1970s. The company undertook survey and design in 1961-63 for the Wlingi Dam project, situated close to the Karangates Dam. Japanese Government

loans were extended in 1975 and 1976 for its completion and Nippon Kōei again supervised construction.²⁷ The firm surveyed and then completed the Kali Porong river improvement project (loans 1970 and 1976) and Kali Surabaya improvement (loans 1974 and 1976) and undertook a survey in 1971-72 commissioned by the OTCA of the Brantas River basin.²⁸ Other water resources and power projects were also completed: Riam Kanan power transmission (loan 1972), Wonogiri Dam in central Java (loan 1975), Bengawan Solo river basin project (OTCA study 1972) and Way Umpu and Way Pengubuan (South Sumatra) irrigation (loan 1974).

The same intense pattern of Nippon Kōei operations was seen in South Korea, where Kubota and his staff had had successes in dam construction before the war. The Chunchon and Sumjinkang hydro-electric projects were completed in 1962 and 1965 and in 1962 they undertook a survey for the So Yang Gang dam, which was taken up as a reparations project in 1965 and included in the Second Year Economic Cooperation Plan. Japanese loans were extended first in August 1967 and later in 1968 and 1970. Nippon Kōei received the contract for completion of the dam. It also tendered successfully for the Taechung multi-purpose dam project, for which a loan was made in 1974. The dam was still under construction in 1977.

Nippon Kōei was one of the first Japanese consultant groups to go into Africa after the war, and its work there in the mid-1960s represented the first efforts of the newly established ECFA. Kubota's personal connections helped there as they had done in other countries. Nishihara quotes a source who claimed that President Sukarno offered in 1963 to introduce Kubota to President Nkrumah²⁹ and the company history suggests the same.³⁰ Assistance was gained from Ambassador Taishiro and from the Japanese Embassy in Accra, and an invitation from the

President arrived for Kubota through diplomatic channels.³¹ A Nippon Kōei-ECFA team went to Ghana in 1964 and completed preliminary studies of the White Volta River. Kubota flew to meet Nkrumah in Cairo and a letter of intent from the Ghanaian Government followed soon after. Arrangements were also made for the Japanese Government through the Overseas Economic Cooperation Fund (OECF) to extend long-term credit for further surveys, the first time this kind of finance had been made available for consultancy work.³²

Consultants in 1976

In 1976, there were 47 member firms of the ECFA, the main association of engineering consultants in Japan. They embraced all specialities, from general civil engineering to mapping, urban planning and cement engineering. Over half of the companies had between 51 and 200 specialist staff and capitalisation was generally low, over 30 companies having assets of up to only ¥100 million. In 1972, only 3 companies possessed capital of over ¥1,000 million.³³ In international terms, Japanese consultants proved to be weak competitors, gaining only 2.9 percent of UNDP contracts between 1959 and 1970, 7.3 percent of ADB contracts up to September 1971 and only 0.6 percent of World Bank Group contracts between 1966 and 1970.³⁴ In fact, about half of the companies relied on overseas operations for less than 10 percent of their business, while others depended for over 50 percent of their work on Japanese Government derived contracts.³⁵

The reasons for the diversity of consultancy firms lay in the problems they faced as an industry and as individual companies. There was no law regulating the industry, although companies were eligible for certain taxation concessions and export insurance. The weak

international sense of the Japanese was also cited as working against the recruitment of professional staff willing to work overseas. The poor foreign linguistic capabilities of some companies could be decisive in their overseas business. The Japanese university system was said to train economists and engineers too specialised for general consulting.³⁶ The low capital base of companies lessened opportunities for active promotion overseas and the gradual untying of Japanese aid from donor country procurement made their position more uncertain.

The ECFA was one of 11 or more consulting firm associations in Japan and was one of the most vigorous lobbyists for the consultants' cause. The other large group, the Japan Consulting Institute (Nihon puranto kyōkai) was set up in 1957 to promote exports of heavy engineering equipment. It was absorbed into the Japan External Trade Organisation (JETRO) in April 1971 and until then had been very successful in securing contracts for exports of Japanese plant and equipment. The ECFA was the main spokesman for consultants in the mid-1970s and through it the bulk of government financial assistance to consultants was channelled.

The ECFA called itself "an information centre linking clients abroad with ECFA member consulting firms". It provided also an additional source of advice to Japanese Government ministries and agencies considering aid project implementation. It undertook surveys overseas at its own expense (but with MITI subsidy) and encouraged member firms to initiate projects themselves. The ECFA was in fact set up on the understanding that government ministries would support its financing. The then Deputy Director of MITI's Technical Cooperation Division, Yamaguchi Jinshū, was one of a small group in and around MITI who urged taxation concessions and government funding of the

proposed group and it was agreed that these measures would apply from fiscal 1964. Yamaguchi became the ECFA's Director in 1964 and was still in that position in 1976.

The ECFA was prominent both in identifying projects and in assisting members to secure contracts. In its own words, "to support member companies in winning contracts for development projects, we send survey teams to various countries and conduct site surveys, gather information and undertake preliminary negotiations".³⁷ Survey teams were composed of members either from one company alone or from several member firms. Project identification was especially designed to help members bring new projects to the attention of developing country governments, in the hope of tendering successfully for the contract at a later date. Of the 984 surveys undertaken between 1964 and 1974, 100 or about 10 percent led to a member firm securing the contract.³⁸

Of 1,165 projects listed in the Association's History as surveyed between 1964 and 1973, there was a clear bias towards Asia. 644 were in that region, followed by 223 in the Middle East, 127 in the Americas, 110 in Africa, 21 in Europe, 21 in Oceania and 19 for international agencies. Within this distribution, Indonesia was the country with the largest number of projects assessed (127), followed by the Philippines (115) and Iran (78). In all, teams were sent to 84 different countries, although it seems that ECFA assistance benefited a few companies in particular among the 47 members. Over the period, with the support of the ECFA, Nippon Kōei took part in 164 project surveys (14.1 percent), Pacific Consultants International (PCI) 207 (17.8 percent) and Sanyū Consultants 273 (23.4 percent).³⁹

Success in tendering followed in ratios closely proportionate to company survey efforts. Of 81 major contracts gained by members

between 1964 and 1973, 22 were won by Nippon Kōei (27.2 percent), 13 by PCI (16.0 percent) and 20 by Sanyū (24.7 percent). At the same time, Sanyū, for example, concentrated its effort in only five countries: the Philippines, Indonesia, East Pakistan (Bangladesh), Afghanistan and Iran. PCI was heavily involved in the Middle East, while Nippon Kōei spread its resources across many countries,⁴⁰ which certainly proved profitable.

For consultants, aid projects were not an end in themselves but simply a means to increase profit and further business opportunity. Life, however, as an overseas consultant (as a number of executives put it) was not easy and earnings were hard won. Survival demanded a constant generation of new development projects and possibilities, which was why a company like Sanyū sent out so many project identification teams and why the investment of men, money and time in developing familiarity with particular countries or regions and their governments was necessary.

Overseas consulting was an industry which was created by foreign aid. Not only did the Japanese Government support it with contracts, but also it gave the industry direct assistance, which was itself classified as a component of the aid program (as technical aid); consultants therefore contributed to Japan's aid performance in two ways. The IDC depended on work from JICA to operate,⁴¹ and the ECFA relied for about one quarter of its income on contributions from the MITI technical aid budget.⁴² In the 1976 Budget ¥116.8 million was allocated for ECFA assistance (see Table 8-5). Other consulting associations also received government subsidies to assist their operations.⁴³

Financial support was only one aspect of government policy to promote the consulting industry. The ECFA always ensured that the interests of the industry were well publicised: the diary of ECFA

TABLE 8-5

 MITI ASSISTANCE TO ENGINEERING CONSULTING FIRMS ASSOCIATION, 1964-1976
 (yen million)

Fiscal Year	Pre-Feasibility Surveys	Overseas Personnel	Client Services	PR	UNIDO Relations	Project Formation	Total
1964	15.0	-	-	-	-	-	15.0
1965	28.0	-	-	-	-	-	28.0
1966	32.6	6.4	-	-	-	-	39.0
1967	32.8	9.7	1.5	-	-	-	44.0
1968	31.9	11.0	1.5	-	-	-	44.5
1969	43.3	11.7	1.5	-	-	-	56.5
1970	58.8	12.4	1.3	-	-	-	72.6
1971	64.7	8.6	1.3	1.8	-	-	76.4
1972	70.4	-	1.3	2.3	2.0	-	76.0
1973	81.0	-	1.3	2.3	2.0	5.0	91.5
1974	92.5	-	2.0	2.1	2.0	19.2	117.8
1975	102.8	-	2.5	2.1	2.2	23.9	133.5
1976	78.4	-	2.7	1.7	2.2	31.8	116.8
Total	732.2	59.9	17.0	12.1	10.5	79.9	911.5

Source: Kaigai konsarutingu kigyō kyōkai, ECFA 1975 gaiyō (Engineering Consulting Firms Association, ECFA 1975 outline), p.3.

activities between April 1964 and December 1973 recorded constant meetings between Association officials and bureaucrats in all related ministries. They could not possibly have been unaware of the ECFA's presence or purpose.⁴⁴ Ministries in 1976 readily acknowledged the ECFA's communications function in project identification and preparation.

Government assistance also allowed consultants to participate in official JICA surveys, inclusion of consultants under provisions for export insurance, taxation concessions (created in a law passed for the purpose in April 1964, soon after the ECFA was established), debt insurance and, more recently in 1977, bond insurance. There seemed, however, to be few concrete proposals beyond these. The 1976 MITI economic cooperation report referred vaguely to the need for guidance in forming company consortia,⁴⁵ while the Advisory Council on Overseas Economic Cooperation in 1975 suggested rather tamely that "in future, it is desirable that consultants obtain work from the first surveys and planning through to design and construction supervision. This can improve consistency in projects."⁴⁶ The recommendations on the consulting industry made in the 1971 report on technical cooperation evoked no new initiatives from the ministries. The need seen then⁴⁷ for inexperienced companies to gain more overseas work by a sharing of JICA commissions was not satisfied, as we shall see.

The attempts by the ECFA and by other consultant associations in 1976 to persuade the Japanese Government to give more direct loans for consultancies ("engineering loans") not only publicised their own cause but also touched some raw official nerves because of rivalries between the OECF and JICA regarding the implementation of surveys.⁴⁸ The participation of consultants in debate about aid administration revealed how close they were to aid policy. While aid was for them a

means to make money, they had become essential to the aid process. They grew on aid and aid grew because of them. Their energy compensated for the conservatism and inertia of the Japanese aid bureaucracy.

Arranging Surveys

Development surveys, as we said, were carried out mainly under technical assistance programs administered by JICA. The later stages of the project - detailed design, construction supervision - were completed under loan agreements, the recipient government assuming formal control of the letting and management of contracts. These two separate sections of project implementation were not, however, unrelated and, as seen in connection with Nippon Kōei, consulting work was often the link in all stages of projects and across projects. Explanation, however, is elusive: was there a causal relationship between consultants and the movement of the "aid cycle", or were consultants the servants of the foreign aid process?

While the phases of project surveying were in theory straightforward - general pre-feasibility assessment, feasibility study, cost benefit analysis, design and construction - one senior JICA official, Tanaka Tsuneo, pointed out that in practice it was difficult for this order to be retained. There was a tendency, especially with projects becoming larger, for the project's feasibility to be assessed before complete surveys had been finalised, for funds to be committed before surveys had been made, or for surveys to be conducted according to cost benefit rankings of projects irrespective of the social and economic implications. Tanaka wrote that these inconsistencies occurred for several reasons, including the political nature of recipient requests, the eagerness of private interests for profit and the lack of government

policy on survey methods, such as the World Bank and others had instituted.⁴⁹

Political and economic constraints on surveys were serious indeed and the way these operated was directly relevant to bilateral aid policies. There were, however, structural problems which posed barriers to what JICA saw as appropriate reforms. The 1974 annual JICA report cited a need for survey budgets to be increased before qualitative improvement was possible, more planning of aid (including country programming, better use of international resources etc.), proper use of consultants by "proposal contracting" and greater consistency in official supervision. A more fundamental issue identified was decision-making within the Government itself, for efficient surveying and project assessment depended on the rational and scientific use of information, in conjunction with country planning accepted by all sections of the administration.⁵⁰

The choice of consultant for feasibility studies frequently determined the progress of projects and bilateral aid relationships. For surveys done under technical cooperation programs (project finding, pre-feasibility, feasibility), JICA was the managing agency, although the Mining and Metals Agency also carried out some in mining and prospecting. In 1976, consultants were chosen to participate in project surveys from fairly flexible criteria. There was no actual tender system in operation in Japan, although both parties, official and private, recognised that tendering was a possible alternative. Some of the larger and more experienced firms, being accustomed to tendering, did not oppose it. Surveys involving private consultants were supervised by a committee, composed of officials from the competent ministry and from relevant JICA departments. JICA provided the administrative backup for

this committee.⁵¹

It was not the committees but JICA which was responsible for selecting the consultant to carry out a survey. The choice, however, was the result of discussion between committee members and JICA personnel and, of course, prospective consultants. The committee's effectiveness could differ according to the area of work. Agricultural and Mining and Industry Departments maintained supervisory committees only for "important" projects, that is large and expensive undertakings (such as the Purari River surveys in Papua New Guinea) or those related to government loans or diplomatic considerations. Sources, however, from the Social Development Cooperation Department put a figure of 90 percent on consultant surveys with supervisory committees.⁵²

Feasibility studies were commissioned by "invitation proposal", for which JICA approached a consultant group. Invitations were made after pre-feasibility studies done by JICA teams had been finalised and JICA's own analysis completed. JICA's public attitude was one of "fairness" (kōhei no tachiba), consistent with the policy of the Japanese Government of promoting the development of the whole consultant industry. Fairness, however, was tempered by an appreciation of the type of survey involved and of where it was to be carried out.

Analysis of surveys listed by JICA as completed by itself and by its predecessor, the OTCA, between 1962 and 1973, showed a reasonable spread of work between the main consultants in different sectors.⁵³ While the largest general consultants carried out infrastructure project surveys (electrification, irrigation, water resources, roads, bridges etc.), surveys for specialised projects were contracted to firms catering to that restricted demand. Thus Japan

Airport Consultants Incorporated completed surveys for airport projects (such as in Vientiane), Mitsui Kinzoku Engineering and others were used for mining and prospecting studies, Universal Marine Consultants undertook marine resources surveys, Pacific Aero or Asia Air Survey did mapping, while Nihon Suidō Consultants or Tokyo Engineering Consultants were commissioned to study urban water and sewerage systems.

Government promotion of consultants aimed to build up the experience of the industry by encouraging the development of less experienced firms, but attitudes about the low quality of consultants were entrenched in the bureaucracy. MFA officials complained in 1976 that consultants needed constant supervision and that the poor work produced confirmed that JICA was the most appropriate surveying agency.⁵⁴ The MAF regarded only five or six companies as being effective in agricultural projects, while MITI officials admitted that a wide performance gap existed between large and small firms in spite of government policies to narrow it. A company's experience, therefore, remained significant in the choice of consultant, notwithstanding the official attitude against resorting to that criterion.

Experience, however, was a broad concept and could be judged in many ways. Experience in the kind of project and in the country in question was recognised as essential. This related to the company's previous jobs and to its familiarity with the country, its language and even with the district in which the project was planned. The ability of the company to project itself as specialising in certain fields or country was often decisive. Nippon Kōei, as we have seen, built its business on proven skills in water resources engineering and on an association with Indonesia, South Korea, Vietnam and Nepal. This helped it accumulate local knowledge, a reputation within the recipient government

and a linguistic capacity within the firm. The establishment of branch offices in the country also represented a longer-term commitment by the company to its relations with the country, and an institutionalisation of its local presence.

As the example of Nippon Kōei showed, country experience was cumulative, leading to a steady stream of projects and contacts by companies over a period of years. Project finding was crucial in company development and consultant firms set up as subsidiaries of larger industrial or trading concerns (about half of the total)⁵⁵ were able to draw on contracts from parent and related companies.⁵⁶ Apart from these obvious ties, such firms relied on companies within their group for information about likely jobs. Consultants associated with trading companies were particularly assisted in this respect.

Independent firms faced a more difficult task in building overseas expertise. One company, founded in 1962 and in 1976 one of the most respected firms of engineering consultants in Japan, specialised in desert irrigation and was recognised as being best equipped to handle civil engineering projects in Iran. This reputation, however, took over ten years to build, and the company admitted to having fostered relations of trust and confidence with the Iranian Government "by the expenditure of large amounts of money and time". Past effort spent in cultivating younger bureaucrats, especially in the Water and Power Ministry, and demonstration of the company's own expertise, paid off in easy relations with important ministers. This company, in 1976, claimed to have 20-30 engineers on its staff with experience in and knowledge of Iranian conditions.⁵⁷

This firm's second overseas survey in 1965, that for the

Taleghan irrigation scheme, was funded by the OTCA and was the Agency's first survey in Iran. The company carried that project through to its construction stage. It was also involved in OTCA/JICA's agricultural irrigation project at Sistan from 1968.⁵⁸ The firm claimed success in several South Korean projects (notably the Yong San Gang irrigation development, the initial survey for which was requested by South Korea's Agricultural Development Corporation) and a contract to survey the construction of Cairo's water supply. A request for yen loans to carry this out was under consideration by the Japanese Government in 1976.⁵⁹

The choice of consultant for a Government sponsored survey thus required detailed investigation of the background of the request to the Japanese Government, for selection was often contingent on the relationships between projects and companies. For that reason, the Director of JICA's Survey and Planning Department, Tanaka Tsuneo, cited the need to gain detailed information on proposals at the top of the list of procedures for survey decisions. He saw this to be necessary because of the political and economic incentives for requesting: (a) the recipient's own political and economic judgements; (b) assessments in Japan of the need to rectify trade imbalances; (c) diplomatic necessity; (d) opinions of visiting technical advisers; (e) suggestions by international organisations; and (f) profit seeking by private enterprise.⁶⁰

The information Tanaka required, but until 1976 often gathered in insufficient depth by the Japanese Government, concerned where the proposed survey stood in the LDC's national plans, details of the survey itself, cost estimates, counterpart administration and so forth. Specifically, officials needed to know how the project to be surveyed was first identified and by whom, for although consultant firms were

valued for their professional neutrality and objectivity, maintenance of those ethical standards was not always possible in a competitive industry. In fact, the corporate links between 20 or so consultants and other private enterprises suggested preferences for close association between consultants and affiliated companies with overseas interests. Many relied on affiliates for the bulk of their work, at least in the early years. Parent firms might also prefer consultants close to them to complete surveys, thus assisting in the parent's successful tendering if a project were found to be feasible.⁶¹

Information, therefore, was essential both for the consultants and for the Japanese Government. A consultant's intelligence was best gained at the earliest stages of project identification, and missions sponsored by the ECFA were useful in this regard. About 10 percent of the missions led to survey contracts for member firms. In the final choice of a company to carry out a survey, those with knowledge of the project had a distinct advantage. This was accepted by officials in all JICA departments associated with survey work, by ministry officials and by consultants themselves.

After knowledge of country, even locality, and experience, it was advantageous to be connected with the project in some way. Application of all of these criteria applied especially to surveys in civil engineering fields, where competition between large firms of consultants was tough. Bigger firms found it far easier to accumulate inside knowledge. They had the resources to tap intelligence in many countries and had lines of communication to both recipient and Japanese governments. The lack of sophisticated data-handling mechanisms in the Japanese aid administration left smaller consultants at a definite

disadvantage in the competition for contracts. Companies which had been associated with a project since its inception were hard to beat.

The choice was therefore dependent on factors other than objective assessment of the relative skills of likely contractors. Consultants realised the benefits of project finding, although smaller firms found the investment in that kind of exercise prohibitive, despite ECFA assistance. One of the largest companies undertook up to 6 special project finding surveys each year and many more project identification surveys. The small capital base of consultants (relative to other industries) demanded their constant efforts at project identification and promotion. Officials admitted that most projects surveyed had their origins in the initiatives of private enterprise, although a precise evaluation of that claim was difficult.

When a company wanted the Japanese Government to take up a project requested by the recipient country,⁶² the firm made representations to JICA and to the ministries. The consultant for a survey was chosen by the relevant JICA department after discussions with the associated ministry. Which ministry depended on the type of survey envisaged, for the MAF vetted agricultural surveys, MITI those for mining and industry, Construction those for public works and so on.⁶³ While surveys to be undertaken in any one year were decided tentatively before the budget request for that year, changes were made after budget allocation and decisions about which surveys would be carried out and by whom were not made for budgeting. On the other hand, as the representatives of one firm of consultants put it, commonsense business practice and their own forward accounting demanded that ministries were made aware of company interests. It became fairly evident which projects companies would expect to receive in the following financial year.

The specialist ministries had their own preferential lists of consultants, "their own standards and favourite companies", and it seems that the ministry's choice was a telling factor in the final decision. JICA officials claimed that they in fact had the formal responsibility in choosing and could thereby refuse work to consultants close to particular ministries, in order to uphold the Government policy of fairness in letting contracts. They admitted, however, that such refusals were few; the strength of ministry opinions within JICA departments lessened the chances of conflict considerably.⁶⁴

Exchange of information was greatly assisted by the ECFA, especially in its sponsorship of project identification missions, but it was not altogether clear what role the ECFA, and other consultant associations, exercised in decisions about projects. Certainly the associations participated in the daily round of informal discussions on projects and surveys, and the MFA and other ministries were careful to keep informed of the progress of studies and projects sponsored by the ECFA. This was included in the ministries' aid intelligence operations. Officials of specialist ministries, especially MITI and Construction,⁶⁵ were the most frequent points of contact, and MITI had an officer assigned specifically for ECFA liaison. Ministries were careful to point out, however, that the ECFA was not part of the formal decision-making process.

The MAF, in contrast, did seek the recommendation of the Agricultural Development Consultants' Association (Nōgyō kaihatsu konsarutantsu kyōkai) after negotiations with companies through the Association.⁶⁶ The advice was passed along to JICA to assist in the final decision, although the MAF, as we said earlier, considered that any choice would be between only a few companies, on the basis of

experience in and relation to the project involved.

On balance, the ECFA and its sister associations were important in the early stages of projects and, despite their primary functions as coordinating and promotional bodies, they could influence the climate of opinion about appropriate consultants for proposed surveys. This extended to discussions with responsible officers in JICA and the ministries.

Design and Construction Supervision

The later stages of projects again provided work for engineering consultants but were usually funded by government loans or grants, rather than by technical assistance. It is relevant here to consider whether later stages of projects were in fact carried out by the same group which undertook feasibility studies or even project identification studies.

It was in a consultant firm's interest to manage all stages of a project, but it is not altogether clear how often this happened and it was not possible, on the available evidence, to calculate how many of the loan projects being implemented in 1976 were managed in this way. Since loan contracts were put out to international tender, it was not always easy for Japanese tenders to win. Some recipient governments preferred later stages of projects to be financed by the same donor which provided the initial surveys. Some also preferred the same consultants to advise, even though official policy made no such provision.⁶⁷

Some Japanese officials declared that few projects were handled by one company through all stages, while others considered it to be quite common.⁶⁸ Examination of the project listings of selected consultants

(Table 8-6)⁶⁹ gives some idea of how companies saw their own achievements, and from the figures it would seem that little pattern existed, except that the large proportion of consultants' work consisted of feasibility studies. The older and bigger firms with overall skills (Nippon Kōei, Sanyū, PCI, Electric Power Development Company, Nippon Telecommunications) won contracts for later stages, as did specialists like Universal Marine.

It is likely that the biases already existing in the system in favour of a few large companies - due to experience, resources available for the development of project ideas, and Japanese officials' attitudes to consultants - were strengthened at the later stages of projects. Despite Japanese Government supervision, it was not possible for policy on consultant promotion to be rigidly adhered to, since tenders were the responsibility of the recipient government. The principle of "fairness" could be applied less easily. The success of consultants was dependent more on their own efforts at the recipient end, and in this respect the long-term associations of companies with recipients took on real significance. The connections between companies and projects were also of influence, although there was no guarantee that companies could successfully tender for a project in which they had invested time or money.

The Japanese Government was not isolated from this selection process. Tenders were called by the recipient government but the MFA and the OECF, in the case of Indonesia, for example, tried to ensure that at least one Japanese firm was included on any short list of tenderers. Likewise, in cases where capital grants were being extended, the MFA's Second Economic Cooperation Division assisted the recipient administration in contracting arrangements.

TABLE 8-6

SELECTED CONSULTANTS: STAGES OF VARIOUS DEVELOPMENT PROJECTS UNDERTAKEN

	Stages					Total	No. of Countries	No. of Years
	1 only	1-2	2 only	2-3	1-2-3 3 only			
Nippon Kōei	43	9	3	15	31	0	20	21
Sanyū	15	4	0	0	7	0	12	11
Pacific	4	4	1	3	4	2	11	7
Japan Electric	14	1	6	0	0	2	10	11
Yachiyō	2	3	3	10	0	1	15	9
Mitsui Consulting	7	5	3	0	1	0	15	7
Electric Power Development Co.	11	2	0	0	11	0	10	13
Nihon Suidō	8	0	0	4	1	0	11	12
Universal Marine	4	1	0	1	7	3	15	21
Nippon Telecommunications	1	1	1	2	11	1	8	10

Notes: 1. Stage 1 = feasibility studies.

Stage 2 = detailed design.

Stage 3 = construction supervision.

2. Not a representative sample, but an indicative measure based on "major projects" selected by each company over different periods.

3. "no years" = earliest starting date to latest starting date.

Sources:

Sanyu Consultants Inc.

Nippon Koei: Consulting Engineers.

Engineering Consulting Firms Association, ECFA 1976-77.

Jōhō kikaku kenkyūjo, 76 nenpan keizai kyōryoku puranto yushutsu binran, (Information Planning Institute, Economic cooperation and plant exports reports handbook, 1976 edition), Tokyo, 1976.

As business houses consultants still worked behind the scenes to ensure participation in projects. In one sense, consultants acted as "agents" for the Japanese Government in project finding and identification, given the officially negative attitude to initiating aid. These efforts helped both consultants and the OECF, for example, when there were understandings about the kinds of projects the Government considered appropriate. It was up to consultants themselves to persuade governments of developing countries of the benefits of projects, and the Japanese Government of their long-term worth. One consultant put it more colourfully as "selling" ideas to recipients and "coaxing" money from Japanese officials. Whatever the term, the bridging, communication function of consultants in early and later stages of projects was clear. Consultants claimed a spontaneity lacking in the Government, which depended on requests as the formal initiation of aid work. Consultants were at the forefront of the "aid cycle", pushing and probing for new business. Commercial practice provided a momentum otherwise missing from the Japanese aid process.

Consultants were therefore a purposeful vehicle for the building of relations, at the business and government level, between developing countries and Japan. We noted how consultants often concentrated their efforts on building contacts with certain recipient governments. They were, of course, only one of a number of Japanese representatives, both official and private, in these nations, but they were one of the more mobile and flexible groups. Despite the focus of Japanese aid being narrowed onto the work of a few consultant companies operating in a handful of recipient countries, consultants were nevertheless instrumental in initiating aid to new recipients.

Nippon Kōei, for instance, broadened Japanese policy in this way in the early years of reparations and in promoting the Asahan project. In addition, it began surveys on the East Meskene irrigation project in Syria in 1974 with a Japanese Government loan of ¥8,858 million by Eximbank and city banks in June 1973. One other large firm's efforts in 1976 to organise assistance to irrigation projects in Afghanistan might also produce aid flows, although its executives were somewhat pessimistic about their ability to persuade the Afghani Government to accept company proposals.⁷⁰

Conclusion: Consultants and the Aid Cycle

Development surveys were essential to Japanese aid policy-making in three important ways:

- (a) they provided the hard information on which aid projects were assessed for "aid worthiness", and were the chief source of general information on the detailed economic needs of recipient countries. An accumulation of survey reports provided a rich body of intelligence, if used for that purpose;
- (b) they acted as the most effective filter for aid proposals and were essential to policy-making for types of aid and for aid to countries or regions. They relieved officials of much of the responsibility of sorting requests;
- (c) they were the justification for future aid flows and could influence the direction and size of aid to individual recipients. Project feasibility was a gateway to aid beyond the immediate project.

Surveys did not, however, make all decisions easier for bureaucrats. Indeed, the system's limitations - budgets, manpower, regulations - imposed the need to pre-select proposals before studies were made, to enable a manageable aid program to be developed. Feasibility became a more sophisticated tool for sorting an already restricted list of potential aid projects.

Consultants were therefore also essential to policy-making, since the choice of projects to be surveyed was in itself a policy item:

- (a) Consultants had an intelligence function, but a more precise one than surveys. In publicising their own projects they politicised the culling of requests but in so doing gave officials the information necessary on recipient thinking about projects. They complemented the task of officials in ranking requests.
- (b) The informal articulation of consultants' interests, in helping attach priorities to proposals, influenced the eventual allocation of aid funds, first of technical aid and, later, of loan funds as projects advanced to the construction stage. Consultants indeed often were the main connection between the early and later stages of projects.
- (c) This gave coherence to aid policies (especially the link between technical and capital aid), but at the same time led capital aid into predetermined paths. Allocation was frequently set by the manner in which a project had been identified and surveyed (and by whom), and by the energy of the company in pursuing its business in particular districts or countries.

- (d) The projects undertaken by consultants naturally revealed, or generated, new aid possibilities, which companies were keen to promote. The consultant's aggressive search for such opportunities was the real drive for the "aid cycle".

The relationship, therefore, between aid and consultants was essentially one of interdependence. Consultants, as the most active section of the whole aid system, took from the ministries much of the responsibility for initiating new policies, but did so because they were private enterprises, seeking to maximise profit in an unpredictable business where government policies were far from clear.

CONCLUSION

This thesis began with three principal objectives. It sought, firstly, to discover how Japan, an important aid donor, made her foreign aid policy. This task required answers to two other questions: how the Japanese national bureaucracy participated in the policy process and, on a more general plane, what defined a policy area such as foreign aid.

Japanese Aid Policy: The Donor's Dilemma

As suggested in the Introduction to this thesis, Japanese foreign aid policies were not the child of political pressures, élite decision-making or development arguments. The evidence presented in the chapters above supports the hypothesis that the structure and style of the domestic aid administration determined policy. This occurred in several ways:

- (a) The structure of the bureaucracy within the government and confusion about the purposes of aid contributed to bureaucratic change. Disputes over where the rightful "home" for aid lay, led to the rapid creation of competing administrations, and served to preserve and strengthen ministerial ideologies.
- (b) This dissociation of structures and perceptions spilled over into the government context. There the primacy of procedures and the dominance of the short-term perspective encouraged the view of aid as a quantity, a bureaucratic resource which had to be controlled. Aid was seen not so much as a national policy as an annually budgeted tool of policy-makers.

- (c) The internal dynamics of the aid process, which lacked real direction or commitment, were disordered. The relationships between types of aid were tenuous and constantly changing so, although limited, budgeting was the most effective filter for the mass of items and policy emphases.
- (d) The inertia of the Japanese aid organisation tied policy into a procedural routine; the predominant motive was defensive. Where responsibility was diffused, political will inconsistent and where policies of low political import overlapped ministerial boundaries, the costs of coordination increased and policy descended into temporary compromises along lines already tried and tested. Innovation and the development of new aid policy, however, were not characteristic of the system, not even of its lowest levels.¹ Chapter 4 demonstrated, in fact, how the workplace environment promoted the defence of territory and jurisdiction, and how difficult it proved for aid questions to be aired across ministries with any force. Even where it did occur, as with the creation of JICA, only when disputes became political did aid become an issue.
- (e) Apart from controls and procedures, another emphasis of the aid bureaucracy was projects, and at this level only was there innovation, because of the initiative and energy of those outside the bureaucracy. The "aid cycle" was used to analyse bilateral relationships in terms of the hardening of directions of aid flows. The concept suggested that policies were themselves important in strengthening biases in the system and, in turn, future aid. Implementation helped

identify new policy possibilities and narrow future policy options. This is one of the thesis' most far-reaching conclusions; it is directly relevant to questions of the mechanics of policy change and reform: Japanese aid policies are to a great extent outcomes independent of policy-makers' actions.

- (f) Aggressive and forward-looking behaviour, by consultants and others, had two effects: not only did it enlarge the size and scope of aid flows, but also it tended to push policies into defined paths. By building up bilateral aid flows in restricted patterns, policy in the long-term was stifled and capital aid for projects was intensified. Therefore, the only innovative element in the aid process worked to magnify biases in policy, which could not be otherwise allayed.

In this respect the Japanese Government obviously faced a dilemma. While strongly criticised by recipients and other donors, the policy-making process inhibited reforms. The reliance on private enterprise and other lobbyists (including, irregularly, politicians) to bridge current and future policies, ensured that the response to criticism would be weak. This conclusion is significant from the point of view of the recipient; it suggests that an active recipient stance (such as that adopted, for example, by Papua New Guinea in 1976-77) premised on sound and clearly articulated recipient policies and an appreciation of the constraints of the Japanese system, would encourage a more positive Japanese reaction.

The Japanese aid system has much in common with those of other aid donors: the intrusion of other policies and interests into aid

policy, the influence of the financial authorities and of bureaucratic diffusion, all exist in Western countries.² Few studies have been made of the effect of bureaucratic factors on donor policies, although Tendler presented a compelling case for the impact of organisation on some aspects of the performance of the United States Agency for International Development. The analysis of the Japanese situation in this thesis described possible variables affecting several kinds of aid policy: the pattern of development of the structure and ethos of the aid machinery; the proximity of aid divisions to other policy divisions; the degree of aid specialisation in the bureaucracy; career patterns; the differential effects of budgeting on commitment and disbursement of aid; the extent of cross-ministry control of aid management; the relationship between the policy-making and policy implementing machinery; the range of leverage points in the system; the strength of policy advisory functions and political commitment; the pre-occupation of policy-makers with certain bilateral ties; methods of project assessment; and the relationship between implementation by private enterprise and policy-making. The application of the "aid cycle" concept to analysis of donor policies would also appear useful in binding political and economic rationales for aid to the policy-making framework. It captures the continuities of policy and the momentum of the policy-making process.

Policy-Making in Japan

This thesis has concentrated on the bureaucracy in policy-making. It demonstrated that the link between the bureaucratic process and policy was direct, irrespective of the variable influence of issues. Two aspects stood out in the study: bureaucratic politics

and organisational processes. Both were interwoven in the making of foreign aid policy. This was apparent, for example, in respect of aid budgeting, policy advisory functions and behaviour within the ordinary division (ka).

Foreign aid cut across the interests of a wide variety of people and institutions in Japan, yet officials held sway in an area largely removed from the central policy interests of ministries. Politics touched aid intermittently and usually in regard to isolated projects or relationships. Ministers, for instance, were regular participants in some bilateral problems but, as Chapter 3 revealed, motives were rarely consistent.

Private enterprise did not play the dominant role in aid policy-making in Japan. The relationships between business and official policy-makers were often interdependent, for the latter looked to business for a great deal of information gathering and preparation in certain bilateral aid situations. While the early years of Japan's aid effort witnessed strong and commercially effective representations by companies that initiated close aid relationships between Japan and some Southeast Asian nations, in the late 1970s the "ground rules" for policy-making were those of the bureaucracy.

Discovering how these rules were interpreted occupied much of the thesis. Coordination and conflict in organisations are opposite sides of the same coin. Japanese culture has always placed a high value on the containment of dissensual behaviour and the maintenance of a united front. Administrators in Japan have not always succeeded in this aim and Self's conclusion is pertinent:

... administrative competition and co-ordination are linked with the pluralist and unitary tendencies of systems, and as such reflect conflicting values about the location of authority and about the relative importance of goal effectiveness versus goal co-ordination.³

This thesis has shown that formal coordination mechanisms did not perform efficiently. There was a fundamental barrier to active coordination across ministerial boundaries in Japan: the identification with the primary work group. This pattern contrasted with horizontally stratified French organisations, or American organisations with multiple decision centres where there were complex arrangements for coordination,⁴ and it is of relevance to all Japanese policy-making.

Heclo and Wildavsky, in their study of British budgeting, noted three components of effective coordination: personal ties characterised by trust and confidence, constant exchange of information and ideas, and the voluntary restraint of conflicts within reasonable bounds. It is notable that this was typically the case within the primary Japanese work group, such as the division in a ministry. That organisational unit was, in fact, an excellent example of ongoing coordination of goals, perceptions and activities. Despite persistent tensions, the development of intra-divisional understandings fostered effective administration, provided there was strong leadership.

This form of coordination was rarely formalised beyond the work group unit. Physical barriers intervened, perceptual screens were altered and commitments became dislocated. There were cross-cutting loyalties, and order was governed by several factors. The size of a unit and its proximity to central policy problems enhanced the strength of its linkages to other units, whereas divisions lower in the bureau hierarchy were more concerned with their own immediate

responsibilities. There was a relation here also to the grade and quality of officer participating. Type of work was relevant too, and while technical divisions may have had grounds for easy dialogue between themselves, unequal power between counterpart units could restrict communication. The fluidity of priorities in a policy area such as foreign aid made this power accounting extremely complex.

The primary group was an inward-looking group. The first goal was internal harmony, on which depended the resolution of external problems. One result of primary group affiliation in Japanese organisations was an apparent disinclination to work from the general to the particular. Goals and long range strategies drew upon motivations arising from concrete benefits to the group rather than adherence to the goals per se. The most effective and sought after inter-group coordination was informal, or that which was outside "regular" and officially sanctioned channels of inter-group communication. It was not necessarily patterned as nemawashi (broad consultation before action is taken) normally is, and did not occur only prior to action or decision. It was not "machinery", but a cultural or habitual trait, fostered by the stress on personal ties and on order of ranking as a foundation for social relationships. The tyranny of administrative regulations in areas where policy responsibilities overlapped demanded informality. Aid procedures included unofficial consultation, although the effect was inevitably a series of short-term resolutions to problems. Dramatic shifts in policy or long-term perspectives were associated more often with political pressures or other critical external influences.

The Policy Area Approach

It was noted above that problems of coordination were derived partly from the changing nature of perceptions of policy. This confused power relations between participants and upset the manner in which they approached each other. Difficulties such as this were related, therefore, to the final problem of this thesis, the definition of policy. Using the policy area approach to analyse the dynamics of policy-making, the study was able to look beyond decisions and policies to broader relationships between participants and to future dimensions of policy.

The research presented here suggests that the boundaries of a policy are never static. This is because, firstly, the objective conditions of policy are in constant motion and because secondly, policy itself forces changes in both the perceptions held of it and in the relationships between elements of the policy process. Structures vary and organisational routines based on them alter as power shifts within the bureaucracy. Patterns of policy-making, and participation in it, reflect reactions to specific views of policy and follow, often slowly, movements in the policy areas.

Policy areas are interdependent. Their boundaries overlap in a way which would suggest an intricate, but constantly moving, policy "map" of government, where policy contents in one field can vitally influence processes in another. The aid policy area, for example, proved to be by no means uniform. Our approach highlighted the diversity of institutions, behaviour and perceptions which existed, and revealed how those varied to influence decisions and their implementation. The interaction between this and other policy areas proved elusive, channelled as it was through individuals, their

predilections and prejudices.

There were paths and guides for this evolution. Institutional and political stability was an important environmental factor. A pervasive consensus that Japan's own economic growth demanded the alignment of aid and other policies was also a constant reference point for policy-makers, although the "mind-sets" of the 1950s and the 1970s were decidedly different. Reactions by other donors and the international aid community were integral to the aid debate in Japan, even though policy change came only slowly.

The policy area approach is valuable because it shows that policy formulation involves a continuing redefinition of the broader reaches of policy, and constant attempts to sharpen the appreciation of contents and their effects. Policy is not solid and immutable, to be chipped away or moulded by a sculptor, but has instead an amoeba-like quality, continually in motion, expanding, dividing or reforming. Heclo and Wildavsky's conception of policy as "a series of ongoing understandings" marks political administrators' action over time as the arbiter of content. This study has shown that policy-makers are themselves a part of the policy they are seeking to formulate, maintain or revise. Their ideas and actions, the structure through which they operate, cannot be divorced from decisions and the body of policy.

This redefining of boundaries is articulated in patterns of individual interaction and later in organisation. Patterns of policy-making represent methods which participants employ to seek their own ends, thereby defining policy for themselves. Needless to say, as policies change, the appropriate patterns vary also, although normally after the event.

In foreign aid, for example, jurisdictional problems provided one reason for an ongoing border skirmish over the defining of aid policy. This was particularly noticeable among younger officers whose attitudes were less settled and who were possibly more aware of undercurrents of thinking in other policy areas through informal communication. There was need also for a substantial input of information from participants beyond the bureaucracy. Thus were the frontiers of policy as implemented fed back to the centre of the policy area. Pressure groups performed a vital function in translating their assessments of the relevance of policy into future policy.

In these and other ways, perceptions of the policy area are altered and policy limits are reshaped. Of course, organisational channels, used formally or informally, are the medium for change. This is the essence of policy dynamics: a search for the definition of policy that leads to attempts to adjust policy content to perceptions of what those limits are. Because the policy area is continually shifting, however, this search for the best balance of perception and structure is never-ending.

The approach naturally has its limitations. The fine balance of detail and generality necessary for an appreciation of the policy area can be easily upset. It is, in some ways, a fence-sitting approach, refusing to acknowledge dominance of any aspect of the policy process. For some, it belittles organisation and, for others, neutralises bureaucratic politics. In one sense, it is negative, implying that any organisation's responses to ideas about policy are too late and reforms never sufficient.

This thesis has not sought to assess the relative performance

of alternative administrative systems for foreign aid. Many observers have suggested reforms in the Japanese aid administration, but it is hard to conclude that performance has improved. If there is to be reform, what is necessary above all is a more ready acknowledgement within Japan of the nature of aid policy and a willingness to accept changing perceptions. Only then can Japan achieve a closer alignment of development issues and policy constraints of domestic origin.