

Why did Japan Suspend Foreign Aid to China? Japan's Foreign Aid Decision-making and Sources of Aid Sanction

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The Japanese government has suspended part of its foreign aid to China twice in the past 12 years: first in 1989 after the Tiananmen Square incident, and secondly in response to China's nuclear testing in 1995. These two foreign aid suspension cases illustrate that the Japanese government has established extension and suspension of its foreign aid as a multiple-use foreign policy tool, as the country became the top aid donor in the world in the 1990s. The cases also indicate the importance of Japanese domestic politics and its public opinion in supporting the government's unilateral foreign policy actions, as foreign aid becomes an important policy tool aiming to enhance the security environment for Japan. Both of these conclusions go beyond the conventional theoretical understanding of Japan's foreign policy-making, which has emphasized Japan as a reactive state with single-minded pursuit of its economic interests.

I. Introduction

The Japanese government suspended grant aid to the People's Republic of China (hereafter, China) between 1995 and 1997 in protest against China's repeated nuclear testing in May and August of 1995. This move surprised Japan analysts, as it upset three conventional assumptions regarding Japan's foreign aid and foreign policy behavior. First, China is a special country for Japan owing to its proximity and history, and the Japanese government tends to be conciliatory when relating to its powerful and complex neighbor. Secondly, the Japanese government tends to be reactive to foreign pressures and may act out of character (such as taking action liable to provoke strong resentment in China) when forced to do so by the international community. Thirdly, Japanese foreign policy and foreign aid policy, particularly in Asia, is heavily influenced by the country's business and economic interests, and the Japanese government will avoid actions such as suspensions of foreign aid where they threaten Japan's business interests.

Japan's 1989–1990 aid suspension to China in the aftermath of the Tiananmen Square incident conformed to those conventional assumptions. The Japanese government suspended a 5-year, US\$5.4 billion package of yen loans in accordance with decisions taken by European and North American countries in June 1989 in protest against the Chinese government's brutal suppression of a popular movement. The Japanese government was reluctant and ambivalent about the suspension, but was compelled to respond to international peer pressure. In just over a year, strongly urged by Japanese business, the Japanese government resumed aid payments. In striking contrast, Japan's suspension of aid in 1995 after China's nuclear testing was not in response to foreign pressure, and was carried out even though it harmed Japan's business interests.

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The empirical puzzle is clear. Why did Japan unilaterally suspend grant aid to China in 1995? How are the influencing factors in this case different from those in 1989? More broadly, what motivated Japan to resort to foreign aid suspension in each case? What were the Japanese government's goals? Was there an identifiable shift in the Japanese government's attitude toward freezing foreign aid? These empirical questions then lead to broader theoretical questions regarding Japan's aid-giving behavior: Has the Japanese government finally initiated unilateral use of foreign aid suspension to increase its foreign policy leverage over recipient countries that are highly dependent on Japan's Official Development Assistance (ODA)? If so, has the Japanese government gone beyond an economic-centered foreign aid policy? These issues are also critical in tracing the direction of Japanese foreign policy toward developing countries in Asia in the post-Cold War era, and Japan's international role in the 21st century.

This paper first summarizes relevant theories on foreign aid donor motivation in general, and of Japanese foreign aid behavior in particular. The paper also outlines several key hypotheses about the determinants of Japanese aid allocation during the past decade. I then examine how Japan's suspension of aid to China in 1995 differed from the 1989 case. By examining the conditions and forces under which the Japanese government decided to suspend aid, comparing newspaper reports with my own interviews with Japanese government officials and China experts, I seek to uncover the foundation of the suspension decisions.

I argue that these two foreign aid suspension cases during the past decade reflect Japan's 'large donor status' and its political dilemma in dealing with China—a powerful neighbor and Japan's largest foreign aid recipient. The two cases also illustrate that foreign aid has given Japan a strategic edge *vis-à-vis* many developing countries for whom Japan is the dominant donor. The Japanese government can now use its large ODA donor status as a multiple-use foreign policy tool—one that can satisfy economic needs and achieve some political goals at the same time. The government must also worry about public support in Japan for its foreign aid. Because of the country's tight budgetary conditions and economic difficulties, the Japanese public must see foreign aid as something that is serving the country well and effectively. As long as the Japanese government can receive a sufficiently high level of public support for its foreign aid program, this relatively low-profile non-military foreign policy tool serves as a convenient alternative or supplement to military and diplomatic means in dealing with neighboring developing countries. This policy instrument is especially useful in Asia because, unlike many military or diplomatic options, it does not evoke wartime memories of Japan's military aggression in those countries.

2. Foreign Aid and Japan's Donor Interest

The importance of donor interests, rather than recipient needs, dominates discussion of the motivation of foreign aid giving by major donors.¹ Recently, Schraeder, Hook and Taylor (1998) analyzed four aid donors—the US, Japan, France and Sweden—during the Cold War and confirmed that donors' economic, security and cultural interests had dominated their aid allocation decisions. The mercantilistic nature of Japanese aid has long been discussed in this vein. Although statistics

1. Maizels and Nissanke (1984) conclude that bilateral aid is used openly as an instrument of foreign policy where the donor country's security concerns dominate allocation decisions. Kato (1969) reaches similar conclusions for US bilateral aid. Cusack and Kaufman (1994) suggest that, although donors are always motivated by both their own economic interests and recipient needs, the latter has decreased in relative importance as an impetus driving bilateral aid.

show that the proportion of tied aid within Japan's overall foreign aid has significantly decreased in the 1990s, some authors argue that Japanese foreign aid is still strongly influenced by Japanese business interests (Ensign 1992; Arase 1995). The corporatist nature of the Japanese state, with the notoriously close ties between government and big business, has linked Japanese foreign aid closely with Japanese business interests. The 'request basis' modality of Japan's foreign aid itself has enabled Japanese corporations operating in recipient countries to influence the types and allocation of Japanese foreign aid (Hanabusa 1991). Of course, such relationships also increase the influence of big business in Japan's aid policy-making.

A major goal of foreign aid governed by donors' interests is to distribute side-payments, positive incentives or downright bribes among recipient countries. Such rewards are extended when the recipient country abides by the basic rules of international relations, such as securing a good economic and political environment for trade and foreign investment as well as protection of democracy and human rights. Donors can use their financial contributions to 'buy' favorable attitudes and good behavior from recipient countries. On the other hand, foreign aid suspension can constitute a negative incentive. Suspensions of foreign aid clearly indicate objections by donors against conduct, policies or regimes of recipient countries. Such negative stimulus can range from a mild sign of disapproval to outright coercion to change the behavior of the recipient.

If a single donor government is sufficiently important to a certain developing country, or concentrates its aid on a few major recipients, it may be able to exercise significant influence over these recipients. A classic study by Hirschman (1945) illustrates how a concentration of trade among a few Eastern European countries with Germany in the inter-war period enhanced German influence and power over them. In the case of foreign aid, the US enjoyed similar power from the 1950s through the 1960s. Baldwin (1985) analyzes US economic sanctions and argues that foreign aid serves as a tool of US economic statecraft. Although some critics deny that foreign aid and its suspension are effective policy tools,² Baldwin (1985: 319) asserts that such a conclusion is too premature unless the outcomes of alternative policy options are comprehensively analyzed and compared.

Effective or not, aid suspensions and aid conditionality have often been used to pursue the economic and political objectives of donors (Hewitt and Killick 1996). Stokke (1996: 52) notes that the 'second generation' of aid conditionality often aims at political reform. Foreign aid policy is not only concerned with financial or technical resource transfer, but also targets cultural concepts and values, such as democracy and human rights, that Western aid donors would like to promote. However, Stokke observes that donors are far more likely to use aid as a policy tool with small aid recipients than with major aid recipients such as China or India.³

Actually, many donor countries have legal provisions governing foreign aid. Where conditions for aid eligibility are seriously and repeatedly violated by recipient governments, aid donors can individually or collectively react and suspend payments. Many non-democratic African countries, including Kenya (1990–1995), have been deprived of aid until they implement democratic reforms. Repeated aid suspension by most Development Assistance Committee (DAC) donors has been a factor leading the Kenyan government to amend its constitution to allow multiparty elections.

2. For example, Blessing (1981).

3. Stokke's thesis is supported by the existence of many aid suspension cases in Africa, including Malawi, Kenya, Zaire and Equatorial Guinea. But it does not explain why donors sometimes *do* apply sanctions to big countries such as China and Indonesia.

Malawi also faced suspension of non-humanitarian aid by its donors in May of 1992, and this pressure accelerated Malawi's democratization process, leading to elections in 1994.⁴

Existing literature on Japanese foreign aid has not sufficiently addressed the question of foreign aid as economic statecraft for two main reasons. First, for many years this approach only made sense when applied to the US, because it was the only donor big enough to affect recipient countries on its own. Japan did not have that kind of independent clout; nor did it have sufficient power to coerce other donors into collaboration. This first point has dramatically changed over the past 15 years, however, with the Japanese government drastically increasing its foreign aid power. As of 1995, Japan was providing twice as much ODA as the US, and was the biggest donor to 46 developing countries.⁵

The second reason for the intellectual neglect of Japanese aid policy derives from the prevalent theoretical perspective seeing Japan as a 'reactive state'. Calder (1988) sees Japan's general foreign economic policy as highly responsive to outside pressures, particularly from the US. This characterization of Japan reflects its dependence on the US in many respects, including investment sites, markets, diplomatic support and military protection from external aggression. Japan has failed to shed this dependent relationship even now that it is a major world power itself. Japan's foreign aid allegedly shares this dependent, reactive characteristic.⁶ Inada (1989: 402) notes that the phrase 'strategic aid', which circulated in the Japanese media in the early 1980s, meant that Japan's aid was 'conducted in accordance with US strategy'. Katō (1996: 100–101) verified Inada's claim by indicating the correlation between the recipients of US Security Supporting Assistance and Japan's major aid recipients. This dominant perspective has inhibited research on Japanese foreign aid as a foreign policy instrument.

Research on this theme finally started to emerge in the later 1990s.⁷ A recent study by Long (1999) examines Japan's use of aid policy to achieve non-proliferation goals with China, India, Pakistan, North Korea and Russia. He concludes that Japan's aid policy has recently begun to show increasing assertiveness in pursuing its security interests *vis-à-vis* aid recipient countries (Long 1999: 344). Although Hewitt and Killick (1996: 139) are correct to state that the Japanese government is still reluctant to move into aid conditionality, some observe an increasing proactive stance in Japan's use of foreign aid as a tool of statecraft.⁸

Two additional influences on foreign aid as economic statecraft require attention. The first of these is the interaction and convergence of aid-giving behavior among major donors. Collaboration among donors can enhance the impact of foreign aid policies in influencing recipient behavior (Martin 1992). Some cases where a group of donors have frozen aid flows to anti-democratic governments in developing countries show how the convergence of aid policy may stem from conscious and structured co-operation among donors. Many developing countries are quite vulnerable to

4. On Kenya, *New York Times* (27 November 1991 and 29 July 1995), *Christian Science Monitor* (26 November 1993) and *Economist* (vol. 336, no. 7928, 19 August 1995, p. 37). On Malawi, *Washington Post* (14 May 1992). Also personal communication with Ms Elena Borghese, an official from OECD/DAC, 19 February 1997.

5. MOFA, *Japan's ODA 1996*.

6. Various authors have discussed the theme of Japanese aid collaboration with the US, including Brook and Orr (1985), Yasutomo (1986), Inada (1989), Orr (1989–1990), Katada (1997) and Katada and McKeown (1998).

7. For example, Wan (1995) summarizes the 'spending strategy' used by the Japanese government, which has influenced Japan's foreign policy formation since the 1980s.

8. Yasutomo (1995) analyzes Japan's role in multilateral development banks, and finds a slowly emerging proactivism on the part of the Japanese government. He and others like Vogel (1994) also observe a division of labor among G-7 donors in terms of geographic emphasis, with Japan being an active leader in Asia. The case of Japan's environmental aid to China is a good example (Pharr and Wan 1996).

these orchestrated suspensions of aid (Cusak and Kaufman 1994: 12–14). International bodies such as the Organization for Economic Co-operation and Development (OECD) and its affiliate, the DAC, are among consultative bodies on aid providing for peer pressure on policy co-ordination. Convergence may also facilitate and be facilitated by an ‘aid regime’ that evolves around a core of aid norms.⁹

The second influence is domestic public opinion. This can be a critical factor, particularly when a foreign aid preference reflects domestic pressure, such as the farm lobby for US food aid or the construction industry for Japanese infrastructure aid. In such cases, the suspension of aid may incur political costs arising from the opposition of these influential domestic actors against governments’ actions. Hence suspension of aid, particularly to a major aid recipient, demonstrates a strong commitment to a particular outcome or value on the part of the donor government (Martin 1993: 415–416).¹⁰

The potential for foreign aid as a tool of Japan’s economic statecraft exists. The Japanese government, as the largest aid donor in the ten years from 1989 to 1998, is in a position to impose penalties—not only economic but also political—on its aid recipients. More research is needed on how that power is exercised.

3. Empirical Analyses

3.1 Approach to the Case Study

The empirical part of this study examines the forces that have led the Japanese government to suspend foreign aid to China twice in the past decade.¹¹ The two cases provide an interesting contrast. The first case, in the aftermath of the Tiananmen Square incident in June 1989, saw the Japanese government reluctantly follow other major donors in protesting against the Chinese government’s anti-democratic policies and human rights abuses, and suspending its new aid package. The government lifted its suspension a year later as clear signs emerged of re-establishment of contacts between China and other major donor governments. The second suspension, in protest at China’s nuclear weapon testing in May and August of 1995, saw the Japanese government suspend the grant portion of its aid to China and delay disbursement of the loan portion. The suspension lasted more than one year, until spring 1997. This was a unilateral sanction, and as such unprecedented. It was largely symbolic, since grant aid represents only a small portion of overall aid, but the symbolic impact was considerable.

The two cases have various aspects in common. First, Japan was the world’s top aid donor during both periods and by far the largest foreign aid donor to East and Southeast Asian countries, including China. Therefore, Japan’s powerful position as a major foreign aid donor is one commonality. A second is that the two cases are both aimed at China, Japan’s largest or second-largest aid recipient throughout the past decade. Factors such as geographical proximity, China’s political, economic and

9. For the classic discussions on the definition of international regimes, see Krasner (1983). Lumsdaine (1993) sees the international aid regime as being based on humanitarian morals that emphasize values such as vision, hope, commitment and convictions. He argues that humanitarian and egalitarian concerns and not merely economic and political interests motivate foreign aid. Wood (1986), on the other hand, sees the aid regime as created on the basis of multilateralism and market-orientation led by the economic interests of the US. In the aid regime, according to Wood, foreign aid has been expected to supplement, but not to crowd out, private investment opportunities in developing countries.

10. In this sense, one can see foreign aid decisions and negotiations as a two-level game. See Hook (1996: 228–231).

11. I see this project as following the ‘controlled comparison method’ for theory development (George 1979).

social weight in the world system, historical sensitivity, Japanese security concerns, and China's attractive natural resources naturally dispose the Japanese government to view its relationship with China as one of its highest foreign policy priorities. In this sense, aid suspension to China is quite different from the recent series of aid suspensions to relatively small and faraway African countries such as Malawi or Sierra Leone. Thus, this study of plural cases involving a single recipient country provides a certain level of control for the 'bilateral importance' variable, although, as discussed below, Japan's economic interests and political concerns have varied over time.

On the other hand, the two cases also show striking contrasts. Above all, the Japanese government's behavior was quite different. In the first case, Japan did its best to mitigate the intensity of sanctions imposed by European and North American donors, and the Japanese government, urged on by its private sector, was more than ready to resume aid disbursement at any time. In short, this was a typical case of Japan's economic interests driving its foreign aid policy and of Japan's 'reactiveness' to foreign pressure. On the other hand, the second case goes beyond these conventional assumptions regarding Japanese foreign aid behavior. The suspension was unilateral, not prompted by other donors, and it was implemented despite the potential harm to Japan's business interests, although a degree of compromise was made. In Section 3.4, I discuss three major factors that seem to explain the change: (a) the end of the Cold War, bringing a decrease in the need for a united front as well as changes in Japan's bilateral relationship with the US; (b) the rise of China as Japan's rival, in both political and economic realms; and (c) a different level of domestic support for the respective issues (human rights vs. nuclear threat), against which the Japanese government used aid suspension as a foreign policy tool.

The empirical analysis asks: can we see any emerging signs of Japanese aid unilateralism and its use as a coercive foreign policy tool? What domestic and international factors might be behind such an emergence? What is the direction of Japanese government foreign aid policy in the post-Cold War era? In addition, these two cases supply grounds for establishing hypotheses on Japanese foreign aid behavior toward its major aid recipients. The analysis, therefore, provides a theoretical starting point for future research on Japan's foreign aid behavior with emphasis on the government's use of foreign aid extension and suspension as a tool of foreign policy.

3.2 Japanese Aid Suspensions to China

3.2.1 *Case Study One: the Tiananmen Square Incident and Japan's Aid Suspension from June 1989 to July 1990*

The Japanese government declared 'what amounted to a temporary freeze on its massive economic assistance program to China' on 7 June 1989, three days after the killing of demonstrators by the Chinese military in Tiananmen Square.¹² In comparison with West European countries and the US, which unequivocally denounced the Chinese government's actions, and immediately suspended arms sales and high-level official visits to China, the Japanese government's response was delayed and ambiguous. Senior Japanese officials all emphasized that its suspension of aid was only a temporary freeze and a practical 'response' to the chaos in China, but it was not a 'sanction'. At the same time, the Japanese government was concerned about pressure and criticism, domestically but more particularly from abroad, on its 'soft' position on China. International pressure was mounting and, by 12 June, the Bush Administration was informally consulting with Japan and Western European

12. *Los Angeles Times*, 7 June 1989. The official decision of freezing the third yen loan package was reached by the MOFA on June 20 1989 (Tanaka 1990: 37).

countries on the formation of a unified front to impose economic sanctions on China (Tanaka 1990: 42–43). The Japanese government was obliged to follow the Western countries' lead in order to avoid being isolated and to circumvent US antagonism, with which Japan had experienced a series of intense trade disputes during the previous few years. Domestic reactions in Japan towards the incident also influenced the decisions of the Japanese government. Some Diet members, including a number from the governing Liberal Democratic Party (LDP) as well as some from the Japan Communist Party (JCP) joined in the criticism of the Japanese government's inaction against the Chinese government (Quansheng 1993: 170).¹³

Nevertheless, the Japanese government's relatively 'conciliatory' and cautious approach to dealing with China continued to be visible at the Paris Summit one month after the incident. At the summit, Japanese Foreign Minister Hiroshi Mitsuzuka emphasized the need for a cautious stance among G-7 members to avoid isolating China, which could be highly destabilizing for Asia.¹⁴ The absence of any mention of 'joint sanctions against China' in the Paris Summit declaration was a clear endorsement of Japan's position at the summit.¹⁵ The Japanese government shared the concern of the business community about the shortage of capital flows to China due to the suspensions of private loans and other lending by bilateral donors and international financial institutions (IFIs) such as the World Bank and Asian Development Bank.¹⁶

As the height of the crisis passed, frequent high-level discussions took place between Japan and the US in relation to lifting the ban on economic assistance to China from the fall of 1989 through spring of 1990 (Kesavan 1990: 674–675). Japan's freeze on some ongoing loans was lifted as early as August 1989. A major earthquake hit China in October, prompting the World Bank to supply humanitarian aid for disaster relief, and, soon after, the Japanese government released new grant aid of US\$35 million in December 1989 for improvements to a Beijing television broadcasting station and a Shanghai hospital (Quansheng 1993: 173). The pressure from the US remained strong during these months. US National Security Adviser Brent Scowcroft came to Tokyo in December 1989 to dissuade Japan from restoring credit too quickly (Quansheng 1993: 172). While maintaining its posture of collaboration with the US line on economic sanctions, the Japanese government facilitated visits by various Japanese political and business figures to China from August 1989.

Finally on 26 June 1990, Japanese Prime Minister Toshiki Kaifu announced that Japan was planning to resume aid discussions with China and to activate its US\$5.4 billion yen loan aid package for the period of 1990–1995.¹⁷ Japan officially announced a unilateral resumption of aid at the Houston Summit on July 9–11 of the same year. The Ministry of Foreign Affairs' (MOFA) annual publication (the *Diplomatic Bluebook*) comments: 'Japan decided to act on Asia-Pacific issues on its

13. There has been a clear split of pro-mainland and pro-Taiwan groups within the leading LDP. The groups are quite ideological and there can be confrontation on China-related issues (Tanaka 1991: 198–204).

14. *Nihon Keizai Shinbun*, 13 July 1989. Detailed account of Japan's action and reaction in relation to Western countries' sanction against China at the Tiananmen Square incident, see Kesavan (1990).

15. *Yomiuri Shinbun*, 16 July 1989. Also cited in Kesavan (1990: 674).

16. *Nihon Keizai Shinbun*, 19, 22, 27 June, 2 and 21 July 1989.

17. *Christian Science Monitor*, 11 July 1990. Also see *JEI Report*, no. 27B, 13 July 1990. It is noted that among the opposition parties, the JCP as well as Democratic Socialist Party (DSP) were critical of aid resumption, while the most powerful opposition group (particularly in these years), the Japan Socialist Party (later renamed Social Democratic Party), and the Kōmeitō were ready to push for releasing the loans (Quansheng 1993: 180). For JCP point of view, also see Geshi (1990).

own initiative and responsibility'.¹⁸ The Chinese government appreciated the 'good will' shown in Japan's conciliatory stance and role as a bridge between the Western powers and China.¹⁹

Japan's unilateral lifting of aid sanctions against China looks on the surface like a case of Japan acting independently and proactively (Yasutomo 1995: 74), but the Japanese government's behavior throughout this case matched the stereotype. The Japanese private sector supported the government's soft stance on China, wishing to restore normality to business relations as quickly as possible. Facing strong peer pressure from fellow donors, the Japanese government was forced to weigh domestic pressure against pressure from the international community. Furthermore, the unilateral lifting of aid sanctions came only after most of the other major donor countries begun to ease restrictions, despite their rhetoric (Miyashita 1999: 711–718).

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

In a strong reaction against China's nuclear tests conducted in May 1995, the Japanese Foreign Ministry threatened to 'compress' the grant aid portion of Japan's foreign economic assistance to China if China failed to commit to the ban on nuclear testing. At that point, however, the Ministry did not specify the amount or which projects might be affected by such 'compression', insisting on a 'flexible' response to the changing situation. A Ministry official emphasized that such action should not be understood as a 'sanction'.²⁰ Nevertheless, Japan's political commitment was apparent when senior Japanese officials stated that 'Tokyo considers Beijing's nuclear test to be incompatible with the Japanese government's four guiding principles for providing foreign aid (adopted in 1992)'.²¹ Tokyo was also aggravated by the fact that China's nuclear test came only days after China had expressed support for the indefinite extension of the Nuclear Non-Proliferation Treaty (NPT). It also came straight after a visit to China by Japanese Prime Minister Tomi'ichi Murayama, during which he requested the Chinese government to seriously consider stopping nuclear testing following the examples of other nuclear powers.²²

Tokyo did not take concrete action against China until August of the same year, when China conducted a second nuclear weapons test. At a meeting on 30 August, a top official from MOFA officially informed the Chinese ambassador to Tokyo that Japan would suspend its grant aid to Beijing in protest against the repeated nuclear testing. The Japanese government reiterated that the suspension of grant aid (excluding humanitarian aid, which was exempted from the suspension) would not resume until Beijing foreswore any further nuclear tests.²³ In addition, the Japanese government announced a policy of 'caution' in extending new yen loans to China. Although grant aid is a relatively small portion of Japanese aid to China—US\$78 million compared with

18. Japan's MOFA, *Diplomatic Bluebook* (1990: 20). Also cited in Deng (1997: 381).

19. See, e.g. Deng Xiaoping's speech to a delegation from the Japanese Association of International Trade Promotion, 1 December 1989 (Deng 1997: 380–381).

20. *Nihon Keizai Shinbun*, 23 May 1995.

21. *Nihon Keizai Shinbun*, 23 May 1995. *JEI Report*, 9 June 1995, pp. 4–5. See also Long (1999: 333–336). The Japan's ODA Charter was introduced in 1992 (discussed later). Since the Charter was adopted, the Japanese government has applied these principles to curb aid allocations to Haiti, Kenya, Nigeria, Malawi and Sierra Leone (OECD/DAC 1996: 36). The Japanese government suspended aid to Burma in 1988–1989 before the Charter was adopted.

22. *Asahi Shinbun*, 20 May 1995. This is not the first time that Japan's foreign aid was affected by the Chinese government's nuclear testing. The negotiations for the fourth yen loan package to China (1996–1998) was temporarily suspended in October 1994 due to a test conducted on 7 October. This negotiation was resumed and concluded in December 1994.

23. *JEI Report*, 15 September 1995, pp. 8–10.

US\$1.4 billion of concessional loans for the Fiscal Year 1994²⁴—the aid suspension decision itself shocked the Chinese government, which stated that Tokyo’s decision was ‘unwise and had thrown cold water on relations between the two countries’.²⁵ Japanese China-watchers commented that, despite the relatively small amount of money involved, the Chinese government was much more disturbed by this unilateral grant aid suspension than by the measures taken in 1989–1990.²⁶

The ‘compression’ of grant aid was a unilateral action by the Japanese government. Although there was criticism of China’s nuclear testing from the Western powers, including the US, there was no co-ordinated multilateral effort to pressure China.²⁷ Instead, this strong Japanese reaction came from within. The public, politicians and bureaucrats all reacted negatively to China’s nuclear testing, and this strengthened the government’s hand. In addition, foreign aid policy-makers were deeply distressed by the obvious discrepancy between Japanese foreign aid policy to China and its recently adopted ODA Charter. Failure to act against China’s nuclear testing could have undermined the credibility of Japan’s foreign aid policy stance (Okawa 1996, Deng 1997: 388). Moreover, the Japanese business community accepted the suspension of grant aid. For example, in June of 1995, the Chairman of Japan Trade Association (association of Japan’s trading companies) supported the Japanese government’s decision to ‘suspend grant aid, but continue yen loans’ to China.²⁸

This grant aid suspension was later lifted at the time of Foreign Minister Yukihiko Ikeda’s visit to China in March 1997. A recommendation to resume grant aid had already been made by MOFA in the fall of 1996 in recognition of China’s decision to stop nuclear testing and to sign the United Nations’ Comprehensive Nuclear Test Ban (CNTB) treaty.²⁹

3.3 Similarities Between the Two Cases

3.3.1 *Japan as the Number One Aid Donor*

Japan’s top donor position is a common factor in the two cases. Coming a long way from her position as a small and narrowly mercantilistic aid donor in the early 1970s, Japan became the world’s largest aid donor in 1989, keeping that position for the first decade of the post-Cold War era.³⁰ Helped by the strong yen, Japanese ODA reached its all time high of US\$14.5 billion in 1995. This was almost double the US figure that year.³¹ The demise of the Soviet Union and the end of Cold War tension has been reflected in the aid policies of the US and other donors. US foreign aid was drastically cut from a peak of US\$11.7 billion in 1992 to US\$7.3 billion in 1995, although its level recovered in 1996 to US\$9.06 billion. Declining foreign aid can partly be attributed to the

24. Japan’s Overseas Economic Co-operation Fund (OECF) also delayed yen loan disbursements from its new package to China until December 1996 in the interests of ‘coherence and consistency’ in Japanese foreign aid policy. Interview with a Japanese official, Tokyo, June 1997.

25. *JEI Report*, 15 September 1995, pp. 8–10. The Chinese communist party newspaper, the *People’s Daily*, asserted that ‘China is the country that suffered most under Japanese aggression. That [is] why our receiving of grants-in-aid has a special historical background.’

26. Interviews with a Japanese journalist and a Japanese scholar, Tokyo Japan, June 1997.

27. Some donor countries like the US and Belgium also temporarily suspended export credits to China during the incident.

28. *Nihon Keizai Shinbun*, 14 June 1996.

29. *Financial Times*, 29 March 1997.

30. The US apparently overtook Japan from 1990 through 1992 until Japan returned to the number one aid donor position. However, if one subtracts non-ODA debt forgiveness from the US ODA figures in these three years, Japan has kept its number one position as an aid donor in current as well as constant terms (see Figure 1).

31. However, Japanese ODA declined significantly in 1996 to US\$9.4 billion.

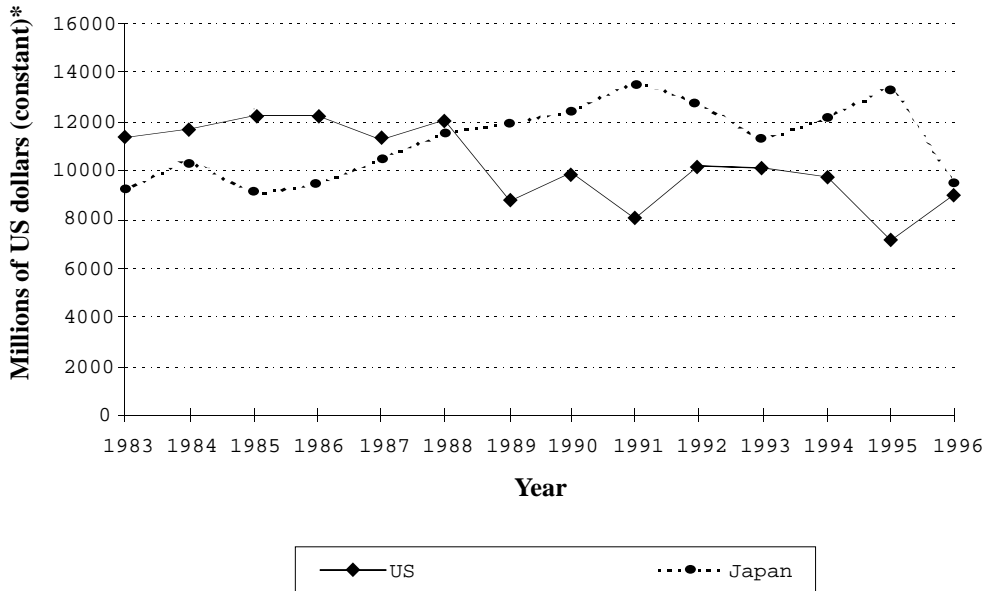


Figure 1 ODA, Japan and the US 1983–1996. 1993 prices and exchange rates. For the US figures, non-ODA debt forgiveness (1990–1992) is excluded.

Source: OECD/DAC.

partisan shift toward a Republican majority in the 1994 congressional election, and the austerity of US budgets in the first half of the 1990s. Nevertheless, the loss of a Cold War security rationale also had a significant impact (Figure 1).

In this international environment of declining foreign aid, Japanese motives for aid giving attracted increasing attention in the 1990s. MOFA's October 1996 ODA White Paper emphasized that ODA is an important instrument for pursuing Japan's national interests. The Paper states that, as well as addressing the problems of poverty, global environment and population explosion, ODA can also protect the high living standards of the Japanese people by improving the welfare of people in developing countries. In an age when Japan is so dependent on the developing world for energy and food as well as export markets for its manufactured goods (accounting for over 50% of the total), the stability and prosperity of developing countries enhances the welfare of Japan.³² This official acknowledgement of the national interest motive shows a shift in Japan's foreign aid posture compared with the early stage of aid giving in the 1970s.³³ There are signs of increased government confidence in the approach to aid. The mercantilistic practice of tying aid to Japanese exports has diminished significantly. Moreover, Japan's major aid recipients in East and Southeast Asia have made impressive economic progress in the past two decades, although the 1997 Asian financial crisis was a setback.

32. MOFA, *Japan's ODA 1996*. Also reported in *Asahi Shinbun*, 5 October 1996.

33. The Japanese aid program started with war reparations to Southeast Asian countries and membership of the Colombo Plan of the Commonwealth in the 1950s. Japan joined the DAC in 1961. Japanese aid, however, was criticized by other donors and aid recipients as mercantilistic. See Rix (1980). It was also influenced by US Asian strategy. See Borden (1984) and Katada (1997).

For China, Japan has been by far the largest aid donor since the mid-1980s, even surpassing multi-lateral development institutions such as the International Development Association (the soft credit window of the World Bank), and the Asian Development Fund (the soft credit window of the Asian Development Bank). Except for the two years 1990 and 1991, the Japanese government provided more than half of China's bilateral ODA from 1979 to 1998 (more than 60% in years 1993 and 1994) with major European donors such as Germany and France trailing far behind. Japanese foreign aid accounts for more than one-third of overall (bilateral and multilateral) ODA to China (Table 1). No US foreign aid has been extended to China, owing to US legal restrictions on providing foreign aid to Communist countries (Foreign Assistance Act of 1961). The US does, however, provide export credits and other non-concessional loans.

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

3.3.2 *The Importance of China for Japan*

China is a special country for Japan in many respects. Active governmental dialogue only started after diplomatic normalization in 1972, and discussions on foreign aid started in 1978 (Tanaka 1991: 109). This is very different from Japan's foreign aid relationship with many Southeast Asian countries, which started as reparation payments under Article 14 of the 1951 San Francisco Peace Treaty. Even after diplomatic normalization and the initiation of foreign aid relations with Japan, the Chinese government renounced formal reparations arrangement in relation to Japan's aggression and damages to China before and during World War II. After the signing of the 1978 Sino-Japanese Peace and Friendship Treaty, the first Japanese foreign aid was provided to China in 1979.

Table 1. ODA to China by major bilateral donors, 1988–1996: US\$m (% of China's total bilateral ODA receipts)

	1988	1989	1990	1991	1992	1993	1994	1995	1996
Japan	673.7 (56.3)	832.2 (55.6)	723.0 (47.8)	585.3 (46.7)	1050.8 (50.6)	1350.7 (60.3)	1479.4 (61.8)	1380.2 (54.5)	861.7 (51.6)
Germany	45.6 (3.8)	111.9 (7.5)	228.9 (15.1)	107.1 (8.6)	192.8 (9.3)	247.8 (11.1)	300.0 (12.5)	684.1 (27.0)	461.1 (27.6)
France	134.0 (11.2)	179.9 (12.0)	88.0 (5.8)	138.5 (11.1)	153.4 (7.4)	102.6 (4.6)	97.7 (4.1)	91.2 (3.6)	97.2 (5.8)
UK	42.5 (3.6)	26.8 (1.8)	33.3 (2.2)	35.7 (2.8)	58.7 (2.8)	42.3 (1.9)	47.0 (2.0)	47.8 (1.9)	57.1 (3.4)
Canada	35.6 (3.0)	37.4 (2.5)	67.7 (4.5)	40.0 (3.2)	62.4 (3.0)	69.6 (3.1)	68.6 (2.9)	53.7 (2.1)	38.4 (2.3)
Spain	0.0 (0.0)	2.5 (0.2)	95.4 (6.3)	84.6 (6.8)	191.8 (9.2)	140.1 (6.3)	153.1 (6.4)	56.0 (2.2)	37.0 (2.2)
DAC total	1196.1	1497.5	1511.7	1252.5	2077.3	2239.8	2393.9	2531.2	1671.1

Source: OECD/DAC. Top six donors, sorted in descending order based on 1996 ODA outlays.

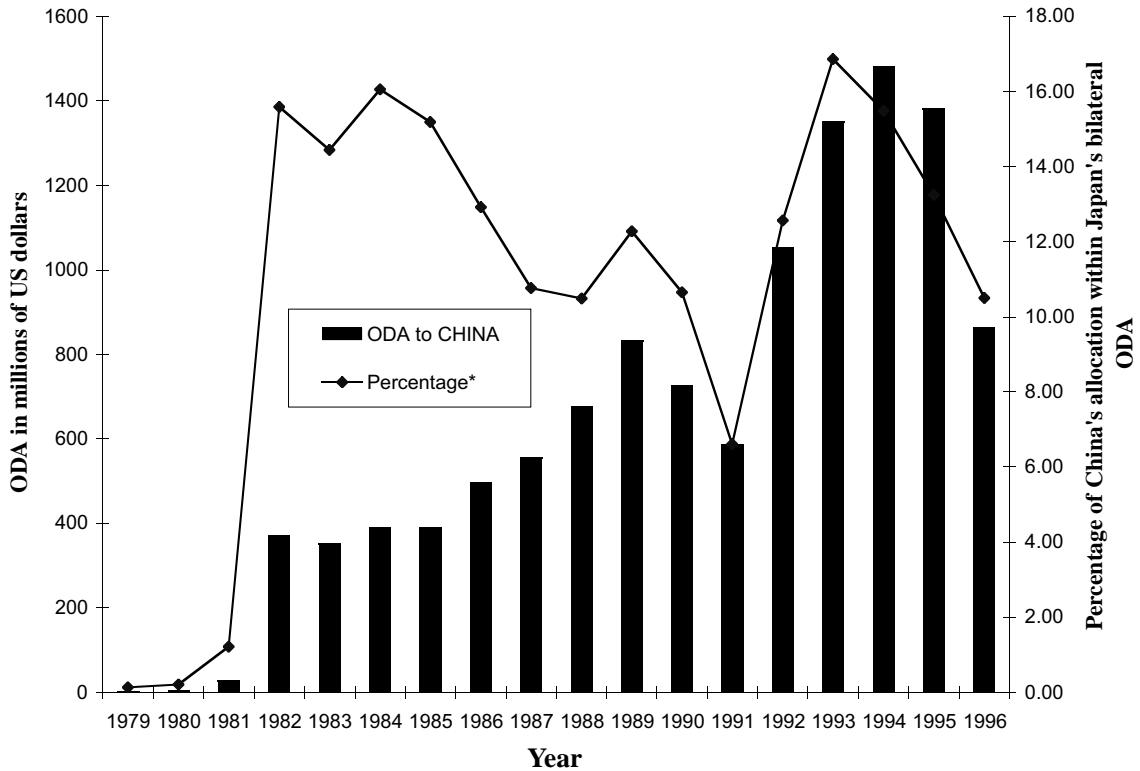


Figure 2 Japan's net ODA flows to China, 1979–1996. Percentage of the net total Japanese bilateral ODA.

Source: OECD/DAC.

Japan was the biggest donor, bilateral or multilateral, that year, providing US\$2.6 million in grants. Second was the Federal Republic of Germany, with US\$1.3 million, and some specialized United Nations agencies (Jun and Katada 1997: 164).

As Figure 2 demonstrates, Japanese foreign aid to China increased dramatically from 1982, and China subsequently disputed the number one recipient position with Indonesia into the first half of the 1990s.³⁴ China has consistently received more than 10% of Japan's bilateral ODA. Particularly in the early years of aid relations, Chinese leaders saw special treatment by the Japanese government as a 'right', because Japan had an obligation to make up for the damage and suffering caused by its wartime invasion of China.³⁵ China's 'special' position gave rise to a unique modality in Japan's

34. When Japan established its foreign aid relationship with China after diplomatic normalization, it was feared that foreign aid to China might penalize other Asian countries. In 1979, the three 'Ohira Principles' of aid policy to China were announced: (a) co-operation with the US and other Western nations, to allay fears that Japan might move to monopolize the China market, (b) balancing aid to China with aid to other Asian countries, especially those in ASEAN, and (c) avoiding loans to China's defense-related industries. In addition, Japan's yen loans to China have usually been untied, in order to demonstrate non-exclusivity (Quansheng 1993: 169). For more detail on Japan's foreign aid to China in its early years, see Tanaka (1991: 108–113).

35. Mochizuki describes the Japanese approach to China as 'carrots without sticks', where Japan is generally unwilling to resort to negative incentives when the positive approach proves ineffective. See interview in *JEI Report*, 5 April 1996, p. 9.

dealings with China. Unlike Japan's aid commitment to all other developing countries, which is negotiated and disbursed on a yearly basis, Japan has negotiated multi-year packages, usually coinciding with China's five-year economic plans (Quansheng 1993: 166). The first three ODA loan packages came as 'gifts' at the times of visits by Japanese prime ministers to China. The first package, of ¥330 billion (US\$1.4 billion) for 1979–1983, was extended at the time of Masayoshi Ohira's visit to China in December 1979. The second package, of ¥470 billion (US\$2.1 billion) for 1984–1989, came at the time of Yasuhiro Nakasone's visit (March 1984). The third came when Noboru Takeshita visited in August 1988 and promised ¥810 billion (US\$5.4 billion) for 1990–1995.

The fourth and current aid loan package takes a slightly different form. The Japanese government and its yen loan aid implementation agency, the OECF, adopted a 'three plus two system' instead of a five- or six-year package. The agreement of the first three-year loan package of ¥580 billion (US\$5.8 billion) for 1996–1998 was agreed between Japanese and Chinese aid officials in December 1994, and covered 40 aid projects, mostly of an environmental character. The loan package for the remaining two years (1999–2000) was to be discussed later. In addition to yen loans, China has also received grant aid (implemented by four ministries of the Japanese government) and technical co-operation (implemented by the Japan International Co-operation Agency under MOFA), as well as non-concessional untied loans through the Export-Import Bank of Japan. The latter are not counted as ODA.

After the mid-1980s, other aspects of Japan's economic co-operation with China increased significantly. Trade increased threefold between 1985 and 1995, with the trade balance becoming more favorable to China during most of the 1990s (Figure 3). From 1991, the modest Japanese foreign direct investment (FDI) of the 1980s became more aggressive, reaching US\$3.39 billion in 1992, accounting for 6.5% of China's total FDI receipts. All these indicate how important China has been for the Japanese government.

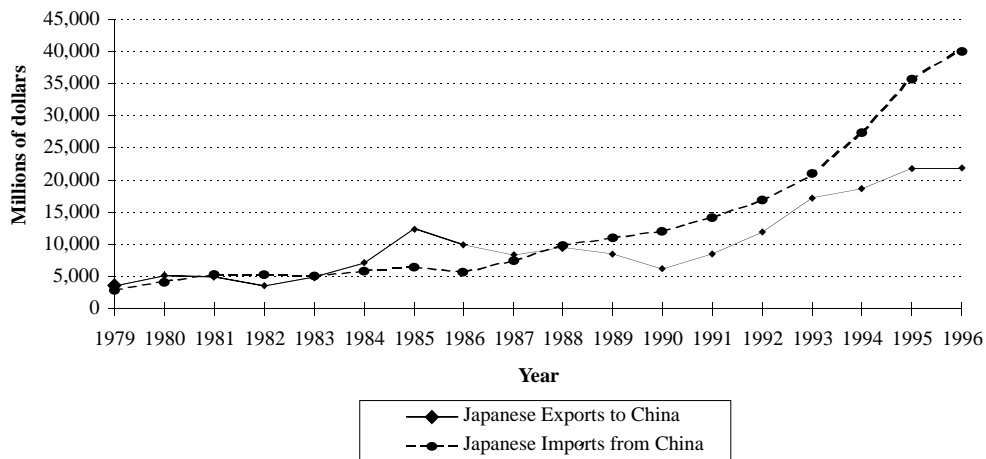


Figure 3 Japanese Trade Balance with China, 1979–1995.

Source: IMF, *Direction of Trade Statistics Yearbook*.

3.4 Contrasts Between the Two Cases

3.4.1 *Changes in the International Political Environment*

The end of the Cold War naturally affected Japan's perception of China in the global context. Even in 1989 (when East European countries had already begun their democratic reforms and the Berlin Wall fell in November), Cold War power dynamics still influenced the Japanese government. In July of that year, a month after Tiananmen, Foreign Minister Mitsuzuka, speaking at the annual conference of ASEAN (Association of Southeast Asian Nations) foreign ministers, emphasized that '[i]f we isolate China, we will drive it closer to the Soviet Union. It may not be a wise policy.'³⁶ This type of statement would have been inconceivable in relation to the 1995–1997 aid suspension.

The end of the Cold War also had indirect implications, leading Japan in the mid-1990s to be less reactive to US pressure and more likely to act independently. As noted earlier, the end of the Cold War led to a drastic reduction in overall American foreign aid, demoting the US to number two or lower in the world aid-donor rankings in the 1990s. Particularly with China, the US government was never able to use foreign aid as a foreign policy instrument, except indirectly, through its dominance over IFIs, especially the World Bank. Although the US has used its trade and investment leverages to influence China, particularly at the time of the yearly renewal of China's Most-Favored Nation (MFN) trading status with the US, pressure from the US business community protecting their significant vested interests in China has tied the hands of US policy-makers.

On the other hand, with Japanese foreign aid accounting for more than 50% of China's aid receipts (Table 1), the Japanese government has begun to look upon foreign aid as a potential foreign policy instrument.³⁷ Despite the heavy influence of business interests on foreign aid policy, the government has the option of resorting to its aid lever, especially with Asian countries including China whose aid dependence on Japan is high. Meanwhile, the US power to influence Japanese foreign aid behavior, particularly to its major clients in Asia, diminished in the 1990s. All these changes in international structure after the end of the Cold War imply more space for Japan to resort to unilateral maneuvers.

3.4.2 *Changes in Japan–China relations*

Japan's bilateral relationship with China was quite different in the mid-1990s from what it was in the late 1980s. Overall, the Japanese people and its government did not perceive China as a threat in 1989, but by the mid-1990s, with China's dramatic increase in productive capacity, on one hand, and its military modernization and build-up, on the other, China emerged as a competitor and a threat to Japan. There was an increasing sense that Japan must keep China 'in check', particularly regarding China's quest for military strength, including enhanced nuclear capability.³⁸ Issues such as Taiwan and the territorial disputes over the Senkaku/Diaoyu islands have added to the politicization of Japan's relationship with China. In addition, generational change in the Japanese leadership weakened support for good Sino-Japanese relations and diluted the 'sense of guilt toward China' regarding Japan's actions before and during World War II (Garrett and Glaser 1997: 397–398).

China's economic attraction to the Japanese business community also dwindled in relative terms. China's market potential seems to have decreased owing to hostile attitudes toward Japanese exports among the Chinese people since the late 1980s, coupled with increased competition from other

36. Reported in *Asahi Shinbun*, 7 July 1989. Also cited in Kesavan (1990: 673).

37. This point asserted by Long (1999). Japanese foreign aid officials are still quite reluctant to admit this point, even though there are references to such use of foreign aid in the newspapers. For example, *Asahi Shinbun*, 4 June 1995.

38. Interview with a Japanese journalist (China specialist), Tokyo Japan, June 1997.

major economic powers penetrating Chinese markets in the 1990s. The Japanese trade balance with China, which showed signs of going into surplus in the late 1980s, began deteriorating in the 1990s. Japan has consistently shown a trade deficit *vis-à-vis* China since 1988 (Figure 3). Meanwhile, other low-income Asian countries such as Vietnam and Burma (officially Myanmar) have started drawing the attention of Japanese business away from China since the mid-1990s.

The Japanese government's general attitude toward foreign aid to China has also shifted, despite China's special status discussed. From the late 1970s through 1989, most Japanese aid to China was targeted on railways, dams, ports and other infrastructure projects that would support Japanese economic interests in the country, while also serving as a sign of friendship and as quasi-war reparations. Japanese aid during this period included monumental projects designed to demonstrate Japan's goodwill toward China.

In the 1990s, however, other objectives emerged. Changes in the Japanese government's posture were visible in the three-year plus two-year formula adopted in the fourth yen loan package. As well as building social and physical infrastructure aimed at facilitating Japanese businesses economic activities in China, a new aim emerged: that of preventing environmental degradation arising from China's rapid industrialization.³⁹

The government started to see the importance of using any foreign policy instruments available that might influence Chinese behavior. Meanwhile by the mid-1990s, the Japanese business community had begun to lose its 1980s optimism over the vast potential of business opportunities in China, making it more supportive of policy measures aimed at reducing the perceived Chinese threat.

3.4.3 Factors in Japan's Domestic Politics

The Japanese position on foreign aid shifted considerably in 1992 when government introduced the ODA Charter.⁴⁰ This states four ODA principles: (a) aim for environmental protection and sustainable development; (b) no use of aid for military purposes; (c) pay attention to cases of excessive military expenditure, production of weapons of mass destruction, and involvement in the arms trade; and (d) promotion of the market economy, democratization and human rights. As well as providing a solid basis for the Japanese government to codify its aid objectives, the Charter is also a deterrent to the giving of aid in a case-by-case or *ad hoc* manner.

Shifts in public opinion on ODA have also been a growing influence. Steady increases in the ODA budget have long been supported by the popularity of ODA among the Japanese public (Figure 4).⁴¹ Nevertheless, after peaking in 1991 (possibly due to the uncertainty of Japan's security position during the Gulf War), opinion polls since then have shown a decline in active support for ODA among the Japanese public. The idea of an increase in ODA won 41.4% support in 1991, but this support declined to 32.9% in 1996, while those thinking that Japan's ODA should be reduced as much as possible increased from 8% in 1991 to 12.9% in 1996. The government had to respond to public opinion in order to sustain the popularity of ODA under the severe budgetary constraints of the mid-1990s.⁴²

39. Interview with a Japanese government official, Tokyo Japan, June 1997.

40. For example, see Long (1999).

41. Japanese public support to its ODA program is quite striking when one compares it with the case of the US, whose support for foreign aid is steadily low. The poll shows that only about 7% of respondents consider the US foreign aid too little while about 70% perceive it to be too much.

42. On the budgetary and popular support issue, *JEI Report*, no. 5A, 6 February 1998.

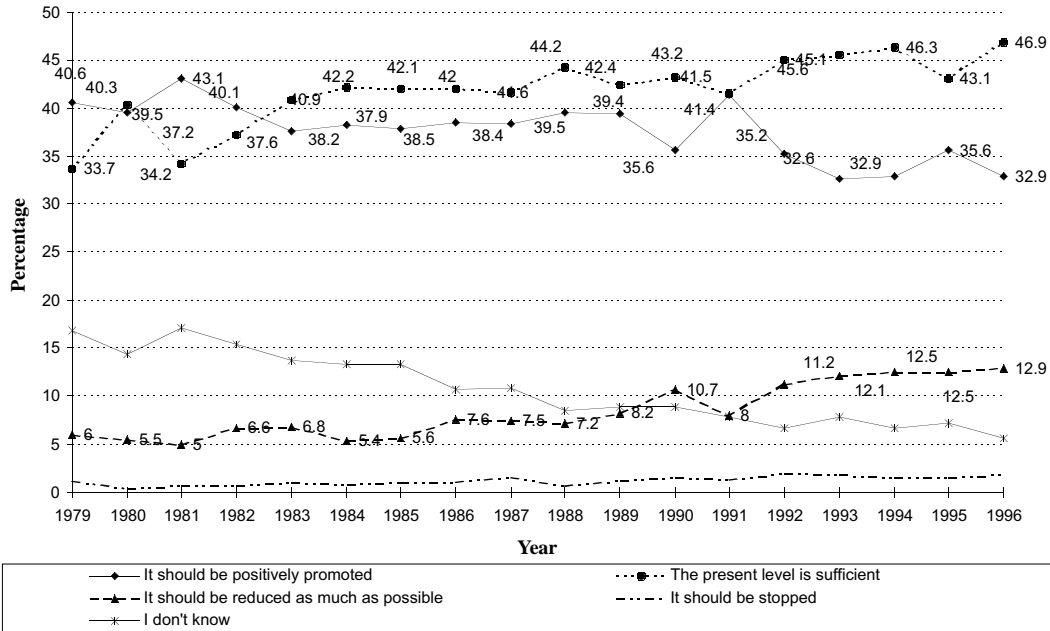


Figure 4 Public Opinion Polls on ODA in Japan, 1979–1996.

Source: Japanese Ministry of Foreign Affairs.

This decline in public support was a factor in MOFA's public announcement that the goals of ODA include Japan's national interests and the welfare of Japanese citizens in addition to helping those in need. It also made it important to show the effectiveness of foreign aid to China in promoting Japan's national security during the second suspension case.

Another obvious contrast between the two cases concerns the issues provoking aid suspensions, and their respective domestic political implications. The 1989–1990 suspension was a protest against China's violation of human rights and in response to the donors' call for democracy in China. The Japanese government has emphasized that democratization and human rights are China's internal matters, and has been reluctant to make any 'black-and-white judgment' (Kesavan 1990: 672) on an issue that Japan sees as value-driven and not clear-cut.⁴³ In Japan, policy-makers seem to believe economic development necessarily has to precede political reforms. The Japanese business community also criticized Western countries' economic sanctions against China, warning that any action slowing Chinese economic reforms and development would ultimately threaten democratization in China.⁴⁴

On the other hand, Japanese leaders and public reacted strongly against China's repeated nuclear testing in 1995. As the only country ever to have suffered atomic bomb attacks, Japan has a strongly anti-nuclear public (the 'nuclear allergy'). The government has often expressed support for nuclear

43. Interviews with Japanese government officials and journalists, Tokyo, June 1997. Some ascribe the inclusion of 'human rights' in Japan's 1992 ODA Charter to strong pressure from the US. See Charles Smith, 'Eager to Please: Tokyo sets aside own rules in China aid package', *Far Eastern Economic Review*, 26 January 1995, pp. 25–26.

44. *Los Angeles Times*, 7 June 1989. See also *JEI Report*, no. 19A, 19 May 19.

disarmament, while peace movements are also quite active and well organized at citizen's level. The timing of China's nuclear test in May 1995, straight after the extension of the NPT and the Japanese prime minister's visit to China, was considered particularly 'insensitive' to Japan's concerns. A public opinion survey conducted on 29 October 1995 by the *Asahi Shinbun*, found that 90% of respondents felt 'very angry' about the Chinese and French nuclear tests;⁴⁵ 44% felt that the grant aid suspension was 'too lenient' and 45% said 'appropriate'.⁴⁶ Some even called for the total suspension of Japan's foreign aid to China, based on the 1992 ODA Charter.⁴⁷

Diet members' support was also an influential factor.⁴⁸ There were sharp criticisms of China's nuclear tests within the leading coalition of the LDP, Social Democratic Party (SDP) and Sakigake (the Pioneer Party). The coalition was led by Murayama, the first socialist prime minister in 38 years. Even members of the major opposition party, Shinshintō (the New Frontier Party), were furious about China's second test held after the party had sent an official mission to China in June to request a ban on nuclear testing.⁴⁹ Within bureaucratic circles, there was concern about the possible damage to the Japan–China relationship within the China Division of the Asian Affairs Bureau at MOFA. However, even within MOFA, and other foreign aid-related ministries, there was strong concern over nuclear testing, and its impact on public opinion and political reaction in Japan.⁵⁰

In sum, the contrast between the two cases primarily reflects a less constraining international environment, and solid domestic support for action on the issue triggering sanctions in the second case. In the post-Cold War world, collective action by 'First World' countries may be more difficult to negotiate, particularly when national interests diverge. In such cases, governments' decisions affecting foreign aid to politically important recipients hinge on domestic support. Especially for the Japanese government, which is inhibited from resorting to military measures by its 'peace' constitution and awareness of past aggression in Asia, foreign aid suspension may constitute an effective alternative way of demonstrating resolve.

4. Conclusion

The Japanese government's decisions to suspend foreign aid to China have demonstrated an ability to think beyond Japan's narrow economic interests and, on occasion, to make unilateral decisions. Japan can now use its large foreign aid disbursement as a tool of foreign policy needs *vis-à-vis*

45. The French conducted a series of nuclear tests in the South Pacific during the fall of 1995. Then Finance Minister and the leader of Sakigake Party, Masayoshi Takemura, flew to Tahiti in September to pretest against French testing.

46. Results of Asahi opinion survey conducted on 29 October 1995, reported in *Asahi Shinbun* on 2 November 1995.

47. For example, *Asahi Shinbun*, 6 September 1995. Of course, Japanese business groups were very much against cutting yen loans to China. Aid practitioners and government officials were more worried about worsening of relationship and 'ineffectiveness' of aid suspension. If the Japanese government cuts all its foreign aid to China, and the sanction does not work, Japan will lose all of its policy instruments and be locked into the worse dilemma. Interview with a Japanese journalist, Tokyo, Japan, June 1997.

48. However, there was some split in the opinions regarding this punitive measure to China among politicians of the LDP. An additionally important factor was the loss of independent 'counter weight' of the SDP (which tends to have relatively sympathetic view toward China) by 1995, as the party suffered a major electoral defeat in 1993. This decreased SDP seats in the lower house from 136 to 70. The party also engaged in forming the leading coalition with the LDP since mid-1994, which constrained SDP's independent actions. Interview with a Japanese journalist, Tokyo, Japan, June 1997.

49. *Asahi Shinbun*, 23 June 1995.

50. Interview with Japanese journalists and government officials, Tokyo, June 1997.

recipient countries. Although aid sanctions may have only a limited impact on the recipient nation's economy or its behavior, unilateral sanctions can be effective in demonstrating a donor government's resolve, particularly when they entail domestic sacrifice in the donor country. This applies to the Japanese government's suspension of grant aid to China in 1995, an action backed by solid public and political support. Hence, this analysis of Japan's aid relationship with one of its largest aid recipient countries demonstrates increasing domestic influence on Japan's foreign aid in the post-Cold War era.

The government is more likely to use the aid sanction when the issues at stake are crucial enough to overrule the country's economic interests, or to solicit co-operation from the business community. Domestic support from the general public, politicians and bureaucrats will facilitate such decisions. We have seen, too, that the post-Cold War international environment, with the reduced overall amount of foreign aid and weakening of the unified front among Western donors, provides more favorable conditions for Japan to make unilateral decisions.

Now that Japan has begun to see foreign aid as an important foreign policy instrument, it seems unlikely that the government will drastically cut its foreign aid budget.⁵¹ Japan's need for appropriate foreign policy tools means that the importance of foreign aid will continue well into the first decade of the 21st century.

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51. The Japanese government announced in December 1997 a fairly large cut in Japanese foreign aid budget beginning FY1998 (covering April 1998–March 1999)—the first announced decrease of funding since FY 1976—due to the country's dismal fiscal position. But because East Asia's economic recovery after the 1997 Asian financial crisis has required Japan's economic support, the Japanese government has maintained its ODA level high into the late 1990s (*JEI Report*, no. 5A, 6 February 1998). In the fall of 2000, however, a substantial cut in ODA and a review of the foreign aid commitment to China became hot topics of Japanese foreign policy.

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