

China and Japan's Economic Cooperation with the Southeast Asian Region:

The Foreign Aid of a Rising and a Mature Asian Power

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Abstract

From a political economy perspective, this study argues that the notable divergence and resemblance between Japanese and Chinese aid are configured by domestic institutions, international influences as contextual factors, and the path-dependent nature of decisions pertinent to aid policy. Thus, the development experiences of the two Asian donors, domestic institutional changes, and international exigencies have given rise to each nation's distinctive aid purpose, aid management system, choice of modalities, geographical focus, priority by sector and aid strategies, which are both innovative and market/resource seeking as well as competitive and complementary. For example, it was found, among others that the resilience in Japan and the practice in China of linking aid, trade, and investments are due to the prominence of economic interests and thus, absence of strong elements within and outside the government (such as civil society groups) that advocate for aid-for-development norm. Moreover, in China, aid is administered by its Ministry of Commerce while in Japan, the finance ministry and the Ministry of Economy, Trade and Industry had exerted strong influence in aid policymaking until the establishment of a new JICA in 2008. Moreover, the ODA policy of a mature economic power is driven by its commitment to fulfill international aid agenda and national interest to rejuvenate the stagnant economy. On the other hand, the ODA policy of a rising power is driven by growing demand for inputs to sustain its economic growth. The case of Southeast Asia, particularly, CLMV, confirmed Japan's mixed aid programs that combine economic and social infrastructure and China's overwhelming focus on infrastructure and energy development.

Keywords: Mekong sub-region, ASEAN, China, Japan, Southeast East Asia

To Rose and Sophie Ayn

Highlights/ Executive Summary

1. Japan's ODA:

- (1) Japanese aid in the new millennium is characterized by policy innovation and more strategic allocation to serve both diplomatic goals and industrial rejuvenation;
- (2) The following are policy innovations that were adopted since 2000:
 - a. Adoption of a more programmatic approach in aid programs. Examples are aid to improve rule of law, aid for democratization, aid to support climate change mitigation/adaptation, aid to assist regional integration, etc.,
 - b. Increase in the volume of grants, thus, increasing social sector allotments,
 - c. JICA's adoption of schemes to engage civil society groups, particularly Japanese NGOs, in aid implementation,
 - d. Introduction of Public-Private Partnership (PPP) scheme in ODA programs under the New Growth Strategy launched in 2010,
 - e. Introduction of so-called integrated infrastructure system which intends to combine soft and hard infrastructure, hence, the mixed use of grants, loans and technical assistance in ODA projects,
 - f. Adoption of a more strategic and effective aid programs,
- (3) The policy innovations above were due to changes in both domestic and international factors. Domestic institutional changes include:
 - a. Revision of ODA Charter in 2003. This was crucial to address declining public support for ODA,
 - b. Introduction of new form of financing or the use of bonds to finance ODA loans as part of the overall financial sector reform in Japan. JICA's bond issuance was adopted in the context of Fiscal Investment and Loan Program (FILP) and postal deregulation reforms.
 - c. Reconstitution of new JICA in 2008 as the lead agency in ODA project implementation and the appointment of Sadako Ogata as its first president,
 - d. Designation of Ministry of Foreign Affairs (MOFA) as the lead agency that formulates ODA policy, planning and evaluation. The new organizational

structure and leadership under Ogata led to a more programmatic approach in Japanese aid-giving,

International factors as contextual factors include:

- e. The emergence of new development thinking which views underdevelopment in a broader perspective and which focuses on poverty reduction rather than income growth,
 - f. Regional integration and increased economic interdependence in East Asia,
 - g. Aid community's adoption of United Nations Millennium Development Goals (UN MDGs) as its international aid agenda,
 - h. DAC-OECD's pledged to fulfill international aid agenda during the Monterrey Conference of 2003,
 - i. Rise of non-DAC donors including China,
- (4) The practice of tying Japan's aid to trade and investment (or the trinity development cooperation/ *sanmi-ittai*) has remained and proved to be resilient;
- (5) The resilience is due to path-dependent nature of decisionmaking and persistence of state interventionism into the mode of economic governance even after Koizumi's neoliberal reforms,

2. China's Foreign Aid:

- (6) The aid in the new millennium of a rising Asian power is characterized by pragmatism with a mixture of diplomatic and economic objectives. Ideology, as a factor in aid appropriation, was diluted after the cold war,
- (7) Aid was used as a tool of economic diplomacy to primarily support economic growth, particularly China's growing demand for inputs (natural resources, petroleum, etc.)
- (8) The following are main features of Chinese aid:
- a. The Ministry of Commerce/MOFCOM (in coordination with the finance ministry and ministry of foreign affairs) is the lead agency in implementing China's aid programs,
 - b. The National People's Congress is the highest policy-making organ in China, including foreign aid policy,

- c. The prominence of commercial interests in Chinese aid was reinforced by a system of aid management where economic interests, represented by MOFCOM, SOEs, EXIM Bank of China, are dominant,
 - d. Economic infrastructure is the priority sector of China's aid. In 2009, 61 percent of concessional loans were spent for infrastructure projects,
 - e. Infrastructure projects funded by Chinese aid are awarded to state-owned enterprises (SOEs),
 - f. China classifies its aid programs as South-South cooperation and prefers to call itself as a partner than as a donor, in contrast to DAC,
 - g. Chinese aid does not have political conditions that is commonly seen in DAC donors' assistance and multilateral aid,
 - h. China officially claims that its aid appropriation follows the five principles of peaceful co-existence and the eight principles of aid, which both emphasize equality, mutual benefit and win-win, and non-interference in internal affairs,
 - i. With interest-free and low-interest loans, China's aid is as concessional as any of DAC donors,
 - j. The geographical focus of Chinese aid (that is, emphasis on Africa and other Least Developed Countries) is often justified under the context of China's 'affinity' with and overall foreign and economic policy toward developing countries,
- (9) Some policy innovations that were adopted recently include;
- a. The introduction of new source of financing with the creation of China's Export-Import (EXIM) Bank,
 - b. Introduction of aid-for-commodity financing scheme in Angola,

3. Japanese and Chinese Aid Strategy in Southeast Asia

- (10) Japan's aid strategy is based on strategic differentiation from China. Deliberately or not, there are efforts to distinguish Japanese ODA from Chinese aid through:
- a. Continuing compliance to DAC (particularly, focus on social sector allocation which is a neglected sector in Chinese aid allotment),

- b. Support for ASEAN integration in the light of addressing the development gaps within members,
 - c. Promotion of value-oriented diplomacy during Aso's term as foreign minister and later as prime minister of Japan, which emphasized universal values such as human rights, democracy, rule of law and others which China has difficulty realizing,
 - d. Emphasis given to environmental sustainability like the Green Mekong Initiative,
 - e. Institutionalized, straightforward engagement with CLMV in the form of 'plurilateral' high-level meetings and summitries,
 - f. Partnership Programme or Triangular Cooperation scheme,
- (11) China's aid strategy is based on historical connection and attraction,
- a. The former pertains to China-Southeast Asian country's historical patterns of relationships,
 - b. Wang (2006) maintains that China has a divided perception of Southeast Asia. In contrast to maritime countries of Brunei, Indonesia, Malaysia, and the Philippines, the mainland countries have longer patterns of relationship and share strong cultural affinity with China,
 - c. Relations with Myanmar, Cambodia, and Laos date back to 2000 years,
 - d. A strategy of making Chinese aid attractive to recipients includes the incorporation of Five Principles of Peaceful Co-existence and the Eight Principles of Chinese Aid, which both emphasize non-interference (as justification for its 'no-strings attached' aid), equality, independent national development, and mutual benefit, contain ideals that many Third World countries value with great importance,
 - e. By classifying its aid under the South-South cooperation modality and by asserting China's current status as a developing country like them, China appears to solidify its affinity with developing countries,
- (12) The largest recipients of Chinese foreign aid are:
- a. Usually those with very long historical and diplomatic ties with China (as in the case of Myanmar, Cambodia and Laos),
 - b. Had supported China's UN position in the past, and

- c. Countries whose ties with China need improvement or mending (as in the case of Indonesia and the Philippines),

Some common features between Chinese and Japanese aid:

- (13) Use of trinity development cooperation model or the synthesis of aid, trade and investment, and
- (14) Focus on physical rather than social infrastructure,
- (15) Practice of ‘request-based’ system

4. Implications to Japanese aid in Southeast Asia/CLMV:

- (16) Emphasis on environment-related projects recently under the Green Mekong Initiative,
- (17) Promotion of universal values that China has difficulty realizing on its own,
- (18) Adoption of a comprehensive scheme that combines soft and hard infrastructure and use of Japanese superior technology,
- (19) Adoption of Triangular Cooperation, Japan’s version of South-South cooperation,
- (20) Introduction of a more favorable terms and conditions in Japanese ODA loans such as MIRAI,
- (21) Shortening/Improving the ODA process, and
- (22) Establishment of a ‘pro-Japan’ group through high-level meetings and summitries with Mekong basin countries.

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Chapter 1

Introduction

The twenty-first century is an unprecedented era in the history of East Asia in which the People's Republic of China (PRC, hereinafter China) and Japan are both regional powers and where neighboring countries have grown relatively more prosperous economically than ever before. But while the new millennium marks China's great 'renaissance' and 'peaceful rise', Japan's economy has been mired by prolonged recession and stagnant growth. In 2010, China overtook Japan as the second largest economy in the world. Japan's Gross Domestic Product (GDP) in 2011 was US 5.867 trillion dollars while that of China was US 7.318 trillion dollars (World Bank 2013). Indeed, China is a fast-growing power while Japan is a declining, 'mature' economic power. As a rising and declining powers, China and Japan, respectively, readjusted their domestic and foreign policy priorities in close alignment with their economic conditions.

As a rising power, it is not so surprising to see China's behavior in regional and international affairs resembles a bit of Japan's during its high-growth era. Both countries have prioritized modernization. Japan adopted the Yoshida doctrine which placed high priority on economic development and eventually sought to improve ties with neighboring countries through reparations payments and economic cooperation while Chinese officials have prioritized the setting up of a peaceful environment in its diplomacy to sustain China's continued economic growth. Both countries adopted a more pragmatic stance on their economic policies. During the cold war, Japan adopted 'seikei bunri' or the policy of dissociating politics and economics to enable it to conduct limited economic activities with socialist countries. After the cold war, China's foreign and economic policies became less ideological and more pragmatic. It sought to improve bilateral ties with countries it has 'historical' and territorial issues with and accepted bilateral and multilateral development assistance from various donors, all for the sake of modernization.

As they rise to power, each country has to deal with the dominating presence of the United States in East Asia. The rise of both countries has created concerns in the United States and elsewhere. The prospect of Japan overtaking the U.S. as the ‘world’s number 1’ in the 1970s and 1980s was a manifestation of that apprehension. Today, China’s perceived eventual parity with the United States in economic terms twenty years from now is also creating that kind (or maybe much greater) of apprehension. Unlike Japan, which resisted in revising a post-war constitution that ‘renounces war as an instrument of national policy,’ China is also a nuclear power and possesses strong military capability. As a result, the apprehension arising from China’s rise is also driven, in part, by a perception of threat. The ‘China threat thesis’ suggests that China, as a rising power, will eventually seek to use its economic power to strengthen its military capability and consequently challenge the existing international order.

Moreover, China and Japan have both employed economic cooperation as a tool to advance their economic, diplomatic/strategic, and commercial interests. In the 1960s and 1970s, Japan’s economic assistance to Southeast Asia was mainly intended for enhancing market access and developing strategic resources to sustain its continued growth. Japan adopted an aid doubling plan after the Fukuda doctrine and used it to assist Japanese industrial upgrading in East Asia in the 1980s. Meanwhile, China’s foreign aid since the 1990s has been used as a form of subsidy to Chinese state-owned enterprises (SOEs) by tying it to procurement of Chinese goods, contracts and services. China is also using its aid to secure contracts for development of crucial resources and energy in order to sustain its economic growth.

There are more similarities between the two in terms of experiences and priorities other than the above mentioned as they rise to power. Nonetheless, the differences are also vast. For instance, while the two Asian powers employed aid to serve their modernization goals, Japan

eventually sought to improve the quality of its aid, broadened its geographical distribution and incorporated the international aid agenda in its aid programs. In the new millennium, I would argue that Japan's aid policy is characterized by innovation and strategic orientation while China's aid has primarily remained market and resource-seeking. The divergence in terms of aid purpose, modality, geographical distribution and priority by sector in both Asian donors' aid is due to changes in their national economies, domestic institutions and international exigencies as they rise to power. The strategic orientation in Japan's aid allotments in the new millennium is shaped by China's economic ascent, growing assertiveness, and increased commercial activities in the East Asian region. Some observers were convinced that China's rise has led to a strategic rivalry with Japan (Mulgan 2008; Nabers 2008). In a post-Cold War era where economic power has become the main basis of interaction among key actors (Zha and Hu 2006), economics (and thus, foreign aid as a tool of economic diplomacy) is expected to play a vital role in this strategic rivalry.

The main objective of this volume is to understand in detail the changes in the foreign aid of Japan and China to Southeast Asia by examining the domestic and international factors that underpin those changes from a political-economic perspective. To contribute to the establishment of 'liberal' peace and stability in East Asia and the world has been the underlying goals of Japan's bilateral and regional economic diplomacy (and thus, the use of foreign aid as well). It is premised on the idea that fostering interdependence through increased commercial activities and cooperation would lead to democratic peace. Japan's aid to China is also premised on this logic. On the other hand, many scholars and pundits agree that China's domestic concerns, namely, sustaining rapid economic growth, ensuring continued Communist Party rule, and national stability, are main priorities of Chinese leadership (Saunders 2006; Sutter 2006; Li 2010).

At least in the case of older members of Association of Southeast Asian Nations (ASEAN), namely, Indonesia, Malaysia, the Philippines and Thailand, Japanese aid and investments have been instrumental in their economic transformation (Tsukasa 2006). On the other hand, because of social upheavals and political turmoil, Cambodia, Laos, Myanmar and Vietnam (hereinafter, CLMV) had missed the opportunities to benefit fully from Japan's growing economy in the 1960s. On the other hand, China's foreign aid to the region during the cold war was mainly to address its political and security concerns. In the new millennium, China has also used aid to serve the national goal of modernization and the foreign policy objectives of creating a peaceful external environment to sustain China's continued economic ascent.

Apart from the introduction, this study is divided into four major parts. The first part discusses the domestic and international factors that underpin the changes in Japan's foreign aid policy as the 20th century draws to a close. The second part explains the foundation of aid philosophy of a rising power. Using the findings of the previous sections, the third part compares the aid strategies of Japan and China in Southeast Asia in the new millennium. The final part draws some policy implications and conclusions.

1.1 Foreign Aid as a Tool of Diplomacy: Framework of Analysis

As an analytical approach, political economy has several variants derived from major theories of politics and international relations. Realism views aid primarily as an instrument of state power to exert donor's influence either by persuasion or sanction (that is, denial or suspension of aid programs). This perspective is particularly interested in understanding the real motivation of donors. Liberalism, on one hand, holds that aid is a form of economic cooperation that seeks to strengthen interdependence and stability through promotion of economic development. Aid is used to build the necessary social and physical requirements to national

development of recipients. On the other hand, neo-Marxism avers that aid helps Western capitalist countries maintain global dominance by creating a structure of financial dependence and exploitation between donor and recipient.

Using any of these variants limits the explanatory factors that this volume seeks to understand and identify. For the purpose of this study, it is imperative that a political economy framework that takes into account both domestic and international factors must be designed to enable us to understand more comprehensively China's aid philosophy. This means examining China's motivation in aid giving as reflected in its foreign policies and studying the nature of its aid programs in order to have a clearer picture of its principles and what it stands for. The political economy approach assumes that the state is not a single, cohesive unit but is rather composed of various political institutions. As an analytical approach, it combines both politics and economic processes in understanding policy objectives and outcomes. It is an approach that is close to what Gilpin (2004) described as the 'new political economy' and Putnam's (1988) 'two-level' game. As decisions are assumed to be path-dependent, the choice of aid policies in the past and the philosophy it upheld is assumed to have a bearing on succeeding decisions.

Together with trade and investment, foreign aid is an important component of economic diplomacy. As Okano-Heijmans (2012) points out, economic diplomacy has both 'business end' on one side and 'power play end' on the other side of a single continuum. These two represent the commercial objectives and the political goals of foreign policy, respectively. As an instrument of economic diplomacy, aid is appropriated to achieve either or both of these aims. Donors attach varying importance for each. This is where domestic structures come into play – they help shape the aid policy preferences and thus, the donor's aid philosophy. In the case of China and Japan, three domestic structures are critically important in the formation of their aid

policies and philosophies: (1) aid management system, (2) state-civil society relations, and (3) changes in domestic economy.

The system of aid management of donors or what Lancaster (2006) termed as ‘the way the government organizes its aid’ has significant bearing on the ‘official’ purpose of aid. This includes institutions or mechanisms that facilitate coordination among aid agencies and to which agency aid policy formulation is assigned. In some donors, aid issues are debated in the legislature while in others, legislatures played no role (Lancaster, 2006). The reorganization that Japan’s aid management system underwent and the structure by which China’s aid is organized has a bearing in defining the development purpose of the two Asian donors’ aid.

The extent to which civil society groups exert influence on aid policy and the lack or absence of civic entities that advocate for aid-for-development norm is crucial in shaping the manner by which aid is appropriated. Civil society groups like Non-Government Organizations (NGOs) have become ‘favored partners’ of multi and bilateral aid agencies since the 1990s and onwards (Johnson, 2002, p. 89). There are two perspectives as to why this is the case. One, the negative perception on the role of government in the 1980s pushed aid agencies to partner with NGOs, which were seen as neoliberal entities (that is, dissociated from state). Two, NGOs are viewed as a ‘third sector’ that is less bureaucratic than government and more altruistic than the free market. NGOs are thus, ideal type of organisation that addresses perceived shortcomings of market and state (Johnson, 2002). Lancaster (2006, p. 213) concludes that NGOs have played the role of political constituencies for development aid and have been instrumental in advocating for aid-for-development norm in many DAC donors.

Several scholars agree that the goal of modernization is the top priority of the Chinese leadership (Saunders, 2006; Shambaugh, 2006; Sutter, 2006; Li, 2010; and Yunling, 2010). Li

(2010) notes that Hu Jintao has called his foreign policy team to do everything possible in foreign policy to meet the needs of the domestic political economy. To meet the country's growing need for resource inputs, the central government has been encouraging state-owned enterprises (SOEs) to secure exploration and supply agreements with states that produce oil, gas, and other resources (Cheng, 2012, p. 8). As a tool of economic diplomacy, China's foreign aid is likewise expected to serve the goals of national development.

Aside from domestic factors, Japan's and China's foreign aid policies have been shaped by international exigencies. In particular, since the Afro-Asian movement in 1955, China has projected an image that stresses affinity with the Third World. The main objectives of China's post-cold war foreign policy in the 1990s and beyond are to enhance a more peaceful environment for its domestic economic development, facilitate closer relations with Third World countries, and isolate Taiwan and foil Taiwanese independence (Lin, 1996). On the other hand, Japan's active membership in DAC/OECD has contributed so much to the improvement of its aid quality and refinement of aid's development purpose. Thus, the institutional and contextual underpinnings discussed above are keys in the formation of China's and Japan's aid policies and strategies not just toward Southeast Asian region but elsewhere.

Japan's aid in the new millennium is characterized by innovation and strategic orientation. Innovation pertains to improvement of or introduction of new methods, ideas or practices. In aid giving, innovation means improvement of or introduction of new mode of delivery, new source of funding and new objectives that go beyond the simple aim of broadening market access and enhancing resource security. There is policy innovation in aid when it seeks to improve the quality and efficiency of economic activities beyond the basic goal of expanding the scope of economic relations. In broad terms, innovative economic cooperation can be utilized in a way by

which it can promote entrepreneurship, encourage research and development (R&D), green investment, upgrade the skills of workers, improve governance, and steer market actors toward innovation-related investments. It may also address global issues such as health, climate change and other environmental challenge (Based on the OECD conception of Innovation, OECD 2010).

Strategic orientation in aid means that, as a tool of economic diplomacy, aid is used to pursue a broad range of security/diplomatic and economic purposes at the same time. The idea is quite related to what some scholars have recently called ‘economics-security’ nexus. Until the 1990s, diplomatic interests took a mere secondary position in Japan’s aid calculation while commercial interests had been the most prominent. The regional ascendancy of China and its growing influence and assertiveness is a crucial factor to strategic direction of Japan’s aid in the new millennium.

The trend towards innovation and strategic direction in Japanese aid allotments is neither planned nor self-initiated but rather the outcome of reactionary policymaking in response to changing domestic and international conditions. As regards the former, the prolonged economic stagnation of the post-bubble era has led to profound political-economic changes since the 1990s. Amidst fiscal problems and declining public support, ODA charter was adopted, aid agencies were reorganized, new source of funding for ODA loans was introduced, and civil society groups, particularly NGOs have been involved in economic cooperation activities. The other is that given Japan’s economic condition, industrial upgrading and product differentiation have become tall orders. By emphasizing on green innovation, Japan is seeking to create a new niche in international division of labor and comparative advantage in the production of consumer and intermediate goods that are environment-friendly. This has called for an aid policy that is closely aligned with Japan’s New Growth Strategy launched in 2010.

As for international conditions, membership in DAC/OECD was instrumental in making Japanese ODA responsive to international development agenda. In the past two decades or so, the Japanese government through the Ministry of Foreign Affairs (MOFA) has articulated in their official reports a set of ODA objectives that clearly followed the DAC aid agenda. The 2011 ODA White Paper (Chapter 2) expressed support for international commitments and the fulfillment of the United Nations' Millennium Development (MDGs) Targets. A priority area for Japanese ODA that emerged in the past two decades or so is green aid. Japan's commitment to fulfill MDGs has led to a more programmatic aid agenda. Very recently, aid for democratization and aid for peacebuilding¹ have floated among policy circles and academics as possible strategic uses of Japanese aid in the coming years.

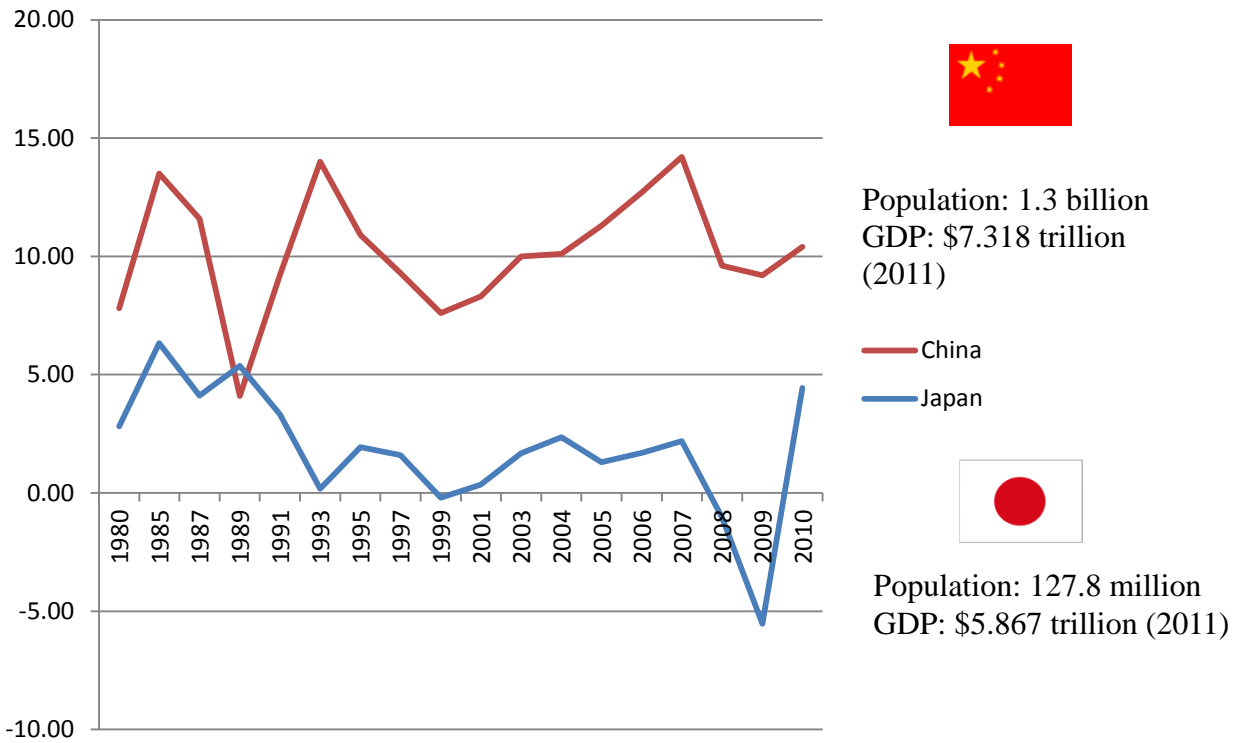
The region of Southeast Asia is significant for Japan's and China's strategic economic diplomacy. For one, Cambodia, Laos, Myanmar and Vietnam (CLMV) offer alternative cheap production sites for both Chinese and Japanese manufacturers. Two, maintaining strong bilateral ties with countries in the region is strategically important for Japan, especially in a period when Chinese political and economic clout is growing. By strengthening Japan's economic cooperation with the region, China's increasing economic presence and influence will be in check. More specifically, it prevents CLMV from depending too much from Chinese economic assistance. For China, cooperation with Southeast Asian nations is crucial to its Western Development strategy, that is, economic growth of its western region, and 'good neighborhood' policy. CLMV countries are located in the front doors of China's Yunnan province. Thus, a prosperous Mekong subregion would also benefit China's western region. Moreover, the

¹ A group of scholars from the Institute of Foreign Policy Analysis (IFPA) and the Osaka School of International Public Policy has recently published their report on *U.S.-Japan Peacebuilding Cooperation: Role and Recommendations toward a Whole-of-Alliance Approach*, co-edited by Hoshino Toshiya and Weston S. Konishi (2012)

development of highway corridors that link Yunnan, China and all countries in the Mekong area will also allow China to have access to Andaman Sea by way of land. A peaceful coexistence with the countries in the region and with ASEAN countries which have claims over the Spratlys, like Vietnam and the Philippines, could also help assuage the ‘China threat’ perception. For Japan, fostering ‘mutually advantageous’ relations with ASEAN as a whole is part of the overall strategic goal of maintaining a stable and peaceful Southeast Asian region. At least based in the manner by which it is conducted, Japan’s economic cooperation policy toward Southeast Asia is intended to ‘rectify’ the development disparity between the older and newer members of ASEAN (see Japan’s Diplomatic Bluebook). The issue of economic disparity has become a major concern within ASEAN when CLMV were admitted as members in the late-1990s (Severino 2007, pp. 35-44).

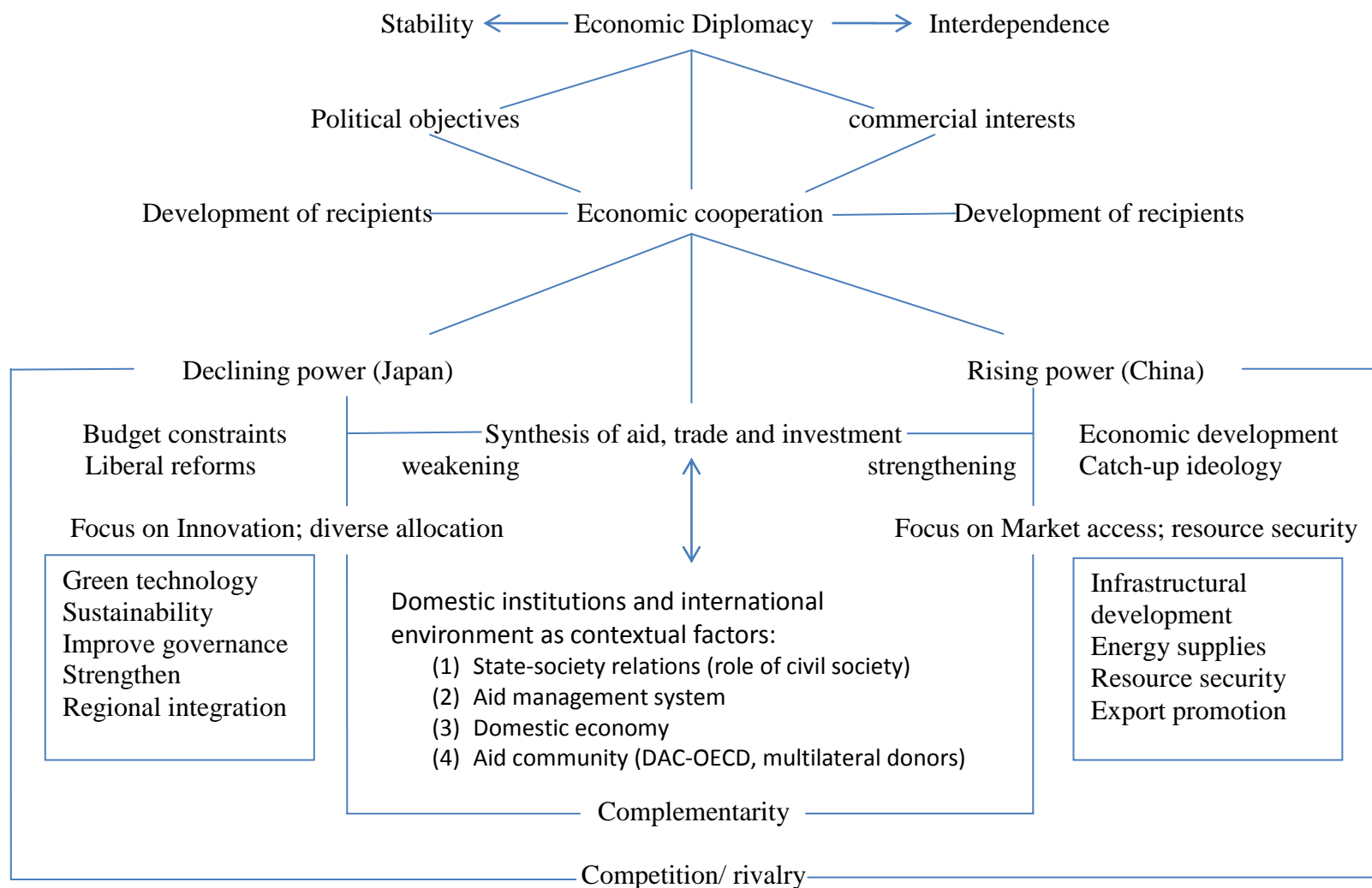
Wang (2006) asserts that China has a divided perception of Southeast Asia based on historical patterns of relationship. China’s bilateral relations with Myanmar, Cambodia and Laos date back to more than 2000 years while it has weak cultural relations with maritime countries of Indonesia, Malaysia and the Philippines. Japan, on the other hand, has no single, coherent economic cooperation policy toward the CLMV until in late-2000s. Japan’s economic cooperation with these countries was generally covered by its Southeast Asian policy as a whole. Shimomura (2012) opines that there was no explicit response by Japan toward the subregion except under the ‘Arc of Freedom’ that was popularized by then Prime Minister Taro Aso. The term eventually disappeared from Japan’s Diplomatic Bluebook. However, the first Japan-Mekong Ministers’ Meeting, which was initiated under his predecessor, Yasuo Fukuda, proved to be more durable and has been institutionalized annually as a formal gathering of officials from Japan and Mekong countries.

Figure 1: Annual GDP Growth of Japan and China (in %)



Source: World Databank, World Bank
<http://databank.worldbank.org/ddp/home.do?Step=1&id=4>

Figure 2: Economic Cooperation of a Rising and Mature Economic Power



The study employed two qualitative methods, namely, documentary research and interview of key informants. Just like the rest of studies on China's aid, access to reliable primary data is very limited. In this study, I relied on both primary and secondary data for Chinese aid. The document on China's Foreign Aid published by the Information Office of the State Council in 2011 is quite useful but not adequate because it only provides general information on China's foreign aid activities for the year 2009. Thus, in addition to this, secondary data from Japanese and Chinese sources were gathered. In particular the works of Kobayashi (2008), Lin (1996), Zhu (2010, 2008), and Bangkok Research Center (BRC) JETRO-IDE reports (2008 and 2010) provided very useful and necessary information. Data on Chinese aid to the Philippines was based from National Economic and Development Authority's (NEDA) website.

Meanwhile, primary data for Japanese ODA are easily accessible from MOFA's ODA White Paper and JICA Annual Report. I also conducted interviews of five key informants between October 23 and November 26, 2012. Of the five, two were MOFA officials who are directly involved in Japan's ODA policy and evaluation, one was a JICA official, and two were academicians with theoretical and experiential knowledge on Japanese aid programs.

1.2 Evolution of Japan's and China's Economic Cooperation: Implications to their Relations with Southeast Asia

The beginnings of Japan's and China's economic cooperation toward the Southeast Asian region can be traced back in the early-postwar period. As a result of U.S. procurement system during the Korean War (1950-53), the Japanese government was able to achieve a balanced national account. Thus after that war, the need to maintain a procurement system-like or at least

adopt a similar strategy was seen as urgent to sustain Japan's economic growth. There were three factors that Japanese policymakers had taken into account in designing a post-war strategy. One was the constraint imposed by the U.S.-sponsored constitution which renounces war as an instrument of national policy. Two, the strategy to be adopted should not conflict with Japan's security relations with the United States and finally, with the fall of China into communism, Japan had to look for new sources of supplies and markets for its growing export industry. Hence, economic cooperation (*keizai kyouryoku*) was designed in view of these policy challenges. Japan joined the Colombo Plan and started its first ever yen loan to India in 1958. In order to 'reenter' the Southeast Asian market, Japan commenced the payments of war reparations. The reparations payments, which were based on the request system, would eventually become the model of Japan's official development assistance (ODA). Patterned after the procurement and reparations systems, Japanese ODA was used to procure goods from Japan, as a form of financing to develop overseas extractive industries vital to national development, and later as financing for infrastructural projects in recipient countries to help facilitate Japanese investments there (Arase 1995). In 1987, this aid practice was articulated by the Ministry of International Trade and Industry (MITI, now METI) as Japan's New Asian Industries Development (AID) Plan, a strategic plan to link aid, trade, and regional investment.

Meanwhile, in the Mekong subregion, the post-war period was characterized by independence movements and social upheavals. Cold War bipolarity restricted political and economic interactions between democratic and communist states. In the same way, the nature and quality of early Chinese and Japanese economic cooperation with Southeast Asian countries, including CLMV, were determined by Cold War bipolarity. Zhu (2008, p. 70) observed that early Chinese foreign aid to CLV in the 1950s and 1960s were intended to support national

struggles and nation-building. Japan, on the other hand, had strictly adhered to U.S. foreign policy throughout the Cold War period. In an attempt to circumvent the restrictions created by the bipolar structure on its foreign relations, Japan adopted the policy of *seikei bunri* to “justify trading with nearby communist countries while adhering to the western camp” (Potter 2008, p. 8). Chinese foreign aid would take a new shape and direction following China’s opening up and adoption of economic reforms in 1978 under Deng Xiaoping. In 1977, former Prime Minister Fukuda Takeo declared his Fukuda Doctrine which stressed “heart-to-heart diplomacy” with Southeast Asia, accompanied by a plan to double Japanese ODA to the region in the coming years.

Japan’s aspiration to normalize relations with the CLMV can be traced back to the reparations period of the 1950s and ‘60s. Table 1 below summarizes Japan’s reparations and grants signed with CLMV. It is interesting to note that Japan paid reparations to Vietnam twice; one was before the unification and another after the unification. Myanmar also received relatively higher reparations payments from Japan compared to Laos and Cambodia. This provides us a glimpse of how relatively important each CLMV was to Japan during this period. Eventually, Vietnam would become one of the major recipients of Japanese ODA from the 1990s and beyond.

Table 1: Japan’s Reparations Payments and Grants to CLMV

Country	Year of Agreement	Settlement	Payment Period
Burma (Myanmar)	1954	\$340 million	1955-1965
Laos	1958	\$2.8 million	1959-1961
Cambodia	1959	\$4.2 million	1959-1961
South Vietnam	1959	\$390 million	1960-1965
Vietnam	1975	Yen 8.5 billion	1975-1978

Source: Arase (1995, 29)

In 1992, Japan dispatched its Self-Defense Force (SDF) for the first time since World War II to participate in the United Nations’ peacekeeping mission in Cambodia. The success of

this mission was significant in Japan-Southeast Asia relations in two ways. For one, the absence of strong resistance from among ASEAN member-countries to the peacekeeping mission showed that the region was becoming more receptive to Japan's participation in regional politics and security (Singh 2002). Singh (2002) further observes that this receptivity was due to the change of Southeast Asian perceptions of Japan from an 'economic animal' into a model of development. Two, the peacekeeping mission also marked the beginning of a more proactive Japanese foreign policy and gradual departure away from the usual checkbook diplomacy. "The utilization of aid for political-strategic purposes provides a new dimension to Japan's involvement in the Asian region and beyond" (Yasutomo 1989).

On the other hand, China-Southeast Asia relations were beset largely by political and security concerns throughout the Cold War period (Ba 2003, pp. 623-626). China's policy of extending support to local communist insurgents among Southeast Asian countries especially in the 1960s had left a legacy of mutual suspicion and distrust. However, US-China rapprochement in the early-70s provided an opportunity to improve relations. Malaysia normalized ties with China in 1974 and then followed by the Philippines and Thailand in 1975. China's main concern in the Mekong subregion was the perceived expansionism of Vietnam in Cambodia beginning in 1979. This was made complicated by Vietnam's alliance with the Soviet Union during the latter part of the 1970s. In view of the situation, the Chinese sought strategic partnership with other members of ASEAN, particularly with Thailand, Singapore and Indonesia (Ross 1992, pp. 52-66). The regional tension only dissipated in the late-1980s when Vietnam pulled its troops out of Cambodia and when communism finally fell in Europe and in the Soviet Union.

By the mid to late-1990s, stability in the Mekong countries had improved. Vietnam was admitted to ASEAN in 1995, followed by Laos and Myanmar in 1997 and Cambodia in 1999.

ASEAN has also adopted a number of agreements to accelerate the integration of the economies of its members since the 1990s and onwards. In 1992, the ASEAN Free Trade Area (AFTA) was launched to increase intra-regional trade among its members. AFTA's ultimate aim is to eliminate all import duties within ASEAN by 2015. In 2003, ASEAN leaders had set the goal of creating a three-pillared ASEAN community that aims to transform the region into a competitive stable market and production base under the Bali Concord II. The member-countries also ratified the ASEAN charter in 2008. In the area of investment, some initiatives were put forward since 1998 such as the ASEAN Investment Area (AIA) and the ASEAN Investment Initiative (AII). A more recent one was the signing of ASEAN Comprehensive Investment Agreement (ACIA) in February 2009 which promises national treatment of all investments whether from the region or coming from outside the region.

Japan, on the other hand, declared in principle its full support for ASEAN integration. Japan's assistance to ASEAN is not just a matter of principle per se but as a matter of national interest. The 2010 Diplomatic Bluebook revealed the importance of a stable and prosperous ASEAN to Japan, saying that a more closely integrated ASEAN functioning as a hub of regional cooperation is important for the stability and prosperity of Japan. Meanwhile, since the adoption of the 'open-door policy' by Deng Xiaoping in 1978, China has achieved remarkable economic success. The economic rise of China has created mixed perceptions among the members of ASEAN (Siow and Sussangkarn 2006, p. 102). There were concerns that foreign investments to the region were being diverted to China (ASEAN-China Expert Group on Economic Cooperation 2001, pp. 22-23). Another is that, China's rise offers both opportunities and threat. Southeast Asians acknowledge the opportunities of a more open Chinese market while at the same time wary of the idea that China's newly acquired economic power would be used to strengthen its

military capability. In an attempt to dissipate the growing threat perception, China has gradually established mutually advantageous political relationships with Southeast Asia, highlighted by various declarations, joint statements, multi-level meetings, and economic cooperation. In 1997, ASEAN leaders and President Jiang Zemin signed a joint statement on “good neighborliness” as an important policy objective for China-ASEAN relations in the 21st century. Premier Zhu Rongji also reiterated China’s support and increase of Chinese assistance to the region during the 4th China-ASEAN Summit. In 2003, Chinese and ASEAN leaders signed the Joint Declaration on Strategic Partnership for Peace and Prosperity. China also acceded to the terms of the Treaty of Amity and Cooperation (TAC) during the same year.

Moreover, China and ASEAN have also strengthened their economic ties by concluding a wide range of trade and industrial arrangements in the new millennium. In particular, bilateral trade linkages have expanded steadily through the formation of ASEAN–China free trade area (ACFTA). These positive engagements with ASEAN were in conformity with China’s regional diplomacy that was articulated in a 2002 report of the 16th Party Congress which served as a guideline in building ‘good neighborly relationships and partnerships’ with its neighbors (Medeiros 2009, pp. 126-27). The development of the Mekong river basin is one of the areas for cooperation between China and ASEAN that was stipulated in the second Plan of Action signed in October 2010 in Hanoi. There were also efforts to establish mutually advantageous political relationships with ASEAN member-countries to which China has territorial disputes with, particularly the Philippines. These positive developments in China-Southeast Asia relations since the late-1990s had created an impression among observers that China’s diplomacy had succeeded in establishing deeper political and economic relationships with the region while Japan’s relationship with ASEAN member-countries stagnated. Glosserman (2003) commented that

Japan was playing catch-up with China in its diplomacy with ASEAN member-countries. He furthered that this was due to Japan's shrinking profile in the region and its inability to take the initiative in dealing with the region. Yoshimatsu (2010) concurred by saying that China's pragmatic diplomacy had created a gap in the relationships of the two Asian giants with Southeast Asia. This gap, he averred, is due to domestic political institutions that created Japan's weak policy decisiveness and China's policy credibility.

At the onset of the new millennium, China also actively sought to improve its ties with maritime Southeast Asian countries with which it has territorial disputes with through economic cooperation agreements. In the Philippines, China pledged to provide funds to the multi-billion dollar North Rail Project, an ambitious rehabilitation and expansion of the only railway in Luzon, Philippines, during the second term of the Macapagal-Arroyo presidency. Lum et al. (2009, p. 16) noted in their study that the country was reportedly the largest recipient of Chinese aid in Southeast Asia. Nonetheless, this momentum dissipated when the dispute over the Spratlys once again broke out. In September 2012, China demanded that the Philippines should pay back the US\$500 million aid it disbursed for the construction of the North Rail (Cheng 2012). Apart from ASEAN-4 (Malaysia, Indonesia, the Philippines and Thailand), there were also explicit attempts by China to improve its political and economic ties with the Mekong subregion, more specifically Cambodia through mixed use of aid, trade and investments. The Wall Street Journal (November 15, 2012) noted lately that China has successfully "built a new ally within the Association of Southeast Asian Nations". This was explicitly demonstrated recently when ASEAN failed to produce a joint communiqué on the South China Sea dispute because of Cambodia's reluctance. The country served as the acting chair of the 2012 ASEAN Ministerial Meeting. Reflecting on the gap between China's and Japan's relationships with Cambodia, Tsuji

(2012, Interview) opines that Japan had simply ‘maintained’ almost the same level of relationship with this country since the 1990s while China actively sought to improve further its relationship. The reason, he said, could be gleaned from China’s growing economy and Japan’s economic decline. China, he suggested, had all the resources to increase its economic activities there.

It is perhaps in this context why newly reelected President Obama visited Myanmar and Cambodia lately and why Japan adopted a more straightforward relationship with CLMV beginning in 2008 when it initiated the Japan-Mekong Ministers’ Meeting and hosted the first Japan-Mekong Summit Meeting the following year. Amidst the seemingly increasing diplomatic competition between the Asian donors, the first Japan-China Policy Dialogue on the Mekong Region was held in Beijing in April 2008. This is at least a positive gesture that the two major Asian powers are interested to coordinate their development cooperation efforts in the Mekong subregion. China and Japan also participate in various multilateral frameworks for the development of the Mekong subregion. One of the most important of these is ADB’s Greater Mekong Sub-regional (GMS) development project which began in 1992.

China and Japan also partnered with ASEAN in implementing the Initiative for ASEAN Integration (IAI) for the purpose of rectifying economic disparity between ASEAN member-countries. Nonetheless, the success of China-Japan cooperation for the development and stability of the entire East Asian region is held hostage by their political relationship, which is beset by various lingering controversial issues including sovereignty over the islands of Senkaku/Diaoyu, history of Japan’s atrocity in China, the Taiwan issue, and Chinese concern over the rise of right-wing politicians in the Japanese parliament. In spite of the increasing severity of the security environment in East Asia, Japan, China, South Korea and ASEAN members are keen on

improving further the region's interdependent economies. As Fu Ying recently told reporters at the recently held free trade agreement talks among China, Japan and South Korea, "We do not want to give overemphasis to the territorial disputes and the differences... we do not think it's a good idea to spread the sense of tension in this region". Table 2 indicates that Chinese and Japanese economic cooperation with CLMV, particularly in the areas of trade, investments, and aid from 2001 to 2010 have improved.

Table 2: Chinese and Japanese Aid, Trade and Investment in CLMV

CLMV	Economic Cooperation		China			Japan		
			2001	2006	2010	2001	2006	2010
Cambodia	Trade	Export	34.80	35.09	No data	8,016	120.09	208.3
		Import	205.61	697.76	No data	6,123	81.9	157.8
	Investment		4.3	717.1	694.2	–	2.098	–
	ODA		No data	No data	No data	120.21	106.25	147.46
Lao PDR	Trade	Export	7.46	49.65	No data	843	12.3	37.5
		Import	54.41	168.72	No data	1,428	20.5	61.8
	Investment		6.4	423.2	607.4	0.735	401.5	7.04
	ODA		93.7 (2000)	No data	No data	75.47	64.05	121.45
Myanmar	Trade	Export	134.19	252.65	No data	12,398	245.6	387.5
		Import	497.35	1207.4	No data	22,695	103.8	263.2
	Investment		3.25	281.2	5081.12	4.69	–	–
	ODA		186.7 (2000)	289.8 (2005)	No data	69.86	30.84	46.83
Vietnam	Trade	Export	1010.75	2486.08	No data	316,736	5,295	8,144.4
		Import	1804.45	7463.36	No data	216,384	4,124	8,148.2
	Investment		–	396.4	105	163	1,453	144
	ODA		87.5 (2000)	289.8 (2005)	No data	459.53	562.73	807.81

Source: Compiled from various sources by the author.

Figures for investment are in million US\$, compiled from *ASEAN-Japan Center*

Figures for CLMV export to and import from Japan (2006, 2010) in million US\$, compiled from *JETRO* (2010)

Figures for CLMV export to and import from Japan (2001) in million yen, compiled from *ASEAN-Japan Center*

Figures for CLMV export to and import from China (2001 and 2006) in million US\$, based from *Xingmin Ying* (2008, p.27)

Figures for Japanese ODA to CLMV (2006, 2010) in million US\$, compiled from Japan' *Ministry of Foreign Affairs Online data* (2011)

Figures for Japanese ODA to CLMV (2001) in million US\$, compiled from Japan's Official Development Assistance *White Paper 2002*, Ministry of Foreign Affairs

Figures for Chinese ODA to Cambodia are not available; for others, figures are for 2000 and 2005. Compiled from Kobayashi (2008, p. 33)

Figures for China does not include that of Hong Kong

“ _ ” means the figure is nil, insignificant or minimal

Chapter 2

Emerging Patterns of Japanese Aid in the new Millennium

2.1 DAC-Membership and the “China Factor”: Japan’s Aid Policy in the new Millennium

Sunaga (2004) once described Japan’s ODA policy as an outcome of a ‘balancing act’ between domestic concerns and response to international community. To fully understand the changes in the patterns of its ODA allocation throughout the years, one has to examine the complexity of Japan’s domestic political economies and the changes in development thinking and aid modality in the international aid community. This section elaborates on the domestic and international factors that led to changes in Japan’s foreign aid policy. Japanese ODA allocation recently (both in terms of priority by sector and geographical distribution) is more diverse than ever before, containing strategic, commercial, diplomatic intents and innovations. Following Sunaga’s (2004) logic, it is assumed that policy innovations in Japanese aid are outcomes of the ‘balancing act’ of policymakers between international and domestic concerns. A key to innovative aid is Japan’s conformity to ‘mainstream’ development thinking among Development Assistance Committee of the Organization for Economic Co-Operation and Development (DAC/OECD, hereinafter DAC) donors; sensitivity to western criticisms; and strategic responses to China’s growing global economic activities. Domestic concerns that contributed to innovative aid policy, on the other hand, include sensitivity to public criticisms, emergence of a ‘development aid’ constituency, financial liberalization, and reorganization of aid agencies.

The intellectual underpinnings of aid giving can be traced back to the early proponents of the theory of development in which international aid was viewed as a supplemental capital to finance the economic development of poor countries. In this light, poverty was viewed as an income problem or lack of capital to finance development (Rosenstein-Rodin 1943; Rostow 1960). The inability of poor countries to produce capital was in part derived from the unequal terms of trade with industrialized nations which traded more expensive and high-value added

goods. In short, poor countries are poor because they are victims of ‘late-late’ development and ‘vicious circle of poverty’. Thus, to break away from the ‘poverty trap’, industrialized countries must provide trade concessions to poor countries and extend international financial assistance in the form of aid. The initial premises of aid giving then were to promote growth and improve national income. This view also implies that aid giving was originally more about addressing the economic well-being of the recipient rather than the pursuit of donors’ interests. Riddell (2007, p. 25) adds that this view was also evident in U.S. President Truman’s recommendations for U.S. aid, namely: (1) International aid is the pooling of resources of donor countries; (2) it requires a well-coordinated, concerted effort to make it work, (3) and it should be in line with the recipients’ development needs. As donors put more emphasis on political and strategic considerations as the cold war intensified, the developmental purpose of aid was diluted. Lumsdaine (1993) later argues for a moral vision of aid that gives primacy to addressing humanitarian concerns rather than the promotion of donor’s political and economic interests.

The institutionalization of contemporary international aid regime was triggered by two important events of the early-postwar period. One was the implementation of the Bretton Woods system and two, the launching of the Marshall Plan in 1947. The post-war international aid regime was embedded in larger international monetary and financial systems. Originally, the International Monetary Fund (IMF) was created to maintain global monetary stability built under a fixed-rate currency regime while the World Bank (WB) was to contribute financially to the European economic reconstruction and rehabilitation after the Second World War. The eventual collapse of the Bretton Woods system had reoriented the role of the IMF to providing short-term capital to countries with balance of payments deficits since the seventies while the role of the

World Bank, after Western Europe's complete recovery, has been extended to providing multilateral development assistance to Third World countries.

The emergence of Anglo-American capitalism in the early eighties, occurrence of Debt Crisis, and the subsequent adoption of the so-called Washington Consensus among industrialized countries gave rise to 'policy-based' lending within DAC donors. The idea was to use foreign aid as a leverage to compel debt-stricken nations to adopt 'structural adjustment' programmes, which were basically neoliberal policies, as part of structural reform. Aid conditionality, hence, was born. Unwittingly or not, neoliberal policies like trade and investment liberalization, privatization, and deregulation became part and parcel of development strategies in many developing countries. By this time, bilateral and multilateral aid agencies had also begun partnering with NGOs as a new modality of aid delivery.

As the new millennium sets in, the goals of development has become 'more comprehensive, embracing all dimension of poverty including income poverty, illiteracy, poor health, insecurity of income, and powerlessness' (Goldin et al., 2002, p. 58). Reflecting this new thinking, the focus of aid shifted from growth promotion to poverty alleviation (Saidi and Wolf, 2011). DAC donors also became more willing to pursue a common international aid agenda. It declared its support for the United Nations Millennium Development Goals (MDGs); pledged to increase their aid volumes; and to channel these funds for the fulfillment of MDGs (Akiyama and Kondo, 2003). The DAC also reiterated the crucial role of appropriate policies and institutions in maximizing the effects of aid to poverty reduction efforts at the Monterrey Conference. With this, social infrastructure has become the overarching theme of aid programs of DAC. In 2011, 40.6 per cent of DAC aid disbursements were allotted to social and

administrative infrastructure while only about 15 per cent was appropriated for economic infrastructure (OECD 2012b).

On the other hand, overtime, the DAC debate on aid quality and effectiveness has shifted from the issue of ‘how much’ that is, the ideal volume of aid to be provided by donors to contribute significantly to growth (measured in terms of aid to GNI ratio), to the issue of ‘what for’, that is, which programs to support in order to maximize aid’s developmental outcomes. A measure of great importance that was instituted to ensure aid quality and consistency among DAC donors was the adoption of a common definition of ODA. The DAC definition contains three essential elements that make economic assistance qualify as ODA: (1) it is provided officially by state institution, (2) it is intended for economic development and welfare of the recipient, and (3) it must be concessional in nature, meaning the terms of payment is long, at a very low interest rate and, if it is in the form of loan, must contain a grant element of at least 25 per cent. Military aid and inflow of private funds, such as loans extended by private financial institutions from donor country do not qualify as ODA.

DAC donors have also strived to improve the tying status of their aid. The OECD publishes annually a statistics on each member’s tying status. In 2010, the total share of DAC’s untied aid was 79.4 per cent. ODA is said to be tied when procurement is limited only to companies of donor countries or in a small group of countries. The idea of untying is to maximize ODA’s effects to development by allowing the recipient government to freely choose, under a system of fair bidding, the best supplier or contractor required in the implementation of an aid project. Also important in improving ODA quality and effectiveness is DAC’s practice of peer review. In 2008, the OECD published the document, *Effective Aid Management: Twelve Lessons from DAC Peer Reviews*. This report contains issues arising from aid experiences of

each member for the last five years and the strategies to overcome or achieve them. The issues raised can be generally classified into three: that which pertains to development purpose, management, and focus. Bearce and Tirone (2010) demonstrate the trade-off between strategic goals and aid effectiveness, arguing that foreign aid can facilitate economic reform that fosters development only if the ‘strategic benefits associated with providing aid are small for donor countries’. Thus, aid ‘involves no element of mutuality, bargain or quid pro quo’ (Economides and Wilson, 2002, p. 124).

From the above discussion and with risk of oversimplification, the current mainstream notion of ODA can be summarized as follows: (1) Aid flows from rich to poor countries, thus, the traditional notion of North-South type of aid relations; (2) The use of political conditionality to bring about liberal values; (3) Adoption of a common DAC definition; (4) Aid apportionment follows the international aid agenda, particularly MDGs; (5) The goals of aid are based on a broader notion of development; (6) The main focus of DAC aid by sector is social infrastructure; (7) A modality of aid delivery which involves civil society groups particularly NGOs has become a standard practice in many DAC donors, and (8) The practice of untying aid as a norm. These ‘standards’ or ‘charity consensus’, as Saidi and Wolf (2011, p. 9) call it, have become the main basis of our ‘mainstream’ understanding of what aid ought to be.

Although a member of DAC for many years, Japan has developed an aid practice that links aid, trade and investment or what Shimomura and Wang (2012) called ‘trinity development cooperation’, or the synthesis of aid, trade, and investment. Ohno (2011) argues that this ‘Asian’ view of development assistance was based on the catching up experience of Asian donors. Japan’s use of this model has drawn criticisms from other DAC donors since the 1980s. By linking aid, trade and investment, it was argued that Japan mainly pursued commercial interests

in its aid allocation. These critics ignored the fact that DAC aid in the 1970s was also tied to trade and investment. Even the Marshall Plan was used to procure consumer and intermediate goods from the United States. Hjertholm and White (1998, p. 25) observed that a marked switch in priority by sector among DAC donors occurred only after 1992.

The formation of ‘mainstream aid’ has profound implications to Japanese ODA. In Japan, aid policymakers had encapsulated this new trend under the broad concept of human security.² Peng-Er and Ishikawa (2012, p. 28) trace back the beginnings of human security as a norm of Japan’s international relations from former Prime Minister Obuchi’s declaration in Hanoi amidst the Asian financial crisis in 1998. By the time Mrs. Sadako Ogata co-chaired UN’s Commission on Human Security with Professor Amartya Sen in 2001, the concept of human security was already an established institutional norm of post-cold war Japanese diplomacy. Peng-Er and Ishikawa (2012, p. 29) add that a consensus that human security was a desirable and practicable approach for Japan’s international relations among Japanese policymakers has emerged. Since then, official aid documents from Japan’s MOFA and JICA have often referred to human security as an important pillar of Japanese ODA policy.

Moreover, China’s growing regional ascendancy has produced both anxiety and optimism in economic and security dimensions in Japan and elsewhere. The anxiety arises largely from the ambiguity of China’s real intentions, whether it will eventually seek to alter the rules under the existing international order or will remain as a status quo power (Bernstein and Munro, 1998; Mearsheimer, 2001). Schweller (1999, p. 7) says that the effects of rising powers differ in kind and degree, arguing that neighboring states and world powers with interest in the region will be affected more. Thus, the implications of China’s rising power status will be more

² In broad terms, the concept pertains to both ‘freedom from fear’ and ‘freedom from want’. It refers to the security and protection of human life from all forms of threat, including the state, poverty, financial crisis, climate change, and so on. As such, it is often regarded as nontraditional security.

pronounced in the United States being the dominant regional power in the Asia-Pacific and in Japan. The view that China is an economic threat to Southeast Asian countries is premised on zero-sum competition for foreign investment, and trade with third party markets (Ravenhill 2006). China's rising prominence in East Asia has also led to rivalry of sort with Japan in using economic cooperation instruments like free trade agreements (Zha 2002). The two major regional economic powers seek to develop mutually advantageous political and economic relationships with ASEAN members.

China's 'charm strategy' in Southeast Asia in the new millennium has stirred Japan to strengthen its commitments to bilateral linkages and regional institution-building as a way to counter China's growing influence through the use of aid and other economic measures (Yoshimatsu and Trinidad 2010). Apart from U.S.-Japan alliance, the use of economic cooperation measures in Japan's strategy in dealing with China's expanding influence in East Asia is the only logical choice because of constitutional and other legal impediments in the use of 'hard power' instruments. Nonetheless, many Japanese academics and officials tend not to overemphasize on the rivalry thesis. Shiga (2012, Interview) asserts that Japan's International Cooperation Agency (JICA) is more interested in developing aid cooperation instead of competing with Chinese aid. One of the features that make non-DAC donors aid (including China's aid) attractive to borrowing countries is the relative speed by which aid negotiation takes place. Shiga (2012, Interview) acknowledges this fact and reveals that JICA has lost some aid projects in CLMV to China as a result. He adds that JICA at present is in the process of shortening Japan's ODA negotiation process.

Thus, the trend towards policy innovation and strategic orientation in its aid in the new millennium was profoundly shaped by Japan's compliance to mainstream DAC aid and by

China's regional ascent. Nonetheless, as will be explained later, the practice of linking aid, trade and investment has remained one of the distinctive features of Japanese aid even in the new millennium.

2.2 Towards More Balanced Aid Allotments: The Effects of Domestic Politics

From the above discussion, Japan's ODA policy has been shaped by the debate on international development, western criticisms and more recently, China's rising economic prominence in East Asia. Nonetheless, this is just half of the story why Japanese aid allocation for social sector and social infrastructure has grown. The other half is explained by changes in the country's domestic political economy. The move towards a more innovative approach to aid giving was demanded not just by international factors discussed above but also by domestic conditions beginning in the 1980s. In broad terms, there were three political-economic factors that led to ODA policy innovation in Japan: (1) Financial liberalization and postal deregulation have changed the structure governing state-market relations. Traditionally, the Japanese state has been interventionist and developmental. Policy instruments like credit control and administrative guidance have enabled the government to intercede in economic and social affairs. This kind of state structure was instrumental in the success of aid, trade, investment synthesis in Japanese aid giving. However, liberalization reforms since the late-1990s had the effect of weakening the state's capacity to intervene by removing or limiting the policy instruments available. The finance ministry lost its monopolistic control over credit and firms now have more options for their financing. Because the public sector no longer monopolizes the use of postal savings fund, which is a private fund, financial reform has paved the way for new, innovative ODA financing schemes like public-partnership cost-sharing. (2) The enactment of the Nonprofit Organization

(NPO) Law in 1998 has led to the emergence of NGOs, like Mekong Watch Japan, which monitor and participate in the implementation of ODA-funded projects. Arguably, this has led to more transparent, more environment-friendly, and socially-sensitive aid disbursements. (3) Japan's economic decline has affected the ODA budget particularly grant aid and technical assistance. Operating under scarce resources, strategic allocation of grant aid became imperative as the 20th century drew to a close.

All of these have taken place under the backdrop of waning public support for ODA, prolonged domestic economic recession, and problems related to ageing society. Nonetheless, these conditions have contributed to the incorporation of human security concept to Japanese aid 'philosophy', making social sector allocation particularly from ODA grants more prominent than ever. Human security as an institutional norm of Japanese aid giving have slowly evolved out of necessity. In the 1990s, the government was struggling to justify to the public why ODA allocation must continue amidst soaring public debts and economic recession. From the public's view, the credibility of the entire aid practice was compromised after the highly sensationalized Marcos scandal in 1986. The papers that were confiscated from Marcos when he fled to Hawaii following his ouster in the Philippines revealed that the former President systematically received kickbacks from Overseas Economic Cooperation Fund (OECF) projects through a system of bid-rigging, contract fraud, and illegal payments (Arase 1995, p. 114). OECF at that time was the agency in-charge of ODA loans. This incident increased public clamor for more transparency in Japanese aid and brought Japan to international humiliation. Aid scholars also noted the lack of an 'aid philosophy' in Japanese ODA and criticized its overwhelmingly commercial nature.

The commercial purpose of Japanese ODA can be traced back to the *keizai kyouryoku* that was developed in Japan in the 1960s which was intended to openly support the country's

drive for economic development. Around this time, the precursor to Japan's aid allocation model began to take shape. A system of aid giving based on the recipient's 'request' was introduced. Aid implementation was done by various government agencies and there was no single agency that ultimately decides what priorities ODA should pursue. ODA policy was enmeshed in bureaucratic politics and rivalry, particularly between MOFA and METI, the former promoting diplomatic uses of aid while the latter the commercial uses of aid (Hook and Zhang 1998). As Arase (1995) exposed in great detail, Japan's economic aid was heavily and explicitly commercial in nature, served well Japan's growing need for resources and market in the 1970s and supported Japanese local industries and investments abroad. ODA loans were initially invested to projects in the primary sector and extractive industries in recipient countries. Moreover, the geographical focus of Japan's aid allocation was mainly Asia.

From the 1960s to 1980s, government officials involved in the aid process did not have an incentive or sense of urgency to reform Japan's heavily commercial aid practice because a domestic constituency that promotes aid-for-development norm was still lacking (Lancaster, 2006, pp. 140, 220). Development-oriented NGOs and Non-Profit Organizations (NPOs) in Japan were politically weaker than their counterparts in the United States and elsewhere because of their dependence on the 'parent' ministry that granted them legal entity. Hence, they were excluded from ODA policy development from the very beginning. The aid process also lacked transparency because the role of Japanese Diet was either absent or ambiguous. Aid priorities were not electoral issues and as such, the public was little informed about it. Moreover, Lancaster (2006, p. 141, 220) also observes that the fragmented aid organization in Japan had led to weak development purpose in government's aid programs. Policy development was separate from implementation which made coordination a challenge and further reinforced bureaucratic

‘sectionalism’. Lastly, the media did not pay much attention to aid policy prior to mid-80s (Potter, 1996, pp. 16-17).

To reinvigorate public interest to aid and respond to other challenges facing Japanese ODA, the cabinet approved the 1992 ODA charter. The document highlighted four philosophical underpinnings of Japanese aid, namely, (1) humanitarian considerations, (2) Recognition of the interdependent relationships among member nations of the international community, (3) environment conservation and (4) the principle of self-help. Taking into account the various changes in international and domestic environment, the ODA charter was revised in 2003. Sunaga (2004) identified two domestic reasons that led to its revision: the dwindling domestic support for ODA and the growing public expectation that Japan’s national interest should be promoted in the use of aid. On the former he noted:

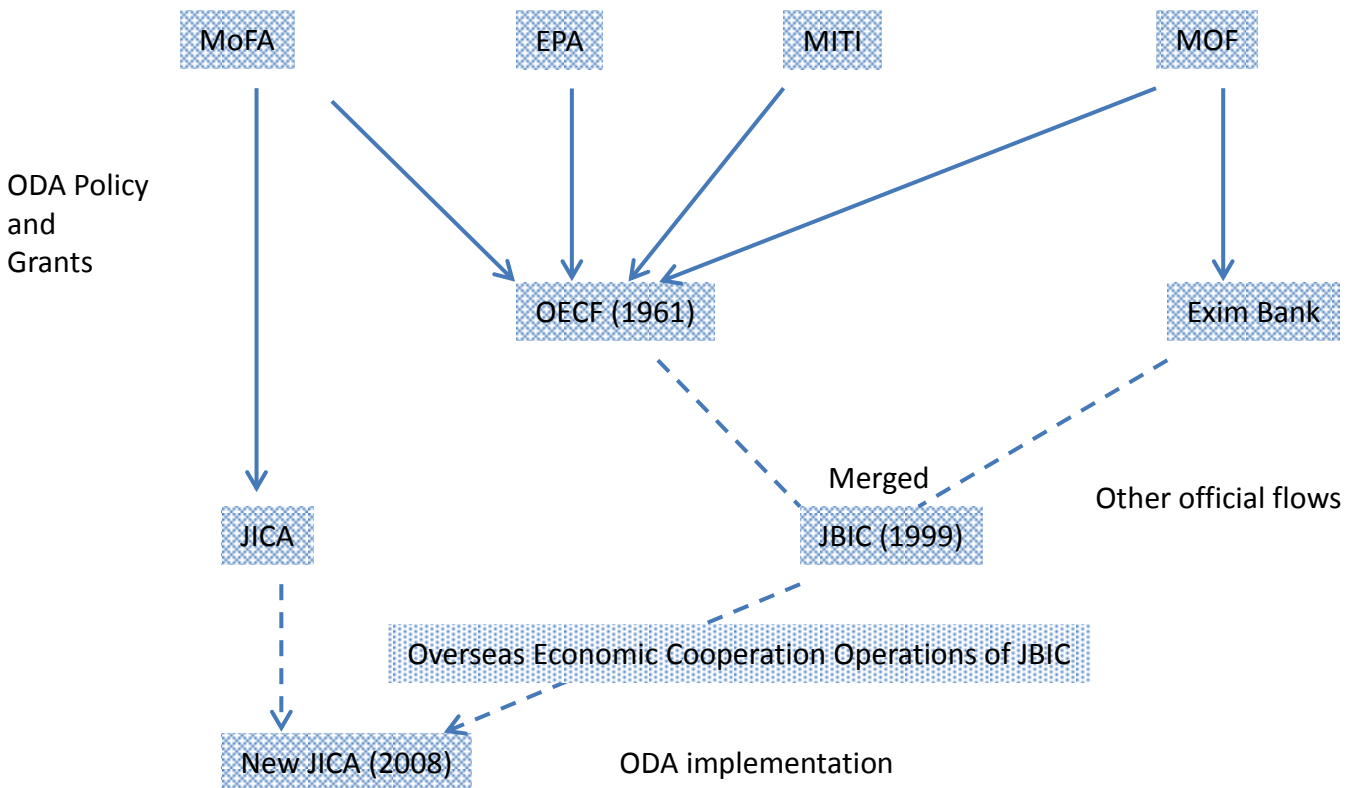
While the Japanese government was rather complacent about its status as the world's biggest donor, Japan's ODA has been steadily losing the support of the Japanese public. According to a poll conducted by Japan's Cabinet Office in 2003, the percentage of people having a positive attitude toward ODA dropped from 43.2% in 1990 to 19.0%, while those who favored a reduction in ODA increased from 10.7 % to 25.5%. The reasons for this about-face in public opinion were clarified by the poll's respondents: 74.7% of those who responded negatively to ODA referred to Japan's sluggish economic conditions and 44.8% to Japan's dire fiscal situation, 37.5% reported that ODA implementation lacked transparency, and 34.8% said that ODA was not effective enough (Sunaga 2004, pp. 3-4).

Sunaga (2004) also mentions that the process used in the ODA revision was unprecedented because of the intensive dialogue with various stakeholders including political parties, NGOs, business circles, the public, and academics. This nationwide consultation also revealed how divided Japanese society was over major issues concerning ODA. For example, academics and NGOs promoted the idea that ODA must be responsive to international development agenda while the public and the business circles wanted the government to use ODA to ensure the interest and prosperity of Japan (Sunaga 2004). The 2003 ODA charter

therefore was a document based on compromise of various societal interests in Japan. The concept of human security was incorporated as one of the basic policies of aid giving while the ultimate objective of Japanese aid is to ensure Japan's own security and prosperity. This is like the *tatemaie* and the *honne* of Japanese aid policy.

Moreover, the reorganization of aid agencies in Japan following the charter's revision and the subsequent appointment of Mrs. Sadako Ogata as president in 2008 had brought prestige and clout to the new JICA (Lancaster 2006, p. 131) and had consolidated human security as an institutional norm of Japanese aid philosophy and practice. In 2008, the Overseas Economic Cooperation Operations (OEEO) of Japan Bank for International Cooperation (JBIC) was merged with JICA, transforming the latter into an independent administrative body in-charge of implementing Japan's loan programs and technical assistance. Export credit and other trade and investment promotion activities have been separated from ODA and are now under the supervision of METI, JETRO, and JBIC. Grant aid, on the other hand, is implemented by MOFA for the pursuit of diplomatic goals (Minato 2012, Interview). What is noticeable in spite of the reorganization is that fragmentation in aid implementation, evaluation and policy development has remained. JICA is the main implementing aid agency while aid policy development is vested in MOFA. The finance ministry and the METI share in the ODA loan policy development. Aid evaluation is carried out by either MOFA or JICA or both or by third party (Minato 2012, Interview). Nonetheless, these organizational changes have pushed Japanese ODA closer than ever to OECD standard and definition of developmental aid.

Figure 3: Reorganization of Japan's Aid Management System



Source: The Author

Under the new JICA's management, priorities of ODA allocation have become more and more target-oriented and approximating closely DAC's established norms that emphasize poverty reduction as an object of aid giving and focus on social infrastructure sector as a priority in the allocation. The four missions stated in its website provides a glimpse of where the future direction of Japanese ODA is heading at least in principle, namely, (1) addressing the global agenda, (2) reducing poverty through equitable growth, (3) improving governance, and (4) achieving human security (JICA website). In addition to these, new, innovative aid programs have also emerged recently. The government, for example, is considering a new type of loan called 'assistance for democratization' as a form of support for Myanmar's recent political and economic reforms. Shiga (2012, Interview) also notes the new programs that recently came out

such as support for ‘rule of law reform’, support for ethnic conflict resolution, and a recent request of the Vietnamese government for assistance to support the revision of its constitution. On top of this, the Japanese government has also used aid to help recipient government deal with political instability. A good example of this is the J-BIRD project in Mindanao, Philippines which began in 2006. J-BIRD stands for Japan-Bangsamoro Initiatives for Cooperation and Development. The objective of J-BIRD is to “enable the people and the communities in the target areas to enjoy the ‘dividends of peace’ through the Japanese ODA on the basis of ‘human security’ principles” (Embassy of Japan in the Philippines 2012). The total amount of assistance already disbursed for this project as of March 2012 is approximately ¥12.0 billion (PHP6.54 billion).

2.3 Ensuring Aid Transparency and Environmental Compliance: The Role of Civil Society

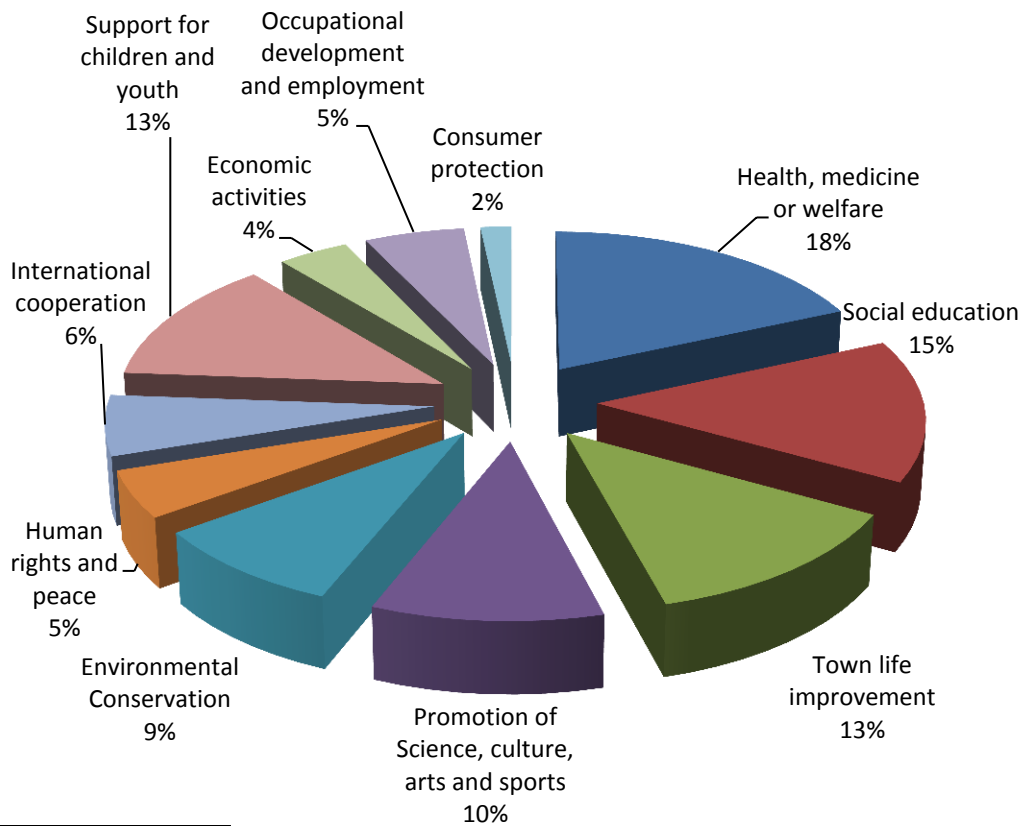
As noted earlier, one of the causes of delay and lack of urgency in aid reform in Japan was the absence of *effective* domestic aid constituency, particularly civic organizations with social development policy advocacies. The role of civil society groups in democratic polity is like a double-edged sword. At worst, they can be a deleterious force that can wreak havoc to democratic institutions. At best, they do not only contribute to deepening political freedom and civil liberties, but also to better institutional performance (for a brief review of positive and negative effects of civil society, see Tusalem 2007, pp. 364-67). What conditions determine the outcome of civil society activities within a state requires a separate study and which this research will not try to address. However, of late, civil society groups worldwide have become critically engaged in various social, environmental, and developmental activities. Recently, they are also more aware of issues, more interconnected and collaborative due to progress in information and

communication technology (ICT) and the internet revolution. Japan's Ministry of Foreign Affairs (2011a, p. 27) acknowledged that the influence and involvement of NGOs in promoting the international development agenda have increased. In Japan, civic organizations are now actively participating in ODA implementation and policy formulation (Hirata 2002). Tsujinaka et al. (2006) however found that Japanese NGOs exert relatively little influence on policymaking. Sato (2010, p. 234) notes that they prefer instead to work with the state.

In post-war Japan, civil society formation can be traced back to the development of citizens' and residents' groups to address emerging issues arising mainly from industrialization during the high-growth period including pollution problems, labor welfare, and environmental degradation. NGOs with development advocacies were formed in the 1970s and continue to grow in the 1980s as a result of growing public interests in international issues (JANIC 2013). What hindered civic organizations then to become effective domestic aid constituency in Japan? Under the 1955 system, ODA policy formulation was predominantly a bureaucratic function. The lack of a single implementing aid agency and inter-bureaucratic rivalry had led to bureaucracy's dominance in ODA policy formulation and implementation. Before the passage of the Non-profit Organization (NPO) law in 1998, the growth of civil society and expansion of their operations were hindered by a number of institutional constraints. Juridical legal personality, which is required to solicit and receive donations, comes from the ministries. Applying for legal status in Japan also requires organizations to present certain amount of income. Moreover, the public was not sympathetic to them because they had caused industrial disruptions in the past. Most civic organizations that were in existence were locally-based and were largely concerned with domestic issues. As figure 4 below shows, this seems to be the case even today. The increasing participation of civil society groups in political and development issues was part of

the changes in domestic politics that occurred in the 1990s. Following the series of political, electoral and economic reforms that were launched during this decade, observers have noted that a new politics has emerged in the new millennium which is characterized by division, coalition formation, competitive elections and increasing involvement of civil society groups in policy development (Rosenbluth and Thies 2010; Kabashima and Steel 2010; Stockwin 2008; Pekkanen 2000; Pempel 1997).

Figure 4: NPO Activities, 2007



Source: Sato (2010)

The quick disaster response of many NGOs following the Great Hanshin Earthquake showed that the activities of civic organizations were not only confined to advocacy and protests.

This image was critical in the public's perception toward civil society in general and a major turning point. In 1998, with strong support from the public, media, and political parties, the NPO law, which changed state-civil society relations in Japan (Pekkanen 2010), was enacted. Today, civic organizations, with various advocacies, from environmental protection to social development, have continued to flourish. According to Japan NGO Center for International Cooperation (JANIC) website,

“The fields of activity for international cooperation NGOs in Japan vary widely but can be roughly classified into four areas: development, environment, human rights, and peace. Among these areas, education/children, health care, vocational training, gender/women and reforestation are especially actively pursued, while areas such as democracy/good governance and peacebuilding are gaining greater attention”.

Recognizing their potential contribution to international development, JICA strengthened its cooperation with NGOs in the 1990s (JANIC Website). At present, periodic meetings, trainings, and joint project evaluation are held on regular basis between JICA and NGOs. There are 277 international cooperation NGOs in Japan. Of these, 70% operate in Asia. As of 2004, overall income/expenditure was US\$270.5 million.³

I argue that the growing participation of civic organizations in the Japanese policy process have contributed to a more programmatic (i.e. social sector-based) ODA allocation, and enhanced transparency in project implementation. Potter (1994, p. 202) adds that in the case of Japan, the country had “shown sensitivity to environmental concerns of opponents of high-profile projects”. In theory, civil society participation in ODA policy development and implementation can lead to more transparency and accountability of donors (Winters, 2010). Citing the activities of Mekong Watch Japan in the Mekong subregion, Shiga (2012 Interview) concurs by saying that NGOs provide “vital information that would have been difficult if not

³ The figures and information from this section were drawn from JANIC Website: <http://www.janic.org/en/data.html>

impossible for the Japanese government to acquire". Between 2008 and 2009, the Mekong Watch successfully lobbied for compensation of local residents affected by MOFA's Cambodia National Road 1 project subject to relocation in the amount of the replacement cost (Mekong Watch Japan 2008, p. 5). The Mekong Watch does not only monitor projects implemented by JICA and JBIC but also loan programs implemented by the World Bank and the ADB in the Mekong region. Aside from monitoring, environmental groups from recipient countries could also compel donors, through protests, to cancel their aid projects if they potentially cause environmental hazards (Potter 1994). Examples of cases where Japanese ODA-funded projects were cancelled due to protests by NGOs: (1) Suspension of aid in 1990 for the Sardar Sardovar Dam project in India following protest by local environmentalists; (2) In 1991, Japan cancelled Philippine National Oil Corporations' request for aid funding for a controversial geothermal power plant project in Mindanao because of high-profile opposition by environmental groups; (3) In 1992, the OECF suspended an \$US80 million loan for construction of the Calaca II coal-fired power plant in Luzon following questions by NGOs about the adequacy of the plant's environmental equipment (Potter 1994, p. 202).

While foreign NGOs that lobby against aid projects have increased, many Japanese NGOs prefer to cooperate with, while others receive funding support from JICA and MOFA. Some also participate in project pre-implementation activities such as mission investigation and feasibility studies conducted either by MOFA or JICA (Kuroishi 2012, Interview). Grants are also provided to Japanese NGOs in support of their overseas activities. The table below summarizes JICA-initiated cooperation programs with NGOs. Since 1989, MOFA's so-called grassroots human security program, which provided assistance to grassroots organizations and

overseas civil society groups that are involved in activities related to the mitigation of human-security, has grown in terms of volume and scope (Trinidad 2007, pp. 118-9).

Table 3: JICA-NGO Cooperation Modality (as of Fiscal 2010)

Cooperation Scheme	Participating NGOs	Purpose
JICA Partnership Program (JPP) 211 projects in 48 countries	Japanese organizations, including universities and local government entities	Implement projects that utilize their experience and skills at grassroots level in developing countries
NGO-JICA Japan Desk	Japanese NGOs operating in developing countries	Offer consultation and information on various aspects, for example, on local laws, local systems, the social situation and the state of local NGO activities
Support for Capacity Building 374 persons participated in trainings Advisors were dispatched to 28 organizations	NGOs engaged in international cooperation activities	Provide Project Cycle Management (PCM) method training; human resource development; and dispatch of advisors with special expertise
NGO-JICA Dialogue Meeting	Japanese/ non-Japanese NGOs	Exchange of opinions and information on various regional and sectoral issues
JICA Donation Fund for the People of the World 10 projects	Japanese civil society groups	Support/encourage Japanese NGO activities aiming to alleviate poverty, improve healthcare, education, and environment of developing countries

Source: Compiled from JICA Annual Report 2011, pp. 140-41. Available at: <http://www.jica.go.jp/english/publications/reports/annual/2011/pdf/36.pdf>

As explained in the two preceding sections, Japan's sensitivity to foreign and public criticisms on its aid activities has, in part, given rise to a more diverse allocation beginning in the 1990s. Changes in both domestic and international environments have contributed to the enactment of the ODA charter which emphasizes human security and promotion of national interests as pillars of Japanese aid. The enactment of NPO law has paved the way for an aid constituency in Japan, though it is highly contentious at this point to conclude whether or not they exert influence on actual policy making. Broadly speaking, NGOs have been instrumental in

aid transparency and conformity to sustainable development and protection of communities affected by aid projects. Moreover, reforms in the ODA system has strengthened the role of MOFA particularly in the use of grant aid and formulation of ODA policy while JICA became the sole agency in-charge of aid implementation. These changes have provided an enabling environment for Japanese ODA to become more responsive to international development agenda and hence led to more social sector aid allocation. Nonetheless, more than half of Japan's ODA had been used for infrastructure development of recipient countries which, in turn, benefitted directly or indirectly Japanese investments and domestic firms. The next section explains the resiliency of the trinity development cooperation model which links aid, trade and investment and the factors that led to innovation in Japan's funding for ODA loans.

2.4 The resilience of 'trinity development cooperation' and innovations in ODA loans

One of the long-standing features of Japanese aid is nurturing Japanese industries while assisting the recipients' economies (Shimomura and Wang 2012). Since its inception, ODA has served Japan's commercial interests by ingeniously developing an approach that synthesizes aid, trade and investment. The beginnings of this approach can be traced back during the Korean War in which American supplies were secured from Japan under a special procurement system. Japanese manufacturers grew and benefited from this scheme. By the end of the Korean War, Japan achieved a balanced national account. The procurement-style modality was later incorporated to Japan's request-based reparations system, in which payments for war damages in Southeast Asia were paid in kind and was tied to Japanese goods. The *keizai kyouryoku* system, the antecedent of Japanese aid system, was developed based on the principles of procurement and recipient's request (Arase 1995) and 'self-help' (Soderberg 1996, p.33). Thus, in the 1960s

and 1970s, Japanese aid served mainly Japan's commercial objectives by tying aid to trade and investment. This practice would eventually become known as the trinity development cooperation model (TDC) or the trinity/synthesis of aid, trade, and investment. Ohno (2011) asserts that this modality, which is now followed by China and other non-DAC donors, was developed based on Japan's catching-up experience. Alternatively, Soderberg (1996, pp. 32-33) points out that the differences in the implementation of 'official aid' between Japan and other developed countries are rooted in two markedly different cultural backgrounds, more specifically in the West's tradition of helping people in the context of Christian-Judeo values which are not dominant in Japan.

Commercial interest is promoted when ODA is used for the procurement of goods and services from the country that provided it (that is, the donor). The DAC/OECD called this 'Tied Aid'. Due to the practice of linking aid, trade, and investment, the tying status of Japanese aid has been a recurrent criticism of its OECD peers. The DAC Peer Review of Japan in 2010 (p. 70) for example, noted that Japan did not report the tying status of around 13 per cent of its bilateral ODA. The Review also criticized Japan's so-called STEP (Special Terms for Economic Partnership) loans introduced in 2002 "which are explicitly tied to the procurement of Japanese goods and services" (OECD 2010b, pp. 70-71). Commercial interest is also promoted when it is distributed to countries which have strong economic ties (i.e. trade, investment relations) with the country that provided aid. Moreover, Japanese aid was portrayed in various academic studies as a "business foreign policy" (Schraeder, Hook & Taylor 1998); as a tool for the restructuring of Japanese industries that were affected by the 1985 Plaza Accord (Soderberg 1996, p. 72); for furnishing Japanese firms with advantage in a large and growing competitive Chinese market

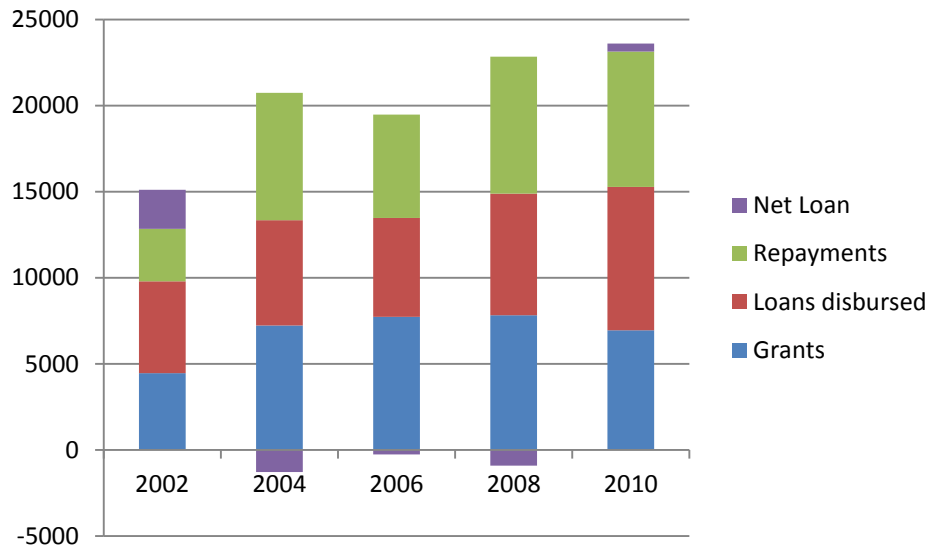
(Ma 2007, pp. 352–53 quoted in Shimomura and Wang, 2012, p. 117); and in securing essential resources and market in the 1960s and ‘70s (Arase, 1995).

After the Plaza Accord and the subsequent rise of the yen, the Ministry of International Trade and Industry (now METI) found an opportunity to justify the TDC model in its 1987 New Asian Industries Development (AID) Plan, which purportedly aimed at supporting the economic development of Asian countries by creating a new division of labor in East Asia centering on Japan and by mobilizing aid in support of trade and investment. Terry (2002, p. 125) criticized the Plan as a “nicer” version of the co-prosperity sphere. The new AID Plan nonetheless was the last document where the trinity (*san-mittai*) model appeared as part of the official ODA strategy. All references to the trinity model were muted afterwards. Shimomura (2012, Interview) concurs that this was to circumvent Western criticisms. In actual practice, the linking of aid, trade and investment in Japanese ODA loans, in particular, has remained, although much less pronounced.

In Japan, loans are much preferred form of aid modality than grants due mainly to economic considerations. First, ODA loans “put less fiscal burden on donors, [and] tend to function as a stable source of development funds for recipient countries”. Second, loans tend to be more efficient because projects are appraised, and they “provide incentive to recipients to recover the cost” (Ojima 2006, pp. 104-6). Moreover, since ODA loans are guaranteed by the borrowing sovereign state, principal and interest repayments are more secured. In the new millennium, ODA grants had increased while total ODA disbursement patterns had been inconsistent. Shimomura and Tsuji (2012, Interview) explained that while it was true that gross ODA budget declined sharply in 2001, during much of that period to 2010, gross ODA disbursements had in fact slightly increased but the actual (net) loan disbursements decreased (see figure 5). The reason for this is the inflow of repayments from previous loans that were

deducted from gross ODA outflow. Between 2004 and 2008, loan disbursements were less than the total repayments received. In short, funding for ODA loans allocation had mainly come from repayments. This indicated that the government was cautious in appropriating ‘new’ funds for loans. There are four possible causes for this behavior: (1) Cost-reducing measures self-imposed by the LDP cabinets (from Koizumi to Aso), (2) Decreases in allotments from the FILP, (3) Redirection of loan allotments to ODA grants to support international development agenda and other diplomatic goals, and (4) Donor ‘fatigue’ syndrome.

Figure 5: Japan’s ODA: Gross vs. net disbursements (in million \$US), 2002-10



Note: Grants + Loans disbursed = ODA Gross disbursements

ODA Gross disbursements – Repayments (from loans) = Actual Net disbursements

Figures for grants also include technical assistance

Source: Compiled by the author from various issue of MOFA’s ODA White Paper. Contributions for and subscriptions to multilateral organizations are excluded.

It should be noted that in Japan, there is a ‘second’ budget where loan funds are also sourced from (more on this later). The ‘second’ budget can be used to offset any reductions in the ‘first’ budget (or national appropriations). Tsuji (2012, Interview) suggests that the

reductions from ODA loan net disbursements were due to decline in national budget allocation (first budget) rather than reductions in the second budget. He and Shiga (2012, Interview) are of the same opinion that there was no shortage from the ‘second budget’. Nonetheless, when the Democratic Party of Japan (DPJ) came to power in 2009, net loan disbursements increased slightly again while those of grants decreased. As will be shown later, the DPJ wants to ensure that ODA is utilized to serve Japan’s national interest (i.e. economic recovery). Tsuji (2012, Interview) commented that the DPJ policy on aid was intended to secure the public’s political support.

Continuing the use of ODA loans for infrastructure development also found support from academics. Highlighting the mutual benefits of donors and recipients from loans, Ojima (2006) explains why infrastructure development should continue to be financed by Japanese ODA loans. His arguments are summarized as follows: (1) Support for infrastructure from ODA declined during the 1990s due to increasing focus on poverty reduction, and the expectation that private funds would support more infrastructure development, (2) There is an increased demand for infrastructure financing among developing countries, and (3) Infrastructure development complements efforts for poverty reduction, social development, and international development agenda like the MDGs. Given the country’s prolonged economic stagnation, there will be more pressure from various sectors in the coming years to suit ODA loan disbursements to Japan’s economic recovery efforts.

In broad terms, the resilience of the TDC model can be attributed to the path-dependent nature of policy choices in Japan, reinforced by the system of incentives that were created by earlier decisions. This is the reason why abandoning the commercial purposes of Japanese aid is impossible if not difficult politically. In this case, Japan’s ODA policy formulation is about

‘avoiding external pressure (*gaiatsu*)’ (Shimomura 2012, Interview). Hence, adopting innovative policies in the ODA loan and grant allocations became imperative to hide its (particularly yen loans’) commercial orientation from criticisms. Moreover, the TDC model has persisted because of rents it generated among industries that benefited substantially from this scheme and the set of institutions that facilitated its endurance and success. As regards the latter, there are two sets of institutions that come to the fore. One is the set of rules that govern the nature of state-market relations and, two, the institutional rules that govern the sources of funding of ODA loans. The institutional changes attributed to these two political-economic factors have led to innovative ODA loans. These will be the focus of discussion in the next succeeding sections.

2.5 The ‘Changing’ Developmental State of Japan and Viability of Aid, Trade, Investment Synthesis

The success of tying aid with trade and investment can be attributed in part to the ability of the state, through bureaucracies, to mobilize capital and coordinate industrial policies. In particular, institutional measures that foster effective coordination between the state and business are necessary. In Japan, the developmental state system fostered a domestic environment where government and business could work together towards achieving specific goals. Nonetheless, to successfully coordinate aid with trade and investment, an effective form of state interventionism is necessary but not sufficient precondition. At the center of government-business coordination in Japan was the Ministry of Finance (MOF) and the Ministry of Economy, Trade and Industry (METI, formerly MITI). These two occupy the highest position in Japanese bureaucratic hierarchy. Beeson (2009) observes that interventionism in Japan has withstood the political and economic reforms since the 1990s and will likely remain so as the preferred mode of economic

governance because of “path dependency, institutional ‘stickiness,’ and the interlocking patterns of political and economic power”.

Painter (2005, p. 336) maintains that a typical East Asian developmental state possesses a combination of a powerful bureaucracy, incomplete democratic institutions, limited political freedoms and a dynamic capitalist economy. The Japanese bureaucracy by comparison is relatively powerful than their western counterparts. However, scholars are divided as to the extent of its ‘real’ power. One perspective contends that “politicians reign while bureaucrats rule” (Johnson 1982). On the other hand, some argue that the power of bureaucracy is overstated (Ramseyer and Rosenbluth 1997). A more popular view holds that Japan is governed by a ‘tripod’ leadership of politicians, the bureaucracy and the business community. Whatever the bureaucracy’s true extent of power is, the bureaucratization of the policy-making process throughout most of the post-war period was undisputedly evident (Pempel 1974).

One of the sources of bureaucratic power is the so-called administrative guidance or the regulatory, reconciliatory and advisory functions of each ministry over individuals, corporations and organizations (McVeigh 1998). Through administrative guidance, a ministry concerned can (1) point to illegality of action of a party and requests voluntary action to correct it before resorting to legal recourse; (2) reconcile conflicting interests and (3) give advice to a party (McVeigh 1998). The threat of a sanction can be used for non-compliance. Administrative guidance facilitated the relationship between the regulator and the regulated and has created extensive distributive and developmental networks that tied government with businesses. Distributive network is formed by the dependency of businesses upon government expenditures while developmental network is created from government regulation of businesses (Kawabata, 2006, p. 37).

In relation to economic cooperation, two key features of developmental state model that is relevant is state capacity, which enables political institutions to formulate and carry out economic policies successfully, and interventionism. In order to work, the TDC model entails some form of interventionism in the project level. An example is industrial targeting. The state can identify specific industrial sectors that will benefit from infrastructure projects funded by aid. There are two characteristics of state capacity that are necessary to achieve the intended goals of TDC. One is the state's ability to mobilize resources and two, the ability of the state to closely coordinate with the private sector in the implementation of economic policies. This condition is referred to as 'embedded autonomy' by Evans (1992) and 'alliance capitalism' by Wade (1992). Hence, the success of coordinating aid, trade, and investment is dependent upon the strength of state-business coordination and state's effective use of policy instruments like control of preferential credit. These features were very prominent in Japan especially under the '1955 system'.

In a way, when aid is tied to trade and investment, aid turns into some sort of subsidy or form of credit, directly or indirectly, to manufacturers and investors. Two key issues therefore arise from this assumption. One is the accessibility of funds used to finance ODA loans and grants to the public sector (viz. government aid agencies like JICA) and, two, the nature and availability of this fund. In the first place, how are Japanese ODA loans funded? Prior to financial reform, funding for ODA loans generally came from two sources: (1) the national budget, and (2) postal savings fund through the Fiscal Investment and Loan Program (FILP). In Japan, they are the 'first' and 'second' budget, respectively. The national budget is prepared by the Budget Bureau of the finance ministry annually. This task endows the MOF immense political power and influence. Officials from the Budget Bureau engaged themselves in a very

time-consuming process (*nemawashi*) of coordinating and consulting with all other ministries and government agencies, including aid implementing bureaucracies like JICA.

The FILP, on the other hand, is a system of long-term, low-interest financing and credit administered by the public sector. Its main objective is to provide continuous public financing using private funds to sectors where private investment alone would not suffice. Today, the FILP is utilized for various purposes including financial assistance to small and medium enterprises (SMEs), funding for welfare and medical care, building social capital, financing research and development of industries, assistance to local government functions, and financing of international finance assistance and ODA loans (FILP Report 2011, p. 11). Prior to its reform, the funding for FILP is sourced from an integrated fund management, consisting of Trust Fund Bureau's funds, the Postal Life Insurance Fund, the Industrial Investment Special Account Fund, and government-guaranteed bonds (Toshiki 2000, p. 2). The largest of these was the Trust Fund Bureau's funds which consisted of mandatory transfer of postal savings funds (PSF). The PSF is the collective savings raised from Japan postal system deposits. It should be noted here that prior to Koizumi's postal deregulation, Japan's postal system did not just perform mail collection and delivery but also sold insurance and received deposits in the form of postal savings, wire transfers and money orders. A general post office in Japan therefore was like a bank, an insurance firm and a courier service firm rolled into one. The government established the Postal Savings Fund (PSF) in 1875 to "encourage citizens, who were used to feudalistic economic transactions and unfamiliar with capitalism, to save money" (Kawabata 2006, p. 94). A law was passed in 1947 which defined the PSF's basic characteristics, types and maximum amount per depositor. The PSF had steadily expanded throughout the post-war period despite efforts to liberalize Japan's financial system and tax reforms (Kawabata 2006, pp. 116-17). Although PSF

consists of funds from the private sector, it is managed by the government and is used for public financing.

Under the Trust Fund Bureau deposit system, the MOF effectively held control of the country's preferential credit through FILP. Prior to FILP reform, the Japanese government (i.e. MOF) was considered the largest financial institution in Japan (Toshiki 2000, p. 1). Its use of preferential credit through FILP funds ensured private sector compliance to national development objectives. Moreover, the government's monopoly of preferential credit was further reinforced by Japan's highly regulated and closed financial market. Nonetheless, the 1997 Asian financial crisis called into question the efficacy of Japan's developmental state system. The FILP scheme was one of the targets of neoliberal reforms of Hashimoto and Koizumi cabinets. In broad terms, these reforms sought for level-playing field in the financial market and an end to 'money politics'. In 1998, the Fundamental Law on the Reform of Government Ministries and Agencies terminated the automatic deposit of postal savings and pension reserves with the Trust Fund Bureau's fund (Toshiki 2000, p. 3). Moreover, the administration of the postal services was transferred from the now defunct Ministry of Post and Telecommunication (MPT) to Postal Services Agency (PSA). The PSA was eventually converted into a public corporation called Japan Post (JP or *Yusei Kosha*) in April 2003 (Maclachlan 2004, p. 283). The Koizumi cabinet sought further reform of the Japan Post by dividing them into four units, namely, JP Bank, JP Insurance, JP Post and JP Holdings and privatizing them within a period of 10 years from 2007. In 2005, total savings deposited in JP Bank was 214.1 trillion yen or about a third of the total savings in Japan at that time. This was also larger than the combined savings deposited in Japan's four biggest banks (Japan Center for Economic Research, 2005).

The loser in the new FILP scheme was obviously the Trust Fund Bureau of the MOF which lost its clout over PSF. Since the reform, FILP funds, as a source of ODA loans, have continued to decrease since 2000 (see figure 6 below). Tsuji (interview, 2012) asserts that this was because FILP agencies involved in ODA loan programs like JBIC⁴ was granted authority to issue their own bonds under the new FILP funding scheme. Shiga (2012, Interview) also notes that JICA started to issue its own bonds to finance ODA loans in 2008. These changes show that the reforms of the Hashimoto cabinet and the postal deregulation of Koizumi's administration have the effects of extending flexibility to FILP agencies by allowing them to issue their own bonds. As a result, these agencies are no longer overly dependent on FILP for funding. Koizumi pursued relentlessly his postal deregulation plan because he viewed "the postal system as symbolic of key problems within the political-economic system: electoral corruption, the power of vested interests over the LDP, and the bureaucratic mismanagement of public funds" (Maclachlan 2004, pp. 309-10). Although the new FILP ended the mandatory transfer of PSF to Trust Fund Bureau's funds, Tsuji (2012, Interview) observes that JP Bank deposits are still used to purchase considerable amount of FILP bonds. As of March 2012, records reveal that of the 195.8 trillion yen assets of the JP Bank, 144.9 trillion yen was in the form of Japanese Government Bonds (JGBs) which includes those issued by various FILP agencies (JP Bank, 2012). This means that although the financing scheme of FILP has changed, its main source of funding is still basically dependent on deposits from JP Bank.

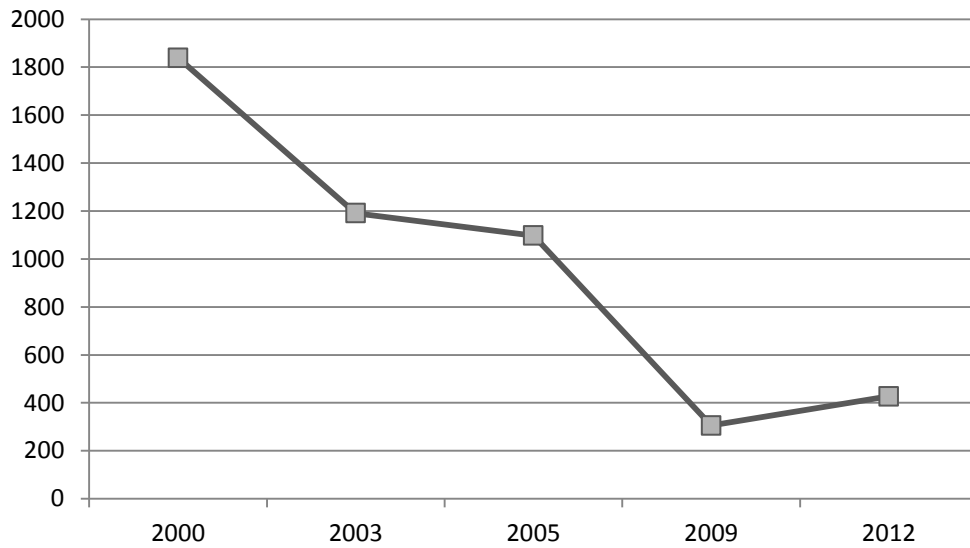
On top of this, the MOF also underwent organizational changes. In 1998, its supervisory functions over banks and financial institutions were transferred to Financial Supervisory Agency (FSA, later changed to Financial Services Agency in 2000). These reforms have challenged an

⁴ ODA loans were administered by JBIC's Overseas Economic Cooperation Operations (OEEO). This was merged with JICA in 2008.

important key feature of Japan's developmental state particularly on the aspect of government-business interface which is essential to state capacity. The MOF lost two aspects of state capacity that consolidated its monopolistic control over finance in the past: (1) access to postal savings fund, and (2) ability to influence how FILP fund should be allocated. These had profound influence in Japan's ODA loan allocations and the TDC model in general. One, due to bond issuance capacity, JICA and other FILP agencies have become less dependent on MOF-dominated FILP funds. This and the establishment of new JICA in 2008 as discussed earlier reinforced JICA's independent status as Japan's main aid-implementing agency. The consequence of this was greater leeway in securing funds as well as more autonomy in project implementation and identification. As head of the new JICA in 2008, Mrs. Ogata also brought human security to the fore of JICA's aid agenda.

Furthermore, since funds for ODA loans are in part procured from bonds, it is also likely that infrastructure financing will remain the top priority of ODA loan allocations because they are government-guaranteed, thus, regarded as 'safe' investments. In short, the new financing scheme for ODA loans through bond issuance are innovative source of funding that help reduce financial burden on the part of the national government. This was in line with the Democratic Party of Japan's (DPJ) objective of putting an end to 'wasteful spending of tax money' and governance approach that 'avoids excessive dependence on fiscal stimulus' (DPJ Manifesto 2009, 2010). The slight increase in FILP allotments for ODA loans under the DPJ leadership from 2009 to 2012 (see figure 6) indicates that ODA loans are 'not wasteful' spending.

Figure 6: FILP allotments to ODA Loans, 2000-2012 (in billions of yen)



Note: Compiled from MOF's FILP Plan report. Data for 2000 to 2005 include ODA loans and other loan programs of JBIC. Data for 2009 and 2012 represents FILP plan allotments only for JICA. For further clarification, see footnote 6, p. 51 of this text.

Moreover, the DPJ leadership has acknowledged the vital role of ODA loans to Japan's growth strategy recently in two separate reports published by MOFA and METI in 2010. Unlike previously where references to TDC were cautiously avoided, the DPJ cabinet was more inclined to trade western criticisms off for domestic political support than their LDP counterparts. Under the pretext that ODA loans should be used more strategically and effectively, the ODA Review: Final Report of MOFA and the New Growth Strategy of METI have once again emphasized the linkage of aid, trade and investment. The highlights of the ODA Review can be summarized as follows: (1) Domestic conditions are not favorable to promoting ODA. The fiscal conditions are tight and public sympathy to ODA has declined; (2) There is a need to mobilize all resources to meet Japan's development challenges; (3) ODA can contribute to poverty reduction, peace and stability, and supporting sustainable development; (4) In order to make Japan's limited aid more

effective, the direction of aid should be clear, the implementation procedures improved, and coordination among various key stakeholders clarified; and (5) Promote public understanding and support through increased public participation. Due to heavy emphasis put on sector allocation and poverty reduction, the 2003 ODA charter might again undergo revision to embody the changes in domestic and international environments.

The New Growth Strategy, on the other hand, released officially in June 2010, was formulated by METI to address Japan's contemporary economic problems. It is a "policy for supporting Japanese companies' entry into developing countries with a view to realizing a strong Japanese economy" (JICA Annual Report 2011, p. 6). It offers 21 national strategic projects under seven strategic categories for the revitalization of the domestic economy. The seven strategic categories are: (1) green innovation, (2) life innovation, (3) focus on Asia, (4) tourism promotion and local revitalization, (5) Science and Technology/ IT, (6) employment and human resources, and (7) financial sector (METI 2010). The synergy between ODA and pursuit of these strategic, commercial targets was lucidly expressed in sections 4 and 5 of chapter 3 of Japan's ODA White Paper of 2011. The report called for more ODA infrastructure projects in regions that are 'increasingly expected to be the target of investment by Japanese companies and that promote superior Japanese technology' (p. 42). It also highlighted a type of ODA loan called Private Sector Investment Finance by JICA which will "provide the funds and financing required for development business implemented by private Japanese companies in developing countries" (p. 43). In addition, ODA loans would be used as well for the deployment of integrated infrastructure systems to recipient countries. Broadly, an infrastructure pertains to "the resources required for a society and its economy to function... it is either 'physical fixed assets' such as energy, telecommunications, transportation systems, waste, water, etc., or 'softer types of

infrastructure’, such as information systems and knowledge bases (Kukobat 2010). An integrated infrastructure system is ‘cost-effective and sustainable’ because it combines both soft and hard infrastructures. Under this scheme, a loan project for the development of urban light rail would typically include transfer of know-how and skills from donor to recipient through training programs so the recipient government would be able to operate and maintain the light rail by itself after the project is completed. This type of economic cooperation would require a mixture of ODA loans, grants and technical assistance. This combination gives JICA the “ability to implement package-type cooperation that extends from formulation of development plans to establishment of hard and soft infrastructure by combining, for example, infrastructure development projects using ODA Loans and Technical Cooperation and then presenting them as integrated packages to partner countries as a result” (JICA 2011a, p. 11).

Furthermore, the New Growth Strategy has called for some sort of ‘renewed’ state-business cooperation under a new name called Public-Private Partnerships (PPP). The PPP was a policy recommendation from the Japan Business Federation (Keidanren) and other economic organizations which urged the government to promote joint public-private initiatives “by applying private-sector technologies, know-how and capital” and “development of basic infrastructure with public funds (ODA)” (JICA 2011a, pp. 11-12). Another modality introduced is the so-called Base of the Pyramid (BOP) Business in which “private enterprises use business principles to resolve problems that aid organizations have difficulty in tackling on their own” (JICA 2011a, p. 12). These two ‘new’ approaches are innovatively rehashed modality based on TDC. But unlike the latter, the public and the private sector ‘share’ in the cost of the project. JICA (2011a, p. 12) believes that meaningful ODA-private-sector partnerships to expand development and growth are desirable for both developing countries and Japan.

Although based on traditional TDC model of linking aid, trade, and investment, the two ‘new’ aid modalities are innovative in some ways. One, aid is not simply employed to assist Japan’s domestic industries. It also seeks to stimulate a kind of investments that use superior, ‘green’ Japanese technology and promote sustainable development in recipient countries while serving Japan’s growth strategy simultaneously. Two, infrastructure development that is emphasized in the Strategy is not just road, bridge, airport construction, but consists of deployment of integrated systems which have more value for recipient’s money. Industrial upgrading among developed countries like Germany and Japan lately is committed to sustainable development through the use of ‘green’ technologies. The green innovation that METI identified as one of the strategic areas of growth strategy is no coincidence. Japan intends to establish competitive advantage in the use of ‘clean’ and green technologies as a key pillar of industrial upgrading.

As explained above, Japan’s developmental state has undergone a very stressful reformation since the 1990s. The Hashimoto and Koizumi cabinets in particular challenged the existing government-business interface, an essential feature of Japan’s development model, by introducing ‘selective’ liberalization reforms. The financial sector reforms were intended to create a ‘level playing field’ among players and to break the ‘collusive’ relationship between government and business, the source of money politics. Nonetheless, the reforms have produced a ‘half-baked’ market economy. While funding for FILP is now sourced through bond issuance, a considerable amount of money used for purchase of these bonds still come from JP bank deposits (technically, the former PSF). Because of bond issuance, it is also likely that in theory Japanese ODA would be used to finance ‘feasible’ projects, taking more into account the recipient’s capacity to repay the loan. Otherwise, the government would have to assume the

losses from non-performing loans. Moreover, trade liberalization is still problematic and no consensus has so far been reached. The MOF was among the institutional casualties of reforms. The ministry's Trust Fund Bureau lost control of PSF, the main funding for FILP prior to reform. It also lost supervisory power over banks and financial institutions and was transferred to FSA. Koizumi's postal privatization was also hampered by DPJ's leadership which succeeded, with support from Koizumi's fellow LDP lawmakers, in introducing a bill in 2012 that basically reversed postal privatization. These changes are indicative of policymakers' choice of mode of economic governance – interventionism. As of this writing (December 2012), the LDP has once again won more than half of seats in the lower house. Radical changes in ODA policy would be less likely under the LDP regime because, as I argued in the beginning of this book, policy choices are path dependent. On the contrary, some developments in international and domestic settings have made TDC all the more appealing and conducive.

2.6 Green Innovation, Aid and Renewed State-Business Interface in Japan

To claim that Japan's post-war rapid economic growth was facilitated in part by a highly interventionist state is already a cliché. Japan's ODA system was developed along this line. The tying of aid, trade and investment was viable due to a system of triangular relationship among the LDP, the business sector, which is represented by Nippon Keidanren, and bureaucrats that had existed since 1955. Arase (1995) exquisitely documented how aid was used as a tool of Japanese diplomacy to pursue both commercial and political objectives in the 1960s and 1970s. The close coordination between METI and industrial sector, on one hand, and MOF and financial institutions on the other had made tying of aid, trade and investment possible. It can be said therefore that ODA had served both Japan's industrial policy and diplomatic goals. Nonetheless,

this close state-business interface that characterized Japan's development model has been under scrutiny since the Asian financial crisis. Government reforms pursued by various cabinets from Hosokawa to Koizumi sought an end to the collusive relationship and 'pork' barrel politics that the 1955 system created. Because the system of funding for Japanese ODA is rooted in the heart of Japan's public and private financial sectors, both the big bang reform and Koizumi's postal deregulation law had profoundly affected how Japanese aid was to be funded afterward. Ironically, these changes have led to a more innovative system of ODA administration both in terms of funding sources and actual implementation. The FILP reform discussed above paved the road for bond issuance as a way to finance ODA loans while the new JICA found innovative ways to engage the private sector in aid program implementation and to continue pursuing commercial objectives particularly in the allocation of ODA loans.

If hindsight would serve as guide, Japanese policymakers have a knack in introducing policies and doctrines that aim to accomplish multiple things at the same time. Think of the Yoshida doctrine, Miyashita Initiative, Recycling Plan of the MOF, METI's new AID Plan, ODA doubling plan, Koizumi's postal deregulation, and Hashimoto's big bang reforms in this line. The search for an encompassing solution for Japan's current socio-economic problems has been an obsession of sort. The same can also be said of ODA. Policymakers have sought an aid policy which could circumvent Western criticisms, support Japanese industrial rejuvenation and economic growth, contribute to international development agenda, and curb China's growing influence in the East Asian region while maintaining state 'involvement' in the process. Since Koizumi left the *kantei*, interventionism has remained an essential feature of mode of governance in Japan. Contrary to what others have asserted, Japanese capitalism has not completely transformed into Anglo-American type. State interventionism as a key feature of political and

economic structures not just in Japan but in East Asia will continue to be preferred because as Beeson (2009, p. 8) states,

.. there are complex dialectical processes at work in East Asia that will continue to shape political and economic structures in the region, and ensure not only that it will continue to look noticeably different from Anglo-American forms of capitalism, but that something approximating the developmental state is likely to remain part of it... they are likely to persist as a consequence of path dependence, institutional “stickiness,” and the interlocking patterns of political and economic power that are such a ubiquitous and distinctive part of development in East Asia.

Identifying the complex dialectical processes involved in this phenomenon is beyond what this chapter intends to accomplish. Instead, the paper assumes that domestic processes and changes in international/regional environment as contextual factors contribute to the persistence of interventionism. The global economic crisis in the late-2000s, for example, was “seen by many in Japan to expose the shortcomings of ‘market fundamentalism’ and ‘financial capitalism’” (Hatoyama 2009, cited in Okano-Heijmans 2012, p. 342) that gave a strong rationale for restoring government intervention (Takenaka 2010, p. 3 cited in Okano-Heijmans 2012, p. 342). While some important policy instruments were lost as a result of financial liberalization reforms, the role of government in other areas particularly in promoting sustainable development is evolving. There is an increasing realization of late, at least among Japanese policymakers, that environmental sustainability as a main feature of industrial policy offers both strategic and commercial opportunities (Okano-Heijmans 2012). Together with trade and investment promotion as tools of Japan’s economic diplomacy, ODA is vital in providing support for exploring these prospects.

2.6.1 Green Policy as a Pillar of Japan's National Strategy and Diplomacy

Environmental sustainability as a key pillar of Japan's diplomacy was not just a choice of convenience but also takes into account the country's "own pollution control experiences and a desire to sustain its role as a technology leader and foster the development of Japan's own environmental industries" (Asuka and Zhang 1999; Kim 2009 quoted in Okano-Heijmans 2012, p. 343). During the high-growth period, environmental and labor hazards arising from the country's rapid industrialization led to nationwide 'residents' and 'citizens' movements. The high cost of petroleum in the 1970s had also paved the way for Japan to search for alternative, renewable sources of energy, most notably, nuclear and solar power. Moreover, the occurrence of acid rain in Japan caused by Chinese sulfur dioxide (SO₂) emissions in the 1980s and 1990s demonstrated the transboundary effects of pollution and the urgency of a program for the protection of the environment. Rix (1993, pp. 124-7) notes that environmental aid was one of the policy innovations of Japanese aid in the early-1990s

Environmental issues made its way to government's diplomatic agenda through Prime Minister Takeshita Noboru who placed climate change high on his political agenda in 1988 (Okano-Heijmans 2012, p. 342). Allocating ODA for the specific purpose of contributing to the protection of the environment of recipient countries began when Minister Eiichi Nakao of MITI introduced the Green Aid Plan in a speech in Bangkok (Evans 1999, p. 826). Because green technologies that help mitigate climate change are expensive, the Green Aid Plan was adopted "to support the diffusion of clean coal technologies aimed at controlling sulfur dioxide (SO₂) as well as energy saving technologies" (Evans 1999, p. 826). It also "provided technological and financial support to developing countries in the Asian region for the purpose of environmental protection and energy conservation" (Okano-Heijmans 2012, p. 345). Evans (1999, p. 828) notes

that there are three factors that triggered the Plan's launching: (1) Growing concern on the impact of acid rain in Japan from China, (2) Increased sense of vulnerability posed to Japan's security by the rapid increase in energy demand throughout Asia, and (3) The increasing constraint posed by Japan's request-based ODA system, since Japan had an interest in initiating a range of green projects that otherwise might not have been requested by the recipient country. The ODA charter of 2003 also declares sustainable growth and addressing global issues such as global warming and other environmental problems as among the priorities of Japanese ODA allocation. Public perception toward Japan's active role in climate change mitigation and promotion of environmental sustainability was also supportive. In a Public Opinion Survey on Foreign Affairs conducted by the Cabinet office in October 2007, 58% of the respondents said that 'addressing global environmental problems' was Tokyo's appropriate role in international society (cited in Peng-Er 2010, p. 75).

Japan's evolving 'green' diplomacy was not just rooted domestically. It was also part of the growing global concern over environmental problems arising from rapid industrialization among developed countries during the early-postwar period. Initially, economic development and environmental protection were seen as incompatible, a notion that demoralized the economic development efforts among Third World countries. In the 1970s and 1980s, the international discourse on the environment centered on reconciling economic development and environmental protection (Clapp and Dauvergne 2011). One of the most important international dialogues with profound effects to future environmental discussion was the Brundtland Commission which produced a report entitled, 'Our Common Future' in 1987 which introduced for the first time and popularized the notion of 'sustainable development' (Clapp and Dauvergne 2011).

By this time, environmental protection would no longer be regarded as a tradeoff for economic development. There were other international environmental agreements that were produced in the 1980s including the 1985 Vienna Convention for the Protection of the Ozone Layer, the 1987 Montreal Protocol on Substances that Deplete the Ozone Layer, and the 1989 Basel Convention on the Transboundary Movement of Hazardous Wastes and their Disposal. Clapp and Dauvergne, (2011) also notes that domestic actors, like West German Green Party in Germany, were instrumental in putting environmental issues on the German and the European Union's political agenda in the 1980s. In the international scene, world leaders came together in the United Nations Headquarters in New York in September 2000 to declare their commitment to reduce extreme poverty and set out specific targets to be achieved by 2015. These goals were later known as the Millennium Development Goals (MDGs), in which environmental sustainability was one of the targets identified. Donors also agreed during the Monterrey Conference of 2002 to collectively direct their aid efforts toward achieving the MDGs.

Tokyo also strived to be at the forefront of climate change issues particularly in the negotiations of the United Nations Framework Convention on Climate Change (UNFCCC). In 1997, it hosted the 3rd Conference of the Parties (COP3) meeting in Kyoto which produced the Kyoto Protocol. Intending to become a leader in solar energy, Japan also provided subsidies for the promotion of solar panel installation in 1994 (Peng-Er, 2010, p. 72). Japanese automobile industry also made huge strides in producing efficient hybrid and electric cars for the global market. In 2003, a document issued by Nippon Keidanren entitled, "Envisioning a Vibrant and Attractive Japan" called upon the government to adopt policies that focus, among other things, on 'economic environmentalism' which would enable Japan to "remold its economy around the concepts of reusing materials and preserving the global environment, [and] fostering industrial

competitiveness in the process". This Keidanren vision proposes to combine environmental protection with industrial rejuvenation and economic growth. In 2009, the New Growth Strategy adopted Green Innovation as one of the important components of Japan's economic growth and industrial rejuvenation.

Thus, policies related to the protection of the environment, hereinafter called 'green' policies, have become both a domestic strategy to support industrial revitalization in Japan and a pillar of Japanese international diplomacy as a means of enhancing Japan's status (both politically and commercially) and contributing to the international development agenda. In short, green policies have become the crossroads of Japan's international relations, economic diplomacy, and economic growth strategy (Okano-Heijmans 2012). As part of Japan's international relations, green policies are aimed at contributing to global environmental problems and establishing a leadership role for Tokyo. Although not acknowledged officially, green economic diplomacy also enables Japan to distinguish its economic activities in Asia and elsewhere from that of China's which either ignores or discounts environmental compliance in host countries. As part of Japan's new growth strategy, green policies help Japanese industries and manufacturers to establish a niche in the production of superior technology that is environment-friendly. The New Growth Strategy identified seven 'strategic fields for global standard-setting and for promotion: (1) advanced medical care, (2) water, (3) next generation vehicles, (4) railways, (5) energy management, (6) contents media, and (7) robots. Pajon (2010, p. 28) stresses that in Japan, industrial interests pervaded even in the area of climate change policy because of the prevalence of industry-led coalition in the policymaking process. The Nippon Keidanren in particular (Federation of Japanese Business Organization) had essentially constituted the third leg in the LDP-bureaucracy-business triad in Japan.

Table 4: ‘Milestones’ in Japan’s Green Policies

Year	Policies Launched or Adopted
1988.	Climate Change in the political agenda of PM Takeshita Noboru
1992.	Launching of the Green Aid Plan
1997.	Action Plan for the Reform and Creation of Economic Structure
2003.	Okuda Vision METI’s Declaration of Commitment to Development of an Eco-Oriented Nation
2007.	Abe Shinzo’s ‘Cool Earth 50’ (Reduce global carbon dioxide emissions by 50% by 2050 and to achieve Japan’s Kyoto Protocol Target)
2008.	Fukuda Cabinet: Cool Earth Promotion Program Cool Earth Innovation Strategy Energy Technology Program (Towards a low-carbon society) Cool Earth Partnerships (Aid to developing countries to reduce greenhouse emissions and economic growth)
2009.	New Strategy for Growth, Towards a Radiant Japan (To become an Environment and Energy Power through Green Innovation and Public Private Cooperation) PM Hatoyama’s Initiative (continuation of the bilateral pillar of Cool Earth 50) PM Kan’s ‘Fast-start Financing for Developing Countries up to 2012’
2010.	Achieving Growth through Green Innovation (proposed by Nippon Keidanren)

Source: The Author

In spite of the pro-environment image that the Japanese green diplomacy is projecting, Pajon (2010) and Peng-Er (2010) notice some discrepancies and inconsistencies in Japan’s green policies. Both have pointed out the inadequacy of government compliance to the Kyoto Protocol. As of fiscal year 2011, preliminary figures for Japan’s National Greenhouse Gas Emissions show that total emissions of carbon dioxide equivalents increased by 3.6% compared to those of the 1990 base year. This corresponds to 3.9% increase from fiscal year 2010 (National Institute for Environmental Studies 2012). This is contrary to the expected emission reduction efforts that are

in place. However, Pajon (2010, p. 59) has acknowledged Japan's generosity in financing efforts of developing countries to mitigate or adapt to climate change and for mainstreaming climate change in ODA, particularly in Asia. As a result, green aid (or broadly, assistance for the protection of the environment, as distinguished from the Green Aid Plan) has become a main feature of Japan's ODA in 2000s. Green aid is innovative for two reasons. One, it can be used to achieve multiple objectives simultaneously including support for international development agenda (particularly, the pursuit of environmental sustainability under the MDGs), enhancing partnership with NGOs with environment and sustainable development advocacies, restoring public confidence in the use of ODA, and providing support for Japanese industrial upgrading under the PPP and BOP framework. Two, linking green aid to trade and investment also makes the TDC model more 'palatable' and potentially lessens foreign criticisms on Japanese loans. As Okano-Heijmans (2012, p. 343) observes, "the shift to 'green' was strategically motivated - having to do with the changing regional and global balance of power, looming challenges of climate change and resource scarcity, and foreign pressure".

2.6.2 From State-led to Partnership: Renewed State-Business Interface

Hence, although the state-business interface that once underpinned the success of Japan's developmental state had been discredited by the Asian financial crisis and weakened by liberalization reforms of the 1990s and 2000s, the tying of green aid to trade and investment has found justification in promoting green innovation. In the past, state capacity had facilitated the effective coordination between state ministries and the private sector through state control over finance and close relations between the government and business. Because aid was primarily linked to trade and investment, Japanese businesses benefitted directly from ODA allocation.

However, political and economic reforms since the 1990s have gradually undermined these capacities, making it increasingly difficult for the state (that is, MOF) to mobilize resources and support to promote specific national objectives. Nonetheless, with green policies at the core of Japan's emerging domestic policies and international diplomacy, ODA (more specifically loan programs) is once again being employed to achieve the three-fold goals of economic growth, industrial upgrading, and enhancing Japan's international/regional profile.

To strengthen coordination between the state and the private sector, semi-public institutional intermediaries were established recently. Among them include: the New Energy and Industrial Technology Development Organization (NEDO), Nippon Export and Investment Insurance (NEXI), Innovation Network Corporation of Japan (INCJ), and Japan Climate Leaders' Partnership (Japan-CLP). The new NEDO (2012) has two-fold missions: one is addressing energy and global environmental problems and the other is enhancing Japan's industrial competitiveness. As of fiscal 2012, NEDO has a budget of JPY123.6 billion. It is 'Japan's largest public Research and Development (R&D) management organization' and is involved in at least 7 functions including:

- Coordination in integrating technological capabilities of private enterprises and development abilities of universities, and organization of technology development activities as national projects to realize common fundamental technologies
- Provision of subsidies for R&D
- Demonstration of Japan's environmental and energy technologies worldwide to expand Japan's presence in the global market, and
- Ensuring compliance to Kyoto Protocol mechanisms

NEXI was established by METI in April 2001 to ‘conduct insurance business in covering risks that arise in international transactions (mostly trade and investments) but are not covered by regular commercial insurance’ (NEXI, 2012). It is organizationally under the guidance of METI and has a capitalization of JPY104.4 billion. By providing insurance to Japanese trade industry and investors, NEXI in essence minimizes the potential political and commercial risks emerging from conducting businesses in high-risk countries like in Africa and Middle East. Meanwhile, the INCJ, a unique public-private partnership organization aimed at promoting innovation and enhancing the value of businesses in Japan, was launched in July 2009. The INCJ was created in response to changes in the global economy including environmental issues that ‘can significantly change the nature of industry structure and value chain’. It also provides financial, technological and management support in promoting next-generation Japanese businesses (INCJ, 2012).

Japan-CLP is a business coalition that sees commercial opportunities in the pursuit towards sustainable low carbon societies in Asia. It was set up in July 30, 2009 (Japan-CLP, 2012). In addition to semi-public agencies, new offices were created for the purpose of promoting strategic industrial fields, namely, nuclear energy, railways, and water, identified under the New Growth Strategy’s green innovation. These new offices are: international Nuclear Energy Cooperation Council created at METI in June 2009, Office of Global Strategy for Railways Development, which is under Japan’s Ministry of Land, Infrastructure, Transport and Tourism (MLIT) and the Water Business International Infrastructure Promotion Office at METI (Okano-Heijmans 2012, p. 348).

The METI is once again leading Japan’s industrial upgrading and economic rejuvenation, which is reminiscent of the role of the old MITI played in the country’s industrialization process (Johnson 1982). This time, however, the circumstances are different. Industrial policies have to

be crafted in accordance with environmental sustainability and with sensitivity to ‘collusive’ state-business interface that characterized Japan’s developmental state in the past. Instead, the idea of Public-Private Partnership (PPP) and coordination through newly established institutional intermediaries are advanced as a new framework for this interface. How effective the state is in drawing obedience from industries and manufacturers under this framework will need a separate study and this paper will not venture into. Nonetheless, from the previous discussion, the framework that built Japan’s state-business interface in the past has been subjected to scrutiny after the Asian financial crisis. We can assume therefore that the state’s moral ascendancy to lead and guide industries was traumatized by various reforms that were adopted in the 1990s and 2000s. If interventionism remains as the preferred mode of governance then, this is a case of ‘interventionism with consent’. The Japan-CLP for example is a business coalition whose membership is ‘voluntary’.

In all of these, economic cooperation plays a supportive role. It should be emphasized here that in Japan, economic cooperation pertains to ODA and flows of other official funds (OOF). Both JICA and JBIC have expressed support for the New Growth Strategy as reflected in JBIC’s Medium-Term Business Plan FY2012-2014 released in July 11, 2012 and JICA’s Annual Report (2012, p.27). The reconstitution of a new JICA in 2008 has left JBIC as the main agency in-charge of promoting Japan’s commercial and national interests through financial support. JICA on the other hand is the sole agency in-charge of implementing ODA (in contrast to aid or financial assistance provided by JBIC). In principle, the former financial assistance is intended to support Japanese investments and to ensure uninterrupted supply of important raw materials to Japan. The latter on the other hand, implements ‘official’ aid programs that are either ‘developmental’ or ‘humanitarian’ in purpose or both. In fiscal 2011, loan aid constitutes the

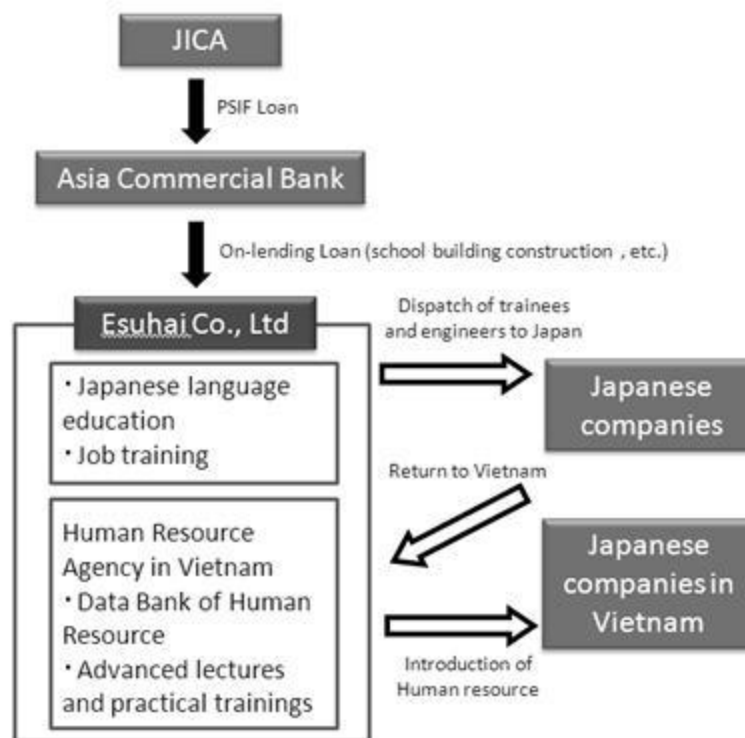
biggest share of JICA's operations amounting to JPY609.7 billion, while expenses for grant aid and technical assistance were JPY107.6 billion and JPY188.9 billion, respectively (JICA 2012, p. 21). In support of the New Growth Strategy, JICA's operations in Asia during that fiscal year were mainly "focused on cooperation for infrastructure development and institutional development for the facilitation of trade and investment" (JICA 2012, p. 21). The PPP and the Deployment of Integrated Infrastructure System are two approaches to facilitate these objectives.

Two financing schemes support PPP and Deployment of Integrated Infrastructure System, namely: (1) JICA's Private Sector Investment Finance (PSIF) and (2) JBIC's Special Terms for Economic Partnership (STEP Loans). The ODA White Paper of 2011 (pp. 38-39) also highlighted the so-called 'program approach' as a new orientation of Japanese aid in the coming years. All of these require effective state-private sector coordination to successfully work. The PSIF is like a two-step loan scheme in which funds are provided (in the form of loans by JICA) to a private sector in a recipient country (say, a local bank) and afterward loaned to firm/s operating in that country for the purpose of implementing a development program. It is implemented by JICA in close coordination with the private sectors in both Japan and the recipient country.

The first Loan Agreement signed under this scheme was with the Asia Commercial Joint Stock Bank (ACB), a private commercial bank in Vietnam, to finance an Industrial Human Resources Development Project. ACB in turn will lend capital to Esuhai Co., Ltd. for the purpose of constructing school buildings and providing human resource training (JICA 2011b). Esuhai provides training for Vietnamese workforce and dispatches apprentices to Japan. In a way, the firm assists Japanese companies operating in Japan and Vietnam by ensuring the necessary supply of skilled workers required by Japanese foreign investments or by supporting projects in

recipient countries that can potentially be awarded to Japanese contractors or manufacturers. In some cases, however, the PSIF is loaned to a private sector in recipient country in the form of equity investment. A good example of this is JICA's loan to Pakistan's First Macro Finance Bank which was signed in March 2012. The PSIF is a new program that was resumed in March 2011 after being suspended for ten years.

Figure 7: PSIF Scheme



JBIC's STEP Loans, introduced in 2002, is a financing scheme that requires procurement of equipment and materials from Japanese companies as a way to introduce Japan's technology and know-how (Nakazawa 2007). It accounted for 10% of loan disbursements in 2008 (OECD 2010b, p. 71). This loan program was somewhat criticized by DAC members because the scheme provides an incentive to borrowing states by making the loan less concessional if the recipient opts for an untied loan (pp. 70-71). Hence, STEP loans become more concessional (i.e. low

interest rate) when it is tied. In addition to these, JICA also implements other schemes with the view to support Japanese businesses in the context of the PPP and BOP discussed above.

Chapter 3

The Foreign Aid of a Rising Asian Power

“We will never forget our old friends while making new ones, and never forget our poor friends while making rich ones (sic). It is the consistent policy of the Chinese government that China will keep on giving international aid within its capability so long as its national economy permits” (Chen Yongcai 1986 cited in Lin 1996, p. 56).

3.1 Introduction

The international aid activities of the People’s Republic of China (hereinafter, China) have spanned for over six decades. The year 2012 marked the 62nd anniversary of China’s foreign aid. Thus, it can hardly be considered an ‘emerging donor’ as some scholars have used the term. In fact, China has longer experience in aid giving than some traditional donors from Development Assistance Committee of the Organisation for Economic Co-Operation and Development (DAC/OECD, hereinafter DAC). The content of China’s aid programs, beginning in 1950, has changed and diversified over the years, and has continuously adapted to shifting international landscape, domestic situation, and national objectives. One estimate places China’s aid volume in 2009 at around US 5 billion dollars (Shimomura and Kobayashi, 2013). This affirms China’s position as one of the largest sources of foreign aid in the world today. The sheer amount involved in China’s aid program (and still growing annually) is enough to generate both apprehension and optimism among international aid community.

Perceptions on Chinese aid are mixed. Since it does not conform generally to DAC ideals and seek only ‘money, access to raw materials, and international politics’, Naim (2007) labeled it, together with aid from other emerging donors, as ‘toxic’. It is also claimed that China’s aid does not have any commonality with DAC donors’ aid. If any resemblance exists, Chinese aid has increasingly followed Japan’s practice of linking aid, trade and investment most notably beginning the 1990s. But even this aid practice is not considered ‘mainstream’. In fact, it had been the focus of critical reviews of OECD Peer Reviews on Japan’s official development

assistance (ODA). The synthesis of aid, trade, and investment or what Shimomura and Ping (2012) called ‘trinity development cooperation’ is a key converging feature of Asian donors’ aid. Moreover, like Japanese aid, a huge proportion of Chinese aid is appropriated for infrastructure projects.

Observers and critics are also divided over the impacts of China’s aid to recipients. On one hand is the skeptical view that contends that aid from non-DAC donors, including those from China, could harm traditional donors’ efforts to maximize the welfare-enhancing effects and developmental outcomes of aid. Concerns were also raised regarding the support provided by Chinese aid on governments of ‘rouge states’ like Sudan and North Korea. Manning (2006, pp. 381-82) adds that there are three risks that come with non-DAC donors’ aid. First, it can potentially lead to unsustainable debts among Highly Indebted Poor Countries (HIPCs). Second, without proper coordination with other donors, aid provision by non-DAC donors could lead to postponement of necessary reforms that other donors require before committing financial assistance. And finally, haphazard appraisal of investments could result to waste and unproductive capital projects. A more optimistic view, on the other hand, suggests that at least for some recipients, Chinese aid contributed to economic growth, increased export volumes, and higher public revenues (Woods, 2008; Reisen, 2007). Moreover, if used efficiently, it can also be an alternative source of infrastructure finance. Apprehension arising from China’s foreign assistance is also driven, in part, by a perception of threat that goes with China’s rise in the global economy. The ‘China threat thesis’ suggests that a rising power will eventually seek to use its economic power to strengthen its military capability and consequently challenge the existing international order. Likewise, some aid scholars and practitioners worry that China and other emerging donors had undermined the international aid’s ‘standard.’

The apprehension is fuelled further by the fact that China's external assistance is notably 'different' in practice and 'philosophy' that it poses risks to values and principles (for example, promotion of good governance, rule of law, and others) that 'mainstream' aid (that is, ODA from DAC donors) stands for. Foreign aid from China and other 'emerging' donors have allegedly undermined the purpose of conditionality which is to improve policies among aid recipients. The twofold aims of this chapter are to understand China's aid philosophy from the standpoint of a Southeast Asian observer and to explain the historical, institutional underpinnings that led to its formulation using political economy analysis. It advances the contention that China's aid philosophy is an outcome of long years of China's own development experience and is shaped by domestic institutional factors. International structures such as trade regimes, international aid system, and foreign relations are regarded as contextual factors. It is assumed that in the case of China, domestic politics and diplomacy are closely intertwined. This chapter is divided into five parts. The first section explains the analytical approach while the second part discusses the events leading to 'mainstream' conception of development assistance. In the third section, the foreign policy bases/objectives of China's aid are explained. The fourth section compares Chinese and DAC aid. The final section concludes the discussion.

3.2 Aid as an Instrument of Foreign and Economic Policies

As an analytical approach, political economy has several variants derived from major theories of politics and international relations. Realism views aid primarily as an instrument of state power to exert donor's influence either by persuasion or sanction (that is, denial or suspension of aid programs). This perspective is particularly interested in understanding the real motivation of donors. Liberalism, on one hand, holds that aid is a form of economic cooperation

that seeks to strengthen interdependence and stability through promotion of economic development. Aid is used to build the necessary social and physical requirements to national development of recipients. On the other hand, neo-Marxism avers that aid helps Western capitalist countries maintain global dominance by creating a structure of financial dependence and exploitation between donor and recipient. Using any one of these variants limits the explanatory factors that this chapter wants to understand and identify. Thus, for the purpose of this study, it is imperative that a political economy framework that takes into account both domestic and international factors must be designed to enable us to understand more comprehensively China's aid philosophy. This means examining China's motivation in aid giving as reflected in its foreign policies and studying the nature of its aid programs in order to have a clearer picture of its principles and what it stands for. The political economy approach assumes that the state is not a single, cohesive unit but is rather composed of various political institutions. As decisions are assumed to be path-dependent, the choice of aid policies in the past and the philosophy it upheld is assumed to have a bearing on succeeding decisions.

Together with trade and investment, foreign aid is an important component of economic diplomacy. As Okano-Heijmans (2012) points out, economic diplomacy has both 'business end' on one side and 'power play end' on the other side of a single continuum. These two represent the commercial objectives and the political goals of foreign policy, respectively. As an instrument of economic diplomacy, aid is appropriated to achieve either or both of these aims. Donors attach varying importance for each. This is where domestic structures come into play – they help shape the aid policy preferences and thus, the donor's aid philosophy. In the case of China, three domestic structures are critically important in the formation of its aid philosophy:

(1) aid management system, (2) state-civil society relations, and (3) changes in domestic economy.

The system of aid management of donors or what Lancaster (2006) termed as ‘the way the government organizes its aid’ has significant bearing on the ‘official’ purpose of aid. This includes institutions or mechanisms that facilitate coordination among aid agencies and to which agency aid policy formulation is assigned. In some donors, aid issues are debated in the legislature while in others, legislatures played no role (Lancaster, 2006).

The extent to which civil society groups exert influence on aid policy and the lack or absence of such entities that advocate for aid-for-development norm is crucial in shaping the manner by which aid is appropriated. Civil society groups like Non-Government Organizations (NGOs) have become ‘favored partners’ of multi and bilateral aid agencies since the 1990s and onwards (Johnson, 2002, p. 89). There are two perspectives as to why this is the case. One, the negative perception on the role of government in the 1980s pushed aid agencies to partner with NGOs, which were seen as neoliberal entities (that is, dissociated from state). Two, NGOs are viewed as a ‘third sector’ that is less bureaucratic than government and more altruistic than the free market. NGOs are thus, ideal type of organisation that addresses perceived shortcomings of market and state (Johnson, 2002). Lancaster (2006, p. 213) concludes that NGOs have played the role of political constituencies for development aid and have been instrumental in advocating for aid-for-development norm in many DAC donors.

Several scholars agree that the goal of modernization is the top priority of the Chinese leadership (Saunders, 2006; Shambaugh, 2006; Sutter, 2006; Li, 2010; and Yunling 2010). Li (2010) notes that Hu Jintao has called his foreign policy team to do everything possible in foreign policy to meet the needs of the domestic political economy. To meet the country’s

growing need for resource inputs, the central government has been encouraging state-owned enterprises (SOEs) to secure exploration and supply agreements with states that produce oil, gas, and other resources (Cheng, 2012, p. 8). As a tool of economic diplomacy, China's foreign aid is likewise expected to serve the goals of national development.

Aside from domestic factors, China's foreign aid policy has been shaped by international exigencies. In particular, since the Afro-Asian movement in 1955, China has projected an image that stresses affinity with the Third World. The main objectives of China's post-cold war foreign policy in the 1990s and beyond are to enhance a more peaceful environment for its domestic economic development, facilitate closer relations with Third World countries, and isolate Taiwan and foil Taiwanese independence (Lin, 1996). As an instrument of foreign policy, aid is expected to pursue China's diplomatic goals as well. Thus, the institutional and contextual underpinnings discussed above have contributed to the formation of China's aid 'philosophy' and defined its distinctive features which set it apart from the 'mainstream' DAC donors' aid.

3.3 'Mainstreaming' Aid: The Role of DAC

Most prejudices against non-DAC donors' aid are shaped by the fact that our basic notions of what constitute foreign aid nowadays are western. Since its founding in 1961, the DAC/OECD was instrumental in refining/harmonizing the concept of developmental aid as distinguished from other forms of economic assistance. In particular, two domains have dominated DAC's aid harmonization agenda and consensus formation in the post-war and post-cold war periods: (1) purposes/ goals of aid, (2) aid quality and effectiveness.

The developmental purpose of aid has been fundamentally shaped by our concept of development. For example in the early post-war when 'vicious circle of poverty' and 'poverty

trap' were widely viewed as major causes of underdevelopment, U.S. aid was allocated to spur economic growth, stimulate private capital and to provide the economic platform to enable underdeveloped countries to gain entry into the system of free trade (Economides and Wilson, 2002, p. 128). In 1949, U.S. President Truman mentioned that international aid ought to be provided based on: (1) pooling of resources; (2) well-coordinated efforts, and (3) the needs of the recipient (Riddell, 2007, p. 25). As the cold war went to a full swing, aid programs had increasingly been directed to achieve strategic intents and 'quickly distorted the initial premises on which the extension of foreign aid was based' (Economides and Wilson, 2002, p. 128). The choice of recipients, the development policies to promote, and the values ingrained in the aid philosophy of donor countries from the two sides of the cold war camp were anchored on two conflicting ideologies.

The emergence of Anglo-American capitalism in the early eighties, occurrence of Debt Crisis, and the subsequent adoption of the so-called Washington Consensus among industrialized countries gave rise to 'policy-based' lending within DAC donors. The idea was to use foreign aid as a leverage to compel debt-stricken nations to adopt 'structural adjustment' programmes, which were basically neoliberal policies, as part of structural reform. Aid conditionality, hence, was born. Unwittingly or not, neoliberal policies like trade and investment liberalization, privatization, and deregulation became part and parcel of development strategies in many developing countries. By this time, bilateral and multilateral aid agencies had also begun partnering with NGOs as a new modality of aid delivery.

As the new millennium sets in, the goals of development has become 'more comprehensive, embracing all dimension of poverty including income poverty, illiteracy, poor health, insecurity of income, and powerlessness' (Goldin et al., 2002, p. 58). Reflecting this new

thinking, the focus of aid shifted from growth promotion to poverty alleviation (Saidi and Wolf, 2011). DAC donors also became more willing to pursue a common international aid agenda. It declared its support for the United Nations Millennium Development Goals (MDGs); pledged to increase their aid volumes; and to channel these funds for the fulfillment of MDGs (Akiyama and Kondo, 2003). The DAC also reiterated the crucial role of appropriate policies and institutions in maximizing the effects of aid to poverty reduction efforts at the Monterrey Conference. With this, social infrastructure has become the overarching theme of aid programs of DAC. In 2011, 40.6 per cent of DAC aid disbursements were allotted to social and administrative infrastructure while only about 15 per cent was appropriated for economic infrastructure (OECD, 2012b). This is a striking contrast to Chinese aid, as will be shown later, which is appropriated mainly for infrastructure development projects.

On the other hand, overtime, the DAC debate on aid quality and effectiveness has shifted from the issue of ‘how much’ that is, the ideal volume of aid to be provided by donors to contribute significantly to growth (measured in terms of aid to GNI ratio), to the issue of ‘what for’, that is, which programs to support in order to maximize aid’s developmental outcomes. A measure of great importance that was instituted to ensure aid quality and consistency among DAC donors was the adoption of a common definition of ODA. The DAC definition contains three essential elements that make economic assistance qualify as ODA: (1) it is provided officially by state institution, (2) it is intended for economic development and welfare of the recipient, and (3) it must be concessional in nature, meaning the terms of payment is long, at a very low interest rate and, if it is in the form of loan, must contain a grant element of at least 25 per cent. Military aid and inflow of private funds, such as loans extended by private financial institutions from donor country do not qualify as ODA.

DAC donors have also strived to improve the tying status of their aid. The OECD publishes annually a statistics on each member's tying status. In 2010, the total share of DAC's untied aid was 79.4 per cent. ODA is said to be tied when procurement is limited only to companies of donor countries or in a small group of countries. The idea of untying is to maximize ODA's effects to development by allowing the recipient government to freely choose, under a system of fair bidding, the best supplier or contractor required in the implementation of an aid project. Also important in improving ODA quality and effectiveness is DAC's practice of peer review. In 2008, the OECD published the document, *Effective Aid Management: Twelve Lessons from DAC Peer Reviews*. This report contains issues arising from aid experiences of each member for the last five years and the strategies to overcome or achieve them. The issues raised can be generally classified into three: that which pertains to development purpose, management, and focus. Bearce and Tirone (2010) demonstrate the trade-off between strategic goals and aid effectiveness, arguing that foreign aid can facilitate economic reform that fosters development only if the 'strategic benefits associated with providing aid are small for donor countries'. Thus, aid 'involves no element of mutuality, bargain or quid pro quo' (Economides and Wilson, 2002, p. 124).

From the above discussion and with risk of oversimplification, the current mainstream notion of ODA can be summarized as follows: (1) Aid flows from rich to poor countries, thus, the traditional notion of North-South type of aid relations; (2) The use of political conditionality to bring about liberal values; (3) Adoption of a common DAC definition; (4) Aid apportionment follows the international aid agenda, particularly MDGs; (5) The goals of aid are based on a broader notion of development; (6) The main focus of DAC aid by sector is social infrastructure;

(7) A modality of aid delivery which involves civil society groups particularly NGOs has become a standard practice in many DAC donors, and (8) The practice of untying aid as a norm.

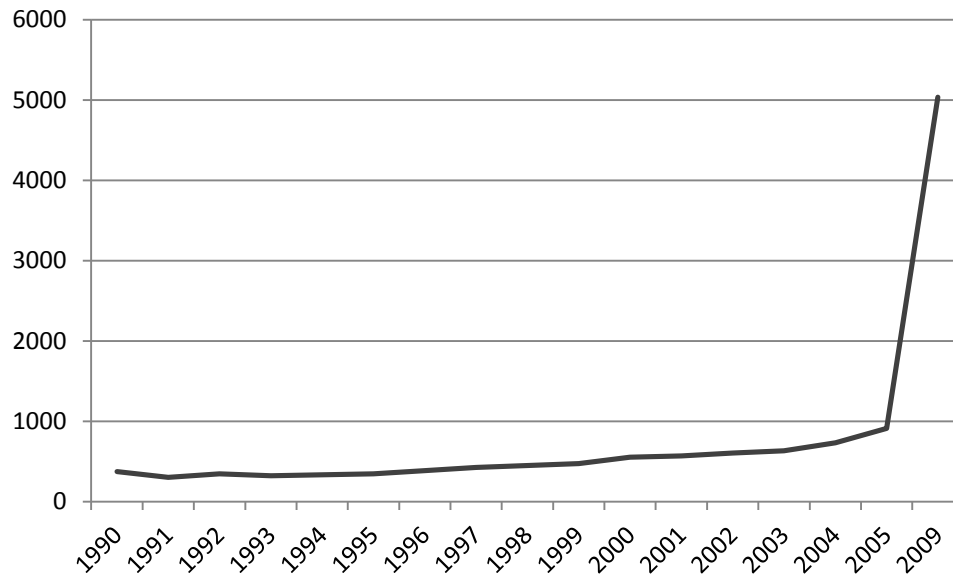
These ‘standards’ or ‘charity consensus’, as Saidi and Wolf (2011, p. 9) call it, have become the main basis of our ‘mainstream’ understanding of what aid ought to be. They also make non-DAC donors’ aid, including Chinese aid, ‘different’.

3.4 Strategic, Commercial, and Diplomatic Underpinnings of China’s Aid

Although there is no reliable source available that provides accurate time-series data on the real amount of Chinese aid, most estimates that have been made so far have noted a remarkable increase in its volume since the 1990s (and is still increasing as this chapter is being written, see figure 8 below). These increases came at a time when China’s economy is expanding and its political assertiveness is growing particularly in its dealings with East Asian neighbors. Aid has provided China the luxury of enhancing its influence and the instrument to promote its strategic interests in East Asia and elsewhere. One example of such growing influence is on Cambodia. Acting as chair of ASEAN, the country was seen as largely responsible for July 2012 episode in which the ASEAN Ministerial Meeting (AMM) failed to release a customary joint statement at the end. China followed this up with a military aid agreement signed in January 2013 which commits China to provide military training and to upgrade the military hardware of Cambodia (Bangkok Post, 2013). While the trend among DAC donors is to refine the definition of ODA to exclude other forms of financial assistance that are not developmental, the intersection of military, commercial, and developmental goals in the use of Chinese aid can become potentially (and dangerously) the trend. This is why, of late, scholars from various fields of study have developed great interest in understanding China’s aid philosophy. Such interest in

the West is fuelled by the fact that this aid is from a rising power with an authoritarian government that follows a different (nondemocratic) political ideology, and the fact that the rising power is another ‘Asian’.

Figure 8: China’s External Assistance Expenditures in US million dollars



Source: Figures for 1990-2005 from Kobayashi (2008, p. 5). Figure for 2009 is based on the estimate of Kobayashi and Shimomura (2013).

China is not an emerging donor in the strictest sense. Its history as an aid provider can be traced back in 1950 after the establishment of the People’s Republic of China, when material assistance was provided to socialist countries of North Korea and North Vietnam. China’s status as an aid donor throughout the cold war was unique and nonconventional in a certain way because development theories assume that international aid would come from advanced industrialized countries. Aid is traditionally regarded as an economic tool available only to rich countries. China was neither advanced/industrialized nor a rich country. In fact, after the

communist takeover, the country itself needed capital for its own national development. And yet, due to domestic and international exigencies, aid programs were developed.

During the period between 1950 and 1978, Chinese aid was embedded in a broader context of China's cold war strategy and struggle for international recognition. The former was conspicuous in its early economic cooperation with neighboring Southeast Asian countries while the latter was evident in its foreign policy towards Sub-Saharan Africa. In the 1950s/60s, political and security concerns dominated China's relations with the Southeast Asian region (Ba, 2003). The foreign aid appropriated during this time was intended to support national struggles and nation-building (Zhu, 2008, p. 70). China's policy of extending support to local communist insurgents within ASEAN had left a legacy of suspicion and distrust (Ba, 2003, p. 624).

Meanwhile, aware of the 'one-country, one-vote' principle at the U.N.'s General Assembly, China's aid to Africa during this period (and later, to Latin America) was part of a broader campaign for international recognition and to isolate internationally the Republic of China/Taiwan (Lin, 1996). The pursuit of international recognition was highlighted by former Premier Zhou Enlai's tour diplomacy of Asia and Africa in the 1950s and 1960s. During his visit to Mali in 1964, he declared the Eight Principles governing the country's aid which still apply today. It is worth noting that Zhou's declaration also contained the core philosophies that were adopted earlier in Bandung Conference of 1955 — political self-determination, mutual respect for sovereignty, non-aggression, non-interference in internal affairs, and equality. These principles paved the way for the 'no conditionality/ no-strings attached' philosophy of Chinese aid. The PRC's diplomatic efforts finally bore fruit when in 1971, 26 African countries voted in favor of its membership in the United Nations (Kobayashi, 2008). Lin (1996, p. 52) notes that 31

out of 34 countries that received aid from Beijing voted in favor of the Albanian resolution which expelled Taiwan from the U.N.

The Bandung Conference and the success of China's aid diplomacy in Africa and Asia in a way demonstrated the potential political power of developing countries in international politics. This experience also strengthened China's strong affinity with developing countries and shaped its relations with Third World countries in general. It also set the contextual factor for the establishment of 'South-South' cooperation modality, which pertains to the 'mutually beneficial' resource sharing between developing countries. The decade of the seventies also witnessed the implementation of various Chinese-funded infrastructural projects in Africa. The largest so far was the massive Tan-Zam Railway project built between 1970 and 1975 to connect Zambia with the Tanzanian port, Dar Es Salam. Between 1972 and 1978, twenty-seven countries received aid commitments from and subsequently established formal diplomatic relations with Beijing (Lin, 1996, p. 50).

Table 5: Milestones in China's Aid-Giving

Year	Programs	Principles
1950	Start of material assistance to Democratic People's Republic of Korea and Vietnam	Ideology-driven
1955	Asian-African Conference in Bandung, Indonesia	South-South cooperation, ideology-driven, cold war strategy
1956	Aid to Africa began	Ideology-driven, cold war strategy
1964	The Eight Principles for Economic Aid and Technical Assistance were adopted	Equality, mutual benefit, and 'no strings attached' as core values
1971	Resumption of legal seat in the United Nations. Major infrastructure projects in Africa began	Isolation of Taiwan
1978	Deng Xiaoping's reform and opening up Form of aid was diversified, mutually beneficial cooperation emphasized, aid was aligned to China's actual condition	National development
1990s	Sources and means of funding aid were diversified	National development
1993	Foreign Aid Fund for Joint Ventures and Cooperative Projects was set up	National development
1995	Medium to long-term low-interest loans of Export-Import	Commercial interest and national

	bank of China to developing countries began Technical Training Programs were expanded	development
2000	Forum on China-Africa Cooperation (FOCAC) was initiated Expansion of foreign aid began	Commercial interest, Isolation of Taiwan, and national development
2004-2009	Rapid increase in China's foreign aid volume Aid for agriculture, infrastructure, education, healthcare, human resources, and clean energy were strengthened Participation in various multilateral/development forums: UN High-level Meeting on Financing for Development UN High-level Meeting on the Millennium Development Goals Forum on China-Africa Cooperation Shanghai Cooperation Organization China-ASEAN Leaders' Meeting China-Caribbean Economic and Trade Cooperation Forum China-Pacific Island Countries Economic Development and Cooperation Forum Forum on Economic and Trade Cooperation between Portuguese-speaking countries	Commercial interest, Isolation of Taiwan, and national development
2010	National Conference on Foreign Aid	Improvement of aid quality

Source: Compiled from "China's Foreign Aid" (Information Office of State Council, PRC, 2011)

The period between 1978 and 1992 marked the beginning of transition of China's economic and foreign policies. In 1978, under Deng Xiaoping's leadership, the Third Plenum of the Central Committee of the Communist Party launched the country's 'Reform and Opening Up' policies. The Chinese leadership, in effect, chose to be a trading state as its road for modernization (Zweig, 2008 quoted in Mingjiang, 2010, p. 211). In foreign policy, the tough ideological stance of cold war bipolarity was replaced by pragmatism (Li, 2010). During this period, China also began to reach out to democratic countries starting with neighboring states in East Asia. In 1978, China signed the Treaty of Peace and Friendship with Japan. During his visit to Malaysia, Singapore, and Thailand, Deng pledged not to export revolution, to develop friendly relations on the basis of 'Five Principles of Coexistence', stop material support to Southeast Asian communist parties, and not to interfere in other countries' domestic politics using overseas

Chinese as excuse (Lu, 2010, pp. 115-35). The latter two were especially major concerns for Southeast Asian countries with local communist party and with huge Chinese immigrants.

Table 6: The Eight Principles of Chinese Aid

i.	Mutual benefit, equality, and 'win-win'
ii.	Respect for sovereignty, No conditionality
iii.	Flexible, long-term repayment
iv.	Self-reliance and independent economic development
v.	Low-cost but with quick results
vi.	Ensure best quality
vii.	Facilitate technology transfer
viii.	Equal treatment of Chinese and local experts

Source: Based on Cheng (2012, p. 30)

Indeed, as Li (2010, p. 208) aptly observes, 'China's grand transition has been multidimensional.' In the international level, China's isolation during the cold war, the financial cost of maintaining a global cold war strategy and pursuit of international recognition, and the period of rapprochement in Asia were significant contextual factors. In this light, Deng's 1985 declaration that the world has entered a new era of 'peace and development' was viewed by Saunders (2006, p. 3) as a political justification to reduce defense spending and focus on economic development. The cold war strategy was cumbersome to the national treasury. China spent about US 1.1 billion dollars in 1970 alone in the form of aid (Kobayashi, 2008, p.5). If the estimate was accurate, the Chinese government had allotted funds for its aid programs beyond the economy's capacity, considering that the nation was also struggling from underdevelopment problems. This was the peak of China's foreign aid spending throughout the cold war days. Succeeding aid budgets were far below this level until the late-2000s.

Domestically, leadership change, the disastrous outcome of Mao's 'Cultural Revolution', and the political legitimacy of the Chinese government were crucial. The latter, in particular, has become increasingly associated with economic performance (Li, 2010). Nonetheless, when

forces of reform threaten to undermine national stability, Chinese leaders were willing to bite the bullet and accept western sanction and criticism if these would be the consequences of restoring order and stability in a still highly fragile society. This was demonstrated in the Tiananmen Incident of 1989. Indeed, emphasis on stability in China is first priority of government (Breslin, 2011, p. 1330). While the other countries tried to isolate China thereafter, ASEAN reached out to Beijing (Shambaugh, 2006, p. 26). Japan was also the first to break the impasse on foreign aid to China which was temporarily suspended after that incident.

The top priority given to modernization required the Chinese government to mobilize capital (both domestic and foreign). This gave rise to the strategy of pragmatism, which emphasized practicality. While continuing its foreign aid programs, China received external assistance from Japan beginning in 1979 and from other industrialized countries. Simultaneously, China 'adjusted the scale, arrangement, structure, and sectors of its foreign aid in accordance with its actual condition' (Information Office of the State Council, 2011, p. 2). Reflecting the objective of national development, aid increasingly took a variety of forms during this period such as contracted projects, joint ventures, and lease management schemes. Aid programs were pursued in the context of 'win-win', mutual benefit, and common development (Kobayashi and Shimomura, 2013). Moreover, aid volume was drastically reduced. In his study, Kobayashi (2008) found that the level of aid inflow during this period (1978-92) would not reach or match the volume it had in the early-1970s and that beginning in 1981, the volume of aid inflow to China from other donors was higher than the amount of aid outflow from China. Due to aid budget cuts in the nineties, Lin (1996, p. 55) was skeptical on the vital role that aid would play in Beijing's policy toward the developing countries in the future.

The period from 1992 onwards coincides with the country's objectives of rapid 'catch-up' economic growth and reintegration to global economy. Interestingly, there were also some policy innovations that were adopted during this period. In March 1992, the National People's Congress declared that the objective of economic reform was to establish a 'socialist market economy'. In the foreign policy realm, the goal was to continue to create a 'peaceful environment', that was articulated earlier by Deng, which would help facilitate and sustain China's economic growth. The 'China threat' thesis had also spread like wildfire within international community around this time so, in part, foreign policy was directed to assuage those fears by embanking on the concept of a 'peaceful rise' and by increasing its economic cooperation with developing countries.

The next two decades, however, would be replete with simultaneous episodes of conflict and cooperation in China's foreign relations with East Asian countries. The ensuing political confrontation between the Philippines and China over the Mischief Reef in 1995 (*Panganiban* Reef in Filipino) and the unified stance of ASEAN toward the issue astounded many political elites in Beijing. This episode was contrary to what had happened in July 2012 in Phnom Penh where a joint statement on the issue of South China Sea (West Philippine Sea) divided ASEAN leaders.

After the Mischief Reef Incident, China adopted a new diplomatic approach based on 'Good-Neighbor' and 'Going Global' policies and increasingly participated in multilateral forums and institutionalization of economic cooperation not just in East Asia but also elsewhere. In 1997, then President Jiang Zemin and ASEAN leaders issued the Joint Statement on 'Good neighborliness'. During the fourth China-ASEAN Summit, Premier Zhu Rongji reiterated China's support and increase of Chinese assistance to Southeast Asia. In 1999, the Going Global

policy was launched. The country was finally admitted as a member of the World Trade Organization (WTO) in 2001. The report of the 16th Party Congress in 2002 provided guidelines in building ‘good neighborly relationships and partnerships’ (Medeiros 2009) and in 2003, China and ASEAN signed the Joint Declaration on Strategic Partnership for Peace and Prosperity. China participated also in various multilateral forums and meetings like ASEAN Regional Forum (ARF), ASEAN+3, various High-Level Meetings on development and aid conducted by the United Nations, among others. In 2000, it initiated the establishment of Forum on China-Africa Cooperation (FOCAC), which would become the main platform of China-Africa dialogues, and co-founded the Shanghai Cooperation Organization (SCO) in 2001 with Kazakhstan, Kyrgyzstan, Russia, Tajikistan, and Uzbekistan. China also agreed with Japan and South Korea to begin the negotiation for a trilateral free trade agreement in late-2012.

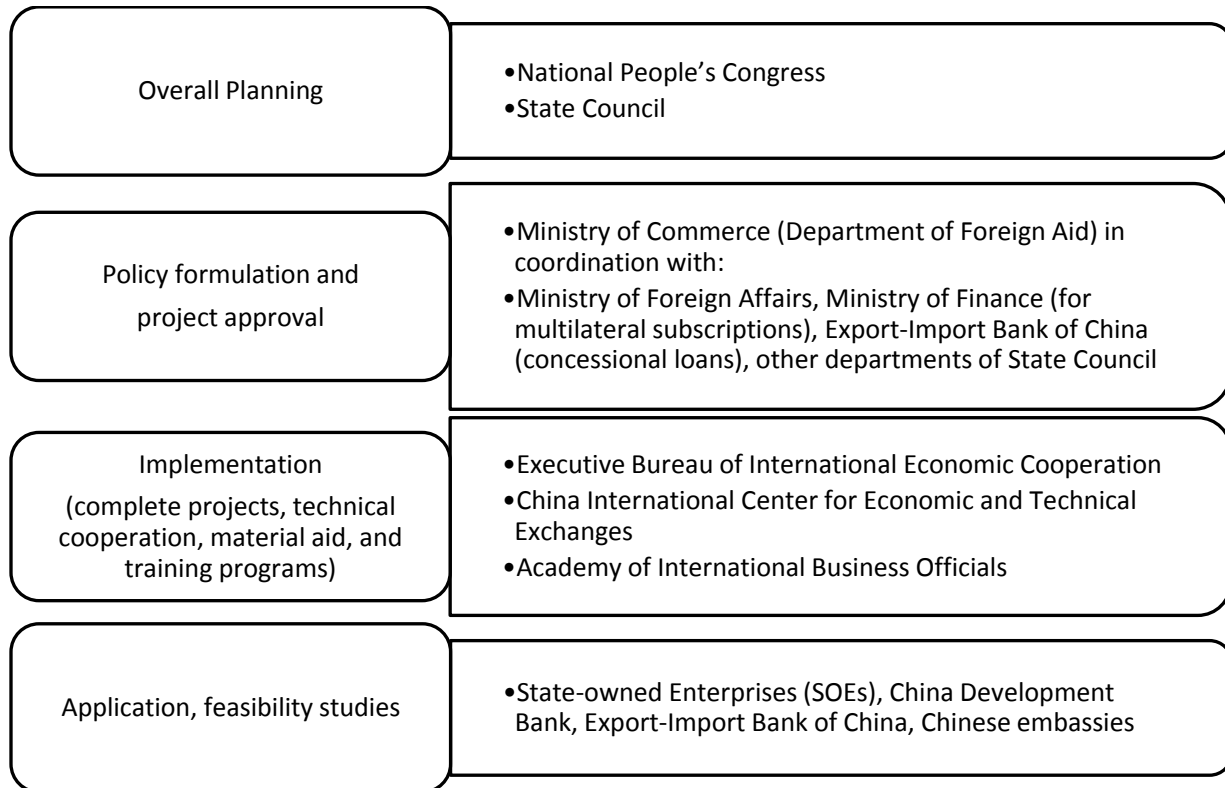
3.5 Reorganization and Attempts at Policy Innovations in Aid since 1992

The way the Chinese government organizes its aid explains why commercial interest is prominent in its aid policy. To effectively carry out the objective of creating a peaceful environment required to sustain economic growth, Chinese leaders introduced some policy innovations in aid on three areas: (1) in terms of funding source, (2) aid management, and (3) financing schemes. Material assistance, grants, interest-free and low-interest loans had been financed mainly through China’s national budget during the cold war days. The source of funding for Chinese aid has started to diversify beginning in the 1990s. In 1993, using a portion of the repayments from interest-free loans, the Foreign Aid Fund for Joint Ventures and Cooperative Projects was set up to support small and medium-sized Chinese enterprises that seek to build joint ventures or conduct cooperation with aid recipient countries in the production and

operation spheres (Information Office of State Council, 2011, p. 3). In 1994, the state-owned Export-Import (EXIM) Bank of China was established and began providing medium- to long-term low-interest loans to developing countries a year later while funding for grants and interest-free loans still comes from China's national budget. By creating new source of funds, foreign aid became less taxing to national government's annual capital outlay.

In terms of aid management reform, the trend since 2008 has been to enhance inter-agency coordination mechanism (Cheng, 2012). Overall supervision of bilateral aid including policy formulation since 2003 lies mainly with China's Ministry of Commerce (MOFCOM). Prior to this, material assistance from 1952 was controlled by the Ministry of Foreign Trade (MFT). Following a series of reorganization in 1982, MFT became the Ministry of Foreign Economic Relations and Trade. This ministry was later renamed to Ministry of Foreign Trade and Economic Cooperation in 1993 and finally to Ministry of Commerce in 2003. Today, the management of Chinese aid is done by a huge bureaucratic organization of the Chinese government. MOFCOM together with the Ministry of Foreign Affairs (MFA), and Ministry of Finance (MOF) established a foreign aid inter-agency liaison mechanism in 2008. This was upgraded later into an inter-agency coordination mechanism in February 2011 to enhance cooperation and efficiency (Information Office of the State Council, 2011, p. 20).

Figure 9: The System of Management of Chinese Aid



Source: Based from Cheng (2012, pp. 5-8) and Information Office of the State Council, PRC (2011)

As China's economy expands during this period (1992-present), the demand for resources also increased. Ensuring continuous, adequate supply of resources became the national objective of economic diplomacy. This situation had also called for new (perhaps, more appropriately, rehashed) ideas to tie up Chinese foreign aid programs with other forms of economic cooperation, including trade and investment. In 1994, minister Wu Yi of Foreign Trade and Economic Cooperation (the predecessor of MOFCOM), launched the Grand Plan for Trade and Economic Cooperation which practically tied succeeding Chinese aid appropriations directly to trade and investment. Because of the 'tied' nature of Chinese aid and its close resemblance to the trinity development cooperation strategy of Japan first articulated in 1985 by MITI under the New

Asian Industries Development (AID) Plan, Shimomura and Wang (2012) conclude that China's aid has followed Japan's *sanmi ittai* strategy of linking aid, trade, and investment. Wang (2013) further argues that it was actually a product of intensive studies of Japan's aid.

Although not officially part of the aid process, Cheng (2012) notes that SOEs, including construction, I.T. (Information and Technology), and mining firms, have increasingly become influential in shaping China's foreign aid policy. SOEs involvement in aid programs was driven primarily by self-interest to profit, particularly in their search for new business opportunities overseas like resource extraction, investment expansion, and market access (Cheng, 2012). Jakobson (2009, p. 414) cites that the Chinese government supports SOEs by providing preferential tax treatment, low-interest bank loans, and foreign exchange access. SOEs also assist potential recipient countries prepare aid requests, conduct preliminary project assessment, and implementation of contracted projects. They are instrumental in maintaining the commercial orientation of Chinese aid by reporting their experiences and enquiries and by providing policy suggestions to aid officials (Cheng, 2012, p. 9). SOEs have also been a cause of backlash in China's global activities by routinely evading environmental and labor regulations likely to interfere with profitability (Saunders, 2006, p. 29). Other private Chinese firms like labor service companies have also benefited from China's aid, particularly in sending Chinese personnel to recipient countries. According to the MOFCOM website, there are 963 of such companies, as of February 2013, that are qualified to send Chinese workers, engineers, consultant, and experts abroad.

Another recent policy innovation in Chinese aid worth mentioning is the adoption of a new financing scheme. The Information Office of State Council of China (2011) writes that one of the basic features of China's foreign aid is,

‘Keeping pace with the times and paying attention to reform and innovation. China adapts its foreign aid to the development of both domestic and international situations, pays attention to previous summarizing (sic) experiences, makes innovations in the field of foreign aid, and promptly adjusts and reforms the management mechanisms so as to constantly improve its foreign aid work.’

One that stands out recently is the so-called ‘Angola Model’, which is a type of commodities-for-infrastructure concessional finance initiated by the EXIM Bank of China in 2004 (Davies, 2010, pp. 11-14; see also Inada’s case study in this volume). The Angola Model is a type of concessional loan structure in which payments are backed by commodities, in the case of Angola, supply of oil to China. This model has become a common feature of Chinese aid in Africa which, as Davies (2010, p. 14) notes, has set a new benchmark in international lending and compelled other international commercial banks to offer more favorable terms to compete with China’s EXIM Bank.

China’s adoption in 2006 of Indigenous Innovation Strategy has linked indigenous innovation to government procurement (Pan and Zheng, 2011). China introduced the strategy to ‘improve its competitiveness in the global economy, promote science and technology development, and enhance national innovation capacity’ (Pan and Zheng, 2011, p. 44). It prioritises clean technologies, particularly in key areas like energy, water and mineral resources, and environmental protection. It envisions China as ‘innovation-oriented nation’ by 2020. Although the strategy is more of a ‘wish list’, it comes with two institutional incentives to encourage compliance of Chinese firms: (1) tax and financial incentives to encourage technological innovation at the enterprise level, and (2) linking government procurement to indigenous innovation policy. Due to heavy involvement of SOEs and private Chinese firms to aid programs, the Chinese government may eventually grant preferential treatment to those firms that innovate and comply with environmental sustainability in the future.

3.6 ‘Distinctiveness’ of Chinese Aid from Mainstream Aid

Many scholars, particularly western ones, view Chinese aid as different. Just how ‘different’ is Chinese aid from DAC donors? Dismissing it as ‘rogue’ and ‘toxic’ simply because it does not conform generally to DAC standards is unjustified. What is clear is that Chinese aid was appropriated mainly for infrastructure and energy development projects in developing countries (Kobayashi, 2008; Lum, et al. 2009). Economic assistance from China has become an important source of infrastructure finance especially in Africa (Foster, et al., 2009, p. 11). Based from a document released by China’s Information Office of the State Council in 2011, 61 per cent of China’s concessional loans in 2009 were allotted for economic infrastructure. It also reported that China offers foreign aid in eight forms including complete projects, goods and materials, technical cooperation, human resource development, medical missions, humanitarian aid, volunteer programs, and debt relief. As the succeeding section would show, Chinese and DAC aid differs substantially in four areas, namely, in terms of (1) development purpose, (2) modality/framework, (3) geographical focus, and (4) priority sector. These four collectively define the distinctive characteristics of Chinese aid from those of DAC donors’ aid.

Contrary to DAC definition of ODA, the Chinese government adopts a concept of aid that comprises of the total value of overseas contracts, labor exports, consulting services, and non-financial foreign direct investment (Foster, et al., 2009, p. 9; Zhu, 2010). Nonetheless, China and DAC donors share some similarities in terms of the form of aid extended. For example, both provide grants (including technical assistance) and concessional loans. China, however, offers a more inexpensive type of financial assistance in the form of interest-free loans, which are used for construction of public facilities and other projects. Interest-free loan has a term of twenty

years, including five years of use, five years of grace and ten years of repayment (Information Office of the State Council, 2011, p. 6).

Table 7: Aid from DAC-donors and China

Areas	DAC Aid	Chinese Aid
(1) Development focus/purpose	Social and institutional underpinnings of development, Social capital, Poverty reduction	'Self-reliance', 'Win-win', Physical capital, Growth in income
(2) Framework	North-South cooperation, Participatory	South-South cooperation, Mainly state-centred
(3) Priority Regions	Strategic, historical importance	Strategic, diplomatic, and commercial importance
(4) Priority Sector	Social sector/infrastructure	Hard infrastructure

Source: The Author

3.6.1 Development Purpose of Aid

Although not well-articulated officially, the disproportionate focus of Chinese aid on infrastructure development indicates that China puts more premium on the physical capital requirement of economic growth. The Information Office of the State Council (2011, p. 4) justifies that China provides assistance for infrastructure finance 'to lay the foundation for future development based on self-reliance and independence'. The DAC, on the other hand, emphasizes the social and institutional underpinnings of development and focuses on a more comprehensive notion of development that embraces all dimension of poverty (Goldin et al., 2002, p. 58). Thus, the political conditionality that is attached to their aid is intended to promote democratic values and good governance which are found to be conducive for growth (Arvin, Barillas, and Lew 2002, pp. 171-72). By stressing these areas, in a way, DAC donors help build the social capital and institutional prerequisites of development of recipient countries.

On the contrary, Chinese aid is usually provided without political conditions and is not used to promote a specific model of development. Jiang (2011) defends China's 'no-strings attached' principle of aid by arguing that it was essential to upholding the Five Principles of Peaceful Co-existence and respecting the recipient countries' right to independently select their own path and model of development that is suitable to its unique conditions. Moreover, China's focus on infrastructure and the prominent role of SOEs in the aid process is conditioned by its domestic political institutions. As elaborated above, the main agency in-charge of Chinese aid is also the lead agency that supervises businesses, the MOFCOM. Hence, the way Chinese aid is administered allows for commercial interests to dominate. In almost the same manner, the commercial and diplomatic goals in Japan's aid policy was the result of inter-bureaucratic rivalry between MOFA on one hand and MOF and MITI on the other until aid policymaking was ultimately vested to MOFA in 2008. Aid in many DAC donors is managed by independent agencies that uphold aid-for-development norm and ensure policy coherence. Examples are Germany's Federal Ministry for Economic Co-operation and Development and Sweden's four aid agencies under the Ministry of Foreign Affairs – Sida, SADEV, the Nordic Africa Institute and the Folke Bernadotte Academy.

Two, effective aid constituents, either from within or outside the government, that advocate for aid-for-development norm commonly found in industrialized democratic countries are still lacking in Chinese political system. Certainly, there are civil society groups in China, but their ability to exert influence on decisionmaking is rather limited. Political decisions rest mainly on the collective authority of the Chinese Communist Party (CCP) through the National People's Congress although the current leadership is now more amenable to public demands. Other individuals and societal groups can only play a very marginal role in the process (Li, 2010, p.

208). In stark contrast, some political parties and NGOs particularly in Western Europe are advocates of specific development issues like environmental sustainability. The green parties in Belgium and Germany, for example, were crucial in putting environmental issues in the political agenda not just in these countries but in the European Union in general. These kind of political actors are largely absent or weak in contemporary Chinese politics.

3.6.2 Aid Modality/Framework

China classifies its aid framework based on the so-called ‘South-South’ cooperation. As such, it prefers to call itself a development partner instead of a donor. By classifying its aid under this modality, China affirms its ‘affinity’ with the Third World which began way back during its isolation and participation in the Afro-Asian movement. Since then, aid has become an essential component of Beijing’s Third World policy (Lin, 1996). This is reflected in the eight principles of Chinese aid, which are strongly grounded on premises that appeal mostly to developing countries like equality, respect for sovereignty and non-interference in each other’s internal affairs, independent development, and no-strings attached principle. Although China’s GDP is the second largest in the world, it is still a developing country by categorization, with a status of an upper middle income as of 2013 (World Bank, 2013).

In the traditional sense, the transfer of development finance takes place between industrialized and poor countries. In the post-cold war period, DAC donors have provided aid for a wide variety of reasons including strategic, commercial, developmental, moral, and other considerations. The World Bank introduced its policy-based lending in the 1980s to induce debt-stricken countries to adopting structural adjustment policies. Following the shift in development orientation in the 1990s, political conditions attached to ODA have increasingly reflected the

principles and values of western democracy such as human rights promotion, good governance, and democratization (Economides and Wilson, 2002, p. 136). Conventionally, aid-funded projects had been implemented by governments of recipient countries. In the 1990s, a more participatory modality of aid implementation emerged, featuring civil society groups as intermediaries of international development. Because of grassroots orientation and association neither with the state nor the market (for being, in principle, not-for-profit organizations), NGOs portray an image of altruism and flexibility (Johnson, 2002). In 2011, Australia, Denmark, Norway, Sweden, and the United States are among DAC donors that channeled considerable amount of development assistance to civil society (OECD, 2012b). One issue which NGOs face is their lack of financial autonomy which often results in a gap in accountability particularly in their ability to promote projects that reflect the need and preferences of their intended beneficiaries (Johnson, 2002, p. 92).

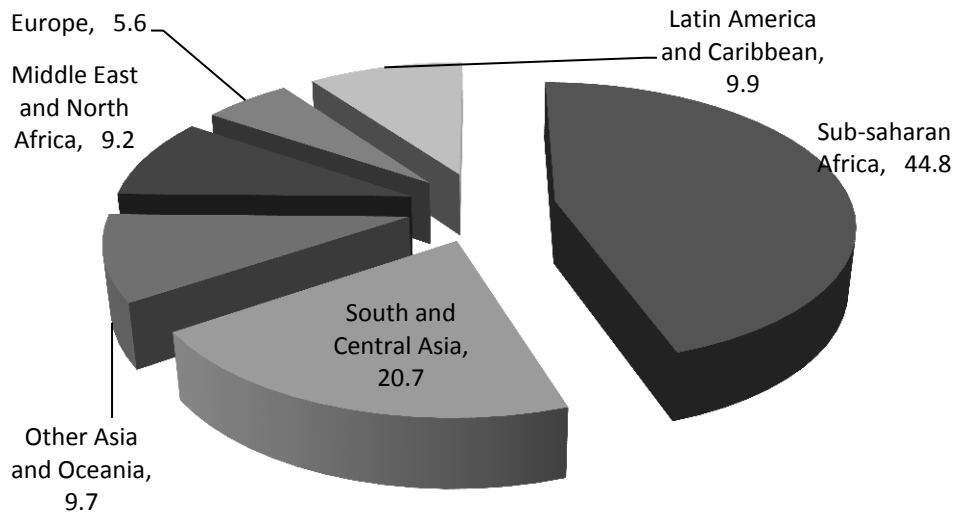
In contrast, China's aid modality has remained state-centered with SOEs, especially foreign contract engineering companies (FCECs), playing a central role in the implementation. FCECs are 'usually state-owned enterprises in China which undertake public projects in developing countries with the help of the Chinese government' (Kagami, 2010, 4). Saunders (2006) explains that Chinese policymakers see important roles for the state in helping the economy to develop, more specifically in providing assistance to national firms in securing access to resources, much like the developmental states in East Asia.

3.6.3 Geographical focus

The determinants of DAC aid allocation are certainly diverse. For some DAC donors that formerly held colonies in Africa, Latin America, Asia and elsewhere, cultural affinity (including

language) and colonial ties are major determinants in foreign aid allocation. Schraeder et al., (1998) confirmed that at least in the case of France, all of the top ten recipients of French aid in Africa were former French colonies or protectorates. The 2010 DAC Peer Review of United Kingdom also reveals that eight of the top ten recipients of British aid in 2007-08 were former British colonies as well. There are donors like Sweden whose aid giving is premised mainly on humanitarian grounds while economic interests generally predominate in Japan's choice of recipients. In 2010-11, six of the top ten recipients of Swedish aid are least developed countries or LDCs (Afghanistan, Mozambique, Sudan, Somalia, Uganda, and Ethiopia). Only one, Liberia, of the ten major recipients of Japan's bilateral aid in 2010 was from Sub-Saharan Africa. LDCs from Southeast Asia, namely Cambodia and Laos, were ranked seventh and tenth, respectively, as major recipients of Japanese aid while Afghanistan was third (MOFA, 2010, p. 175). The first and the second spot went to India and Vietnam, respectively, two countries where Japanese investments and trade have risen in the last decade. Overall, as figure 10 below shows, a huge portion of DAC aid was disbursed to Sub-Saharan Africa (37.9 per cent) and South and Central Asia (20.3 per cent) in 2010-11.

Figure 10: Geographical Distribution of DAC Donors Aid in 2010-11 (%)

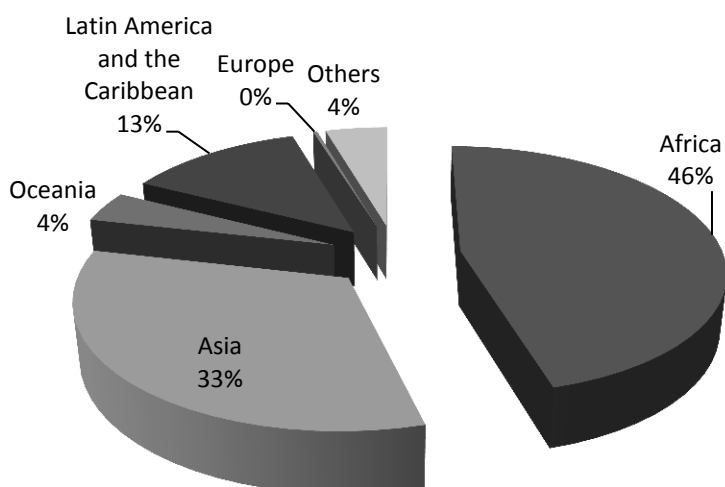


Source: OECD (2012a)

Unlike many DAC donors, colonial ties is not a determinant factor in Chinese aid. But if history would serve as a guide, Sub-Saharan Africa has traditionally been the focus of Chinese aid. China's struggle for international recognition, affinity with Third World countries, and cold war bipolarity were strong motivations in its initial aid activities in Africa. Lin (1996) pointed out that African countries that voted in favor of China, which in effect expelled Taiwan from the United Nations, were rewarded with foreign aid. As a result, Chinese aid in the early seventies rose. But as China's economy expands rapidly since the onset of the new millennium, politico-strategic motivation has been mixed with commercial considerations, particularly securing continuous supply of important resources and expansion of businesses of Chinese SOEs. According to the Information Office of State Council of China (2011), by the end of 2009, China provided aid to 161 countries and more than thirty international and regional organizations. At

32.8 per cent of the total, Asia is the second largest recipient of Chinese aid in 2009 (see figure 11).

Figure 11: Geographical Distribution of Chinese Aid in 2009 (%)



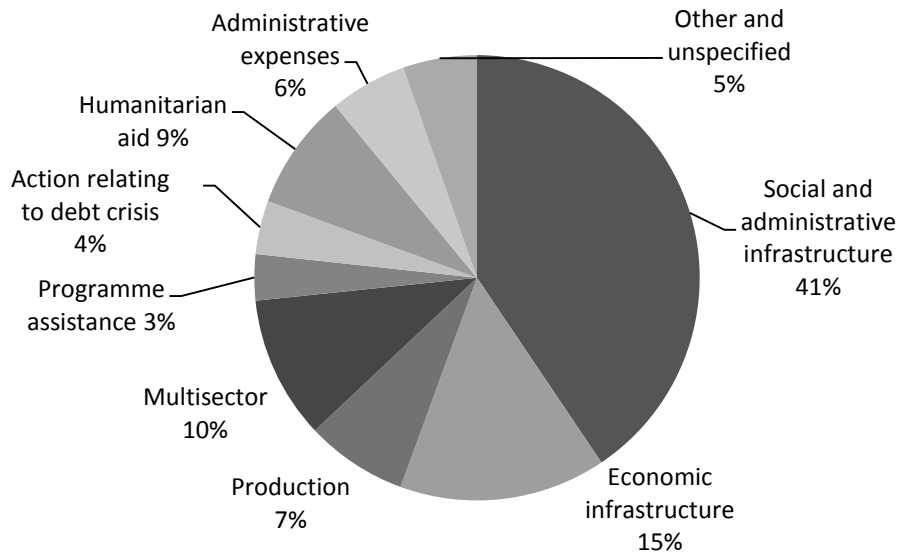
Source: Information Office of the State Council, PRC (2011)

3.6.4 Priority sector

China's aid priorities by sector in 2009 are obviously concentrated in the economic infrastructure sector, allotting 61 per cent of the total concessional aid disbursed. This figure excludes public facilities which if added, would constitute 64.2 per cent. Meanwhile, 29.3 per cent was allocated to the production sector which includes energy and resources development, agriculture, and industry. The remaining 6.5 per cent was allotted to other sectors. In comparison, 33.73 per cent or almost one-third of Japanese aid disbursed in the same year was allocated for economic infrastructure and services followed by social infrastructure sector at 29.25 per cent. In 2010, Japanese aid allotted for economic infrastructure increased to 49.28 per cent. These figures reveal (and confirm) that China's aid is heavily concentrated on infrastructure development and

closely follows Japan's emphasis on physical capital requirement of economic development. On the other hand, DAC donors collectively spent nearly half or 41 per cent of their ODA to social and administrative infrastructure in 2011 (see figure 2.4). Japan's aid allotment for economic infrastructure during this year was the largest among DAC members at 41.5 per cent followed by South Korea at 36.7 per cent. It is interesting to note that Asian donors, whether DAC or non-DAC member, emphasize economic infrastructure in their development assistance in contrast to western DAC donors that focus mainly on social and administrative infrastructure.

Figure 12: DAC Donor Aid Allocation by Sector in 2011 (%)



Source: OECD (2012b)

3.7 Chapter Summary

The brief quote from Chen Yongcai in the opening part of this chapter summarizes quite succinctly what the foreign aid policy of a rising Asian economic power is like: (1) gaining new friends/allies while maintaining old ones, (2) enhancing international reputation, and (3) serving pragmatically the goals of national development. China's experience as an aid donor is indeed

long. The pattern of aid disbursement closely followed the national goal of modernization and foreign policy objectives.

The distinctiveness of Chinese aid from the mainstream one is a product of both history and the ensuing unique domestic institutions that combine socialist authoritarianism and market principles with international factors serving as milieu of decisionmaking. The focus on Africa was driven initially by the need for international recognition and cold war strategy and later by rising demand for resource inputs to sustain China's continued growth. China's aid is different because it did not evolve into a pattern similar or approximating those of DAC donors' aid. It is not the typical aid that flows from rich to poor countries; it does not attach political conditions; it follows a different definition of aid; only a small amount is allotted for the fulfillment of international aid agenda, particularly MDGs; the focus by sector is economic infrastructure; it does not (yet) use an aid delivery modality that engages civil society groups particularly NGOs, and; the practice of untying is not (yet) the norm.

Nonetheless, in spite of these, China's aid is as concessional as those of DAC donors' aid and it garnered more appreciation from recipients as Lum, et al. (2009) claimed because it is cheaper, and is spent in a hugely in-demand sector in many developing countries – infrastructure. Moreover, by incorporating certain ideals (such as non-interference, win-win, independent development and so on) into its aid philosophy, China has succeeded in making its aid more 'attractive' to borrowers.

Chapter 4

Japanese and Chinese Aid Strategies in Southeast Asia

4.1 Introduction

In the new millennium, five factors have set the tone of Japan's aid strategy in the post-cold war Southeast Asia. These are: Japan's compliance to DAC aid strategy which aims to fulfill international aid agenda such as the MDGs and the new emphasis on poverty reduction; support for ASEAN integration; the value-oriented diplomacy adopted in 2007; and the New Growth Strategy, launched in 2010. On the other hand, China's post-cold war aid strategy in Southeast Asia is defined by its policies of good neighborliness (1997), going out strategy (1999), the Joint Declaration on Strategic Partnership for Peace and Prosperity with ASEAN (2003) and China's western development strategy. These factors have to be viewed in the context of domestic institutional changes in both countries and international exigencies that help shape the preferences of policymakers.

As discussed in details in the previous chapters, in Japan, a new ODA charter was adopted in 2003. That decade also saw the establishment of new JICA, financial liberalization and postal deregulation, and the emergence of 'new politics'; as government officials sought ways to rejuvenate the stagnant economy, address fiscal deficits and the problem of aging. The Chinese government, meanwhile, declared that Chinese economic reforms were intended to establish a socialist market economy, reorganized its aid agencies and financial resources, and found justification for the Chinese Communist Party's continued rule from rapid economic growth. As Sutter (2006, p. 290) aptly points out, China's priority is domestic economic development, political stability and avoiding major confrontation or controversy in foreign affairs. These considerations have to be taken into account in understanding Japan's and China's aid strategies in Southeast Asia and elsewhere.

4.2 Japan's Aid Strategies

4.2.1 Compliance to DAC aid agenda

The emergence of a new perspective on development in the 1990s has important implications for Japanese aid which, in contrast, heavily emphasizes infrastructure development, self-help principle, and geoeconomic interests. The adoption of a broader concept of development, support for UN Millennium Development Goals, and commitment for Monterrey Consensus have led to a more 'programmatic' Japanese ODA spending in Southeast Asia, particularly in the countries of Cambodia, Laos, Myanmar and, to a lesser extent, Vietnam. Japan has also gradually allotted more funding for civil society organizations, under its grassroots assistance, and JICA designed a number of schemes to engage Japanese NGOs in its ODA implementation.

4.2.2 Support for ASEAN integration

The entry of Cambodia, Laos, Myanmar and Vietnam into ASEAN as members has widened further the economic disparity between them and the older members (Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand). Regional disparity in the level of development impedes ASEAN economic integration because: (1) the economies of member countries tend to compete rather than complement each other, and (2) it creates obvious winners and losers since less developed members would not be able to compete equally with more developed members (Yoshimatsu and Trinidad 2010, p. 206). Japan's support for ASEAN's goal of correcting the development gaps between its members was first enunciated in the Obuchi Plan at the ASEAN+1 Summit Meeting in 1999. In 2000, ASEAN launched the Initiative for ASEAN

Integration (IAI), aimed at ‘narrowing the development gap within ASEAN and between ASEAN and other parts of the world’.

In January 2002, then Prime Minister Koizumi envisioned a new partnership for Japan and ASEAN in the new millennium during a speech⁵ in Singapore. Amidst the various challenges facing the region — from globalization to problems arising from cultural diversity and regional economic disparity — Koizumi called for a new partnership based on ‘acting together, advancing together’ principle. This was followed by the Tokyo Declaration of 2003 in which Japan and ASEAN agreed to establish an ‘enduring and dynamic partnership’ in the new millennium. In the Declaration, Japan pledged to give ‘high priority to ASEAN’s economic development and integration efforts as it strives to realize the ASEAN Community’ through the use of ODA. To realize the goals of the Tokyo Declaration, the ASEAN–Japan Plan of Action was later drawn up, outlining three specific areas for cooperation, namely, (1) cooperation for reinforcing integration of ASEAN, (2) cooperation for enhancing economic competitiveness of member countries including investment promotion, and (3) cooperation for addressing terrorism, piracy, and other transnational issues. Hence, Japan’s support for ASEAN integration and ASEAN’s efforts to address the development gap among its members constitute Japan’s aid strategy for the region. These were reiterated in various issues of Japan’s Diplomatic Bluebook.

Japan also supports the efforts of ASEAN in addressing the development gaps among its members through the IAI during the ASEAN-Japan Commemorative Summit held in Tokyo in December 2003. As part of rectifying the development gaps, the IAI Work Plan seeks to implement four priority areas, namely, (1) Infrastructure development, (2) human resources development, (3) Information and Communication Technology (ICT), and (4) regional economic integration in CLMV (ASEAN website 2011).

⁵ A copy of Koizumi’s speech is available in <http://www.mofa.go.jp/region/asia-paci/pmv0201/speech.html>

The first phase of implementation of the IAI Work Plan was between 2002 and 2008. For this period, a total of 258 IAI projects were identified for implementation, 186 of which were completed as of October 2009 (ASEAN website 2011). The older members of ASEAN collectively contributed funding worth US\$33.4 million for 177 IAI projects. Singapore provided 34 percent of the total funding. Among the IAI dialogue partners, Japan was the largest contributor during the first phase. It funded 47 IAI projects worth US\$8.08 million. South Korea was the second largest contributor, providing fund of about US\$5.1 million for 7 projects. China provided US\$200,000 for the project, development study for the inland waterway improvement in CLMV (ASEAN website 2011). Japanese-funded projects focused mainly on human resource development and training. The IAI Work Plan is currently on its second period of implementation (2009-2015).

4.2.3 Value-oriented diplomacy

In an effort to adopt a more strategic thinking in Japanese diplomacy, former minister of foreign affairs and later Prime Minister Aso introduced the concepts of ‘value-oriented’ diplomacy and ‘arc of freedom and prosperity’ in several of his speeches. In his November 2006 speech at JIIA, Aso clarified his concept of value-oriented diplomacy as ‘placing emphasis on the "universal values" such as democracy, freedom, human rights, the rule of law, and the market economy’⁶. The ‘arc of freedom and prosperity’, on the other hand, pertains to ‘a band of countries’ or the network of ‘successfully budding democracies that line the outer rim of the Eurasian continent, forming an arc’. Aso specifically cited Cambodia, Laos, and Vietnam as three of those countries that lie within that arc. Creating the arc of freedom and prosperity means that Japan should support the promotion of these universal values as objects of its diplomacy.

⁶ A copy of this speech is available at <http://www.mofa.go.jp/announce/fm/aso/speech0611.html>

These concepts were officially incorporated in Japan's Diplomatic Bluebook of 2007 (pp. 2-3) as a new pillar of Japanese diplomacy. Aso (2007) added that another role for Japanese diplomacy was to undertake investments that would precede private-sector investments that would bring about the so-called "cowbell effect."⁷ The value-oriented diplomacy is the basis for some of Japan's aid programs such as support for rule of law and aid for democratization in CLMV and elsewhere since 2000s.

After the LDP's crushing defeat to DPJ in 2009, all references to Aso's value-oriented diplomacy and the arc of freedom and prosperity had disappeared from succeeding editions of Japan's diplomatic bluebook. Three years later, however, the LDP successfully regained its rule at the lower house of the Japanese Diet. Taro Aso was again appointed as foreign minister under the new Abe cabinet. There is a chance that minister Aso would rearticulate these concepts.

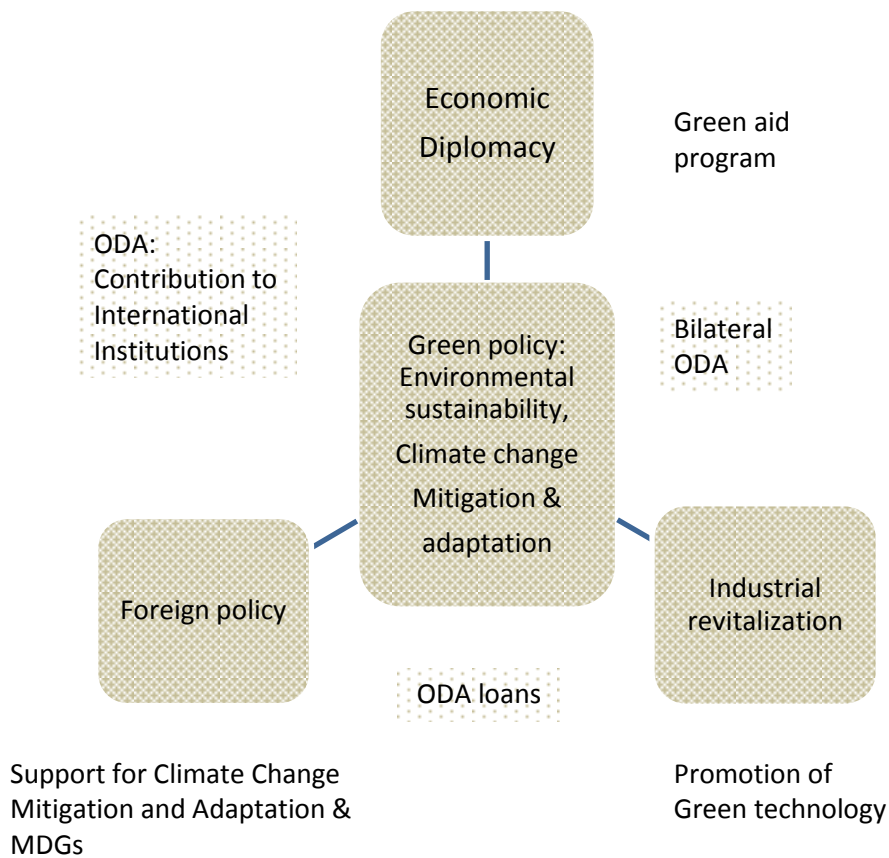
4.2.4 New Growth Strategy

The New Growth Strategy was officially released in June 2010 as Japan's policy "for supporting Japanese companies' entry into developing countries with a view to realizing a strong Japanese economy" (JICA Annual Report 2011, p. 6). It consists of seven strategic categories for promotion: Green Innovation, Life Innovation, Focus on Asia, Tourism and Local Revitalization, Science and Technology, Employment and Human Resources, and Financial Sector. The New Growth Strategy is notable because of its emphasis on 'green policies' and innovation. By making them a pillar of Japan's industrial revitalization, green policies have become the crossroads of Japan's foreign policy, economic diplomacy, and economic growth strategy. Emphasis on green innovation creates business opportunities and enables them to build a new

⁷ Keynote Address by Minister for Foreign Affairs Taro Aso "Global Management and the Mission for Japanese Diplomacy" available at <http://www.mofa.go.jp/announce/fm/aso/address0705.html>

niche in the production of superior technology that is environment-friendly. As a pillar of its foreign policy, it also enhances Japan’s profile in international society. Moreover, emphasis on green has wide public support. In a Public Opinion survey conducted in 2007, 58% of the respondents said that ‘addressing global environmental problems’ was Tokyo’s appropriate role in international society (cited in Peng-Er, 2010, p. 75). A number of projects funded with Japanese aid in Southeast Asia and elsewhere were in line with this goal.

Figure 13: Green Policies as Crossroads of Domestic, Foreign and Economic Policies



Source: The Author

4.2.5 Institutionalization of Japan-Mekong cooperation

In addition to providing aid bilaterally to ASEAN member countries, Japan has engaged China in the Mekong region through the Japan-China Policy Dialogue. There were four

Dialogues conducted so far, the first was held in Beijing on April 2008 while the fourth was in September 2011 in Tokyo. In their third Policy Dialogue on the Mekong region, the two countries exchanged views on the ‘possibility of Japan-China cooperation’. In December 2012, a cooperation program was finally carried out in which a Chinese instructor participated in the training courses conducted by JICA Yokohama (Kuroishi 2012, Interview). This third-country training program, named, ‘Nature Conservation/ Revegetation of Degraded Land in Asia and Africa’, was conducted for participants from Myanmar, Vietnam and Laos.

Further, while engaging China in the Policy Dialogue, Japan, at the same time, sought to establish a much more straightforward relationship with downstream Mekong river basin countries through regular high-level meetings and summitries beginning in 2004 (see table 8 for a partial list of these meetings). These initiatives were notable in many respects. First, it was Tokyo’s attempt to deal with CLMV as one group, contrary to the usual bilateral cooperation that it had with each of them in the past. Second, the reference to the ‘Green Mekong’ concept, ‘sharing of values’ or universal values such as rule of law and human rights in summitries and high-level ministerial meetings, and reference to the ‘arc of freedom’ are clear efforts to distinguish Tokyo’s approach from that of China’s. The Green Mekong Initiative envisions a Mekong regional development that is sustainable, one that has ‘rich biodiversity, rich land and water resources, high resilience to natural disasters, clean urban environment, and lush greenery.’ By focusing on programs that China has difficulty realizing, Japan’s Mekong policy is cautiously crafted strategically in consideration of China’s rising prominence in the region. Third, the contents of the programs and priority sectors covered in the talks were reflective of interests of all stakeholders in the region. This is particularly reflected in the fourth Mekong-Japan Summit where the new pillars of cooperation embody ASEAN Connectivity, recipients’ demand for more

physical infrastructure, and DAC donors' emphasis on social infrastructure and fulfillment of MDGs particularly, environmental sustainability. On top of this, Japan also pledged to provide approximately 600 billion yen in ODA for 2013-2015 periods.

Table 8: High-Level Meetings and Summities between Japan and Mekong countries (CLMV)

Date	Event	Provision
November 2004	First Summit Meeting with CLV hosted by PM Koizumi	
January 2007	Third Japan-CLV Foreign Ministers' Meeting	US\$20 million in assistance Japan-Mekong Partnership Program
January 2008	First Japan-Mekong Foreign Ministers' Meeting	Pledge of US\$20 million
November 2009	First Mekong-Japan Summit	Tokyo Declaration was adopted 500 billion yen ODA for 2010-12
July 2010	Third Japan-Mekong Foreign Ministers' Meeting	Green Mekong Initiative introduced
October 2010	Second Mekong-Japan Summit	Green Mekong Initiative adopted Mekong-Japan Economic and Industrial Cooperation Initiative adopted
November 2011	Third Mekong-Japan Summit	Agreed to establish new pillars for cooperation
April 2012	Fourth Mekong-Japan Summit	Three new pillars were adopted: (1) Enhancing Mekong connectivity (2) Developing Together (3) Ensuring Human Security and Environmental Sustainability

Source: compiled by the author from International Cooperation Bureau, Ministry of Foreign Affairs and from http://www.mofa.go.jp/region/asia-paci/mekong/fm1207/pdfs/jm05_ap3.pdf

4.2.6 Other Frameworks of Cooperation

Japan also participates in three existing regional cooperation frameworks for the development of Mekong river basin countries. These frameworks include: (1) ASEAN's

Initiative for ASEAN Integration (IAI); (2) Asian Development Bank's Greater Mekong Subregional (GMS) Development, and (3) Mekong River Commission (MRC).

The Greater Mekong Subregion (GMS) program, which was launched by six GMS countries in 1992, is a subregional economic cooperation to “enhance their economic relations, building on their shared histories and cultures, covering nine priority sectors: agriculture, energy, environment, human resource development, investment, telecommunications, tourism, transport infrastructure, and transport and trade facilitation” (Asian Development Bank 2011). Since 1992, about US\$11 billion worth of projects have either been completed or being implemented. One very prominent project under the GMS program is the development of economic corridors which would link eventually the countries of the Mekong subregion. China has committed to the development of the North-South economic corridor, which will extend from Kunming, Yunnan, China to Bangkok, Thailand via Laos and Myanmar routes, when it was endorsed for implementation in November 2002. Japan, on the other hand, has committed to the development of the East-West Corridor which will extend eventually from Andaman Sea to Da Nang, Vietnam.

Meanwhile, the Mekong River Commission (MRC) was established in 1995 by Thailand, Cambodia, Laos and Vietnam. Japan is one of the 14 development partners which contributes financial assistance to the projects and activities of the Commission while China and Myanmar are dialogue partners. The mandate of the MRC is to ensure “an economically prosperous, socially just and environmentally sound Mekong River Basin” (Mekong River Commission website 2012). Being the uppermost riparian state of the Mekong river basin, China's role in achieving or obstructing this objective is of primary significance. As China's demand for energy increased, the Chinese government started constructing hydropower stations in the mainstream

of Lancang in the 1990s. Several studies warned of the environmental degradation and potential inter-state conflict that these power stations posed especially to downstream Mekong river basin countries (Go 2004, Roberts n.d.). In 2009, China vehemently denied that its hydropower stations in Yunnan were the main cause of unusually low water level in downstream Mekong, and that its government “pays equal attention to the development of the Mekong and its protection” (Ma 2009). The issue prompted Chinese officials headed by Vice Foreign Minister Song Tao to attend the first MRC Summit held in Hua Hin, Thailand on April 5, 2010 to strongly reject accusations that its dams in Lancang were the main cause of low water level in lower reaches of the river and to put the blame on climate change.

Aside from bilateral economic cooperation with CLMV and participation/contribution to GMS and MRC, Japan is also active in other development cooperation schemes with CLMV. These include participation in (1) the Ayeyawady-Chao Phraya Mekong Economic Cooperation Strategy (ACMECS), proposed by then Thai Prime Minister Thaksin Shinawatra in 2003. ACMECS outlines Thais’ economic cooperation programs with CLMV under the South-South Cooperation modality; (2) The ASEAN-METI Economic and Industrial Cooperation Committee (AMEICC), established in 1998 which assists in the enhancement of ASEAN’s competitive potential, promotion of industrial cooperation and provision of support for its new members, and (3) JICA-ASEAN Regional Cooperation Meeting (JARCOM) which ‘is a needs-oriented project formulation support mechanism to promote South-South Cooperation among ASEAN countries under the technical cooperation framework of Japan International Cooperation Agency (JICA).’

4.3 China's Aid Strategies

China's post-cold war aid strategy in Southeast Asia⁸ must be viewed in the context of their relations from a broader historical context. In the 1950s and 60s, China's external assistance to Southeast Asia was driven primarily by political and security concerns. Material assistance was provided to support independence movements and local communist insurgents in Southeast Asia. With the demise of cold war bipolarity, the emergence of a more stable environment in the region by 1990s, and China's goal of modernization, an aid strategy that puts less emphasis on ideology and more on pragmatism was subsequently developed. I would argue in this section that China's aid strategy to Southeast Asia is driven primarily by its historical 'connection' with each country and China's growing demand for resource inputs. The former constitutes the diplomatic and strategic goal of Chinese aid as an instrument of economic diplomacy while the latter represents the commercial goal behind aid. The two represents what Okano-Heijmans (2012, p. 342) call the power play end, which brings about the political goals of foreign policy, and business end, which represents commercial objectives that advance national interests, of economic diplomacy. The emphasis on historical connection helps us understand why Chinese assistance was effectively influential in Cambodia but not so much in the Philippines.

For this purpose, historical connection shall pertain to China-Southeast Asian country's historical patterns of relationships. Wang (2006) maintains that China has a divided perception of Southeast Asia. In contrast to maritime countries of Brunei, Indonesia, Malaysia, and the Philippines, the mainland countries have longer patterns of relationship and share strong cultural affinity with China. The cultural connection has long been gone since Islamization and Christianity (in the case of the Philippines) made their way into the Malay world in 13th and 16th

⁸ The term Southeast Asia is used interchangeably with ASEAN in this section. Strictly, ASEAN pertains to the Association of ten Southeast Asian countries while Southeast Asia refers to the region consisting of eleven countries (Timor-Leste as the 11th country).

centuries. Thus, Wang (2006, p. 196) adds, “In its bilateral relations, China has worked hard to respond to the varying needs and expectations of each of these states.” On the contrary, Lu (2010, p. 123-24) notes that in the case of Myanmar (Burma) and Cambodia, their relations with China date back to 2000 years. Myanmar was one of the first few countries that recognized China in 1949 and one of the first to peacefully resolved border issues with China in 1960. China provided refuge to King Sihanouk in the 1970s when Cambodia was invaded by Vietnam. He also notes that China and Laos have peacefully coexisted since ancient times and that China provided material support to the anti-U.S. group, Lao Patriotic Front during the cold war days.

Lu (2010, pp. 128-30) divides China-ASEAN post-cold war relations into three. The period between 1991 and 1996 was the era of putting in place a comprehensive dialogue framework. The period from 1997 to 2002 marked the beginning of increased regional cooperation and mutual trust. While the third phase, from 2003 to present, is the era of consolidation and developing strategic partnership. Seeking to gain the trust of its neighbors following the political confrontation with the Philippines over the Mischief Reef in 1994/95, China launched its Good Neighborliness policy in 1997 as a Joint Statement by President Jiang Zemin and leaders of ASEAN. This ‘friendly’ gesture was subsequently reinforced by other signs of goodwill such as China’s decision not to devalue the renminbi during the Asian financial crisis and participation in the regional currency swaps under the Chiang Mai Initiative. In 1999, the Go Global policy was launched to encourage Chinese enterprises to invest overseas and to secure petroleum exploration and supply agreements (Cheng 2012). During the third phase, China signed several cultural, political, security, trade, and investment cooperation with ASEAN as a group. In October 2003, China and ASEAN signed the Joint Declaration on Strategic Partnership and Prosperity during the seventh ASEAN-China Summit. At the same time, China

was also acceded to the Treaty of Amity and Cooperation (TAC), the first among ASEAN's dialogue partner. China has since engaged ASEAN through summits, ministerial meetings, senior officials and experts meetings, as well as through ASEAN-initiated regional architecture like ASEAN plus Three (APT), ASEAN Regional Forum (ARF), the East Asia Summit (EAS) and ASEAN Defense Ministers Meeting Plus (ADMM Plus). These bilateral and multilateral engagements are crucial to overall goal of building a peaceful external environment needed to sustain China's continued economic growth. Bui Truong (2010, p. 170) summarized China's rationales in seeking proactive engagement with ASEAN in general:

- (1) Facilitate a more peaceful regional security environment critical to China's continued economic rise,
- (2) Reduce risks from globalization after accession to WTO,
- (3) Allay the China threat perception,
- (4) Assist in implementing China's Western Development Strategy, and
- (5) Demonstrate China's regional leadership ability.

Hence, China's economic activities, including aid, in Southeast Asia have to be viewed in the context of historical connection and most importantly, China's Great Western Development⁹ strategy that was launched in 1999 in order to address the growing regional development disparity across the nation. The western region has lagged behind central and eastern regions ever since the national economy was opened up in 1978. Following the launching of the strategy, the support of the central government increased and has become more comprehensive (Onishi 2001). Due to proximity of mainland Southeast Asian countries (that is, those located in the Mekong region), China's economic diplomacy with these countries was aligned in realizing the

⁹ China's western region consists of Chongqing, Sichuan, Guizhou, Yunnan, Tibet, Shaanxi, Gansu, Qinghai, Ningxia, and Xinjiang

goals of Great Western Development. Zha (2002 quoted in Bui Truong 2010, p. 168) maintains that one reason why China agreed to form the ASEAN-China Free Trade Agreement (ACFTA) was due to its potential to “assist China in materializing the Western Development strategy, particularly for increasing cross-border trade of the four land-locked provinces of Yunnan, Guangxi, Sichuan, and Guizhou with Laos, Myanmar and Vietnam”.

4.3.1 Aid Strategy through Attraction

China has made use of both bilateral and multilateral approaches that is, aid as a government to government agreement and participation in regional development framework such as through Asian Development Bank (ADB) and ASEAN. In order to pursue successfully the objectives of foreign policy, a strategy of making Chinese aid attractive to recipients, deliberately or unintentionally, has been followed. For example, the incorporation of Five Principles of Peaceful Co-existence and the Eight Principles of Chinese Aid, which both emphasize non-interference (as justification for its ‘no-strings attached’ aid), equality, independent national development, and mutual benefit, contain ideals that many Third World countries value with great importance. By classifying its aid under the South-South cooperation modality and by asserting China’s current status as a developing country like them, China appears to solidify its affinity with developing countries. China also provides a more concessional aid in the form of interest-free loans; spends on tangible projects, usually public facilities of symbolic national importance to recipients (Lum, Fischer, Gomez-Granger and Leland 2009; Kobayashi 2008); emphasizes ‘friendship’ and ‘low profit’ in its contracted projects (Zhu 2010); and offers a more favorable, non-traditional terms of repayment like the commodity-for-aid financing scheme introduced in Angola (Davies 2010). These features

prompted Lum, et al. (2009, p. 4) to claim that China's aid and other economic activities "garnered appreciation disproportionate to their size".

To achieve the ultimate end of contributing to national development, aid activities have been aligned to assist SOEs in their business activities overseas and in securing essential materials for China (Zhu 2010; Saunders 2006). The practice of linking aid, trade and investment has also become more pronounced beginning in the 1990s. In consideration of its Western Development Strategy and historical connection, the geographical focus of Chinese aid should logically be the countries of Cambodia, Laos, and Myanmar while its priority sector is economic infrastructure. In Southeast Asia, Chinese aid was appropriated for infrastructure development, particularly, the construction of hydropower stations, roads and highways, bridges, public facilities in Mekong countries (Zhu 2010, 2008) and elsewhere in the region. China's interest to contribute more in the construction of hard infrastructure in the countries of Cambodia, Laos, Myanmar and Vietnam is reflected in the last country report provided by its National Development and Reform Commission (NDRC) and from the briefing report it presented to the 10th Ministerial Meeting of the ASEAN-Mekong Basin Development Cooperation (AMBDC) in 2008.

4.3.2 Aid Strategy through Involvement in GMS Cooperation

Apart from bilateral approach, China has also been involved in the development of the Mekong sub-region by providing aid through multilateral channels like the Greater Mekong Sub-region Cooperation (GMS) of the Asian Development Bank and ASEAN-Mekong Basin Development Cooperation (AMBDC). The ASEAN-initiated AMBDC was established in 1996 while the GMS was launched in 1992 to enhance the economic relations of Mekong basin

countries through cooperation in nine priority sectors including agriculture, energy, environment, human resource development, investment, telecommunications, tourism, transport infrastructure, and transport and trade facilitation” (Asian Development Bank 2011). Together, they constitute the cooperation development frameworks in the Mekong sub-region. Several prominent Chinese political figures like Mr. Qiao Shi in 1993, Vice Premier Jiang Chungyun in 1996, then President Jiang Zemin when he signed the joint statement on ‘Good Neighborliness’ with ASEAN leaders in 1999, Premier Zhu Rongji during the fourth China-ASEAN Summit, and Premier Wen Jiabao during the second Summit of the GMS in Kunming in 2005 had encouraged China’s active participation in the GMS framework of ADB. The Chinese government also hosted ministerial and summit meetings with other Mekong countries under the two frameworks.

As of 2008 under the AMBDC framework, China had been actively involved in five key sectors — transportation, energy and power, human resource, health, and rural development (NDRC briefing 2008). In the report, China expressed interest in the construction of Singapore-Kunming Rail Link (SKRL) and provided funds of about 20 million RMB for the conduct of a feasibility study on the eastern route of SKRL which would connect Bat Deng and Loc Ninh. Chinese government also incorporated the SKRL projects to its Mid- and Long-Term Railway Network Plan (NDRC briefing 2008). In the power sector, more feasibility studies were carried out to improve regional power grid interconnection, power transmission and distribution. China also pledged to offer more scholarships for GMS countries to study in its western region and expressed its interest to broaden cooperation in the health sector between China and ASEAN, particularly on cross-border contagious disease prevention and control. It also unveiled its plan of constructing 1500 rural household bio gas-generating pits for its ASEAN neighbors. Moreover, the NDRC Country Report of 2008 highlighted China’s efforts in connecting its western region,

particularly Yunnan and Guangxi, to Southeast Asian Mekong basin countries by supporting financially the construction of North-South corridors and highways under the GMS cooperation.

4.4 Japanese and Chinese Aid to Southeast Asia

First of all, the usual caveat that applies to the study of Chinese aid also applies in this section. Due to very limited primary sources on Chinese aid, I have to rely on both primary and, to a greater extent, secondary sources for data. The primary sources include the 2011 publication of the Information Office of State Council of China on China's aid, China Statistical Yearbook when available, and data from website of China's Ministry of Commerce and China Export-Import Bank. Secondary sources of Chinese aid are mostly Japanese sources including publications from JICA, IDE-JETRO, and various academic publications of Japanese scholars. Data for Japanese aid are conveniently available from Ministry of Foreign Affairs' White Paper and JICA Annual Reports.

In terms of volume, the total amount of Japanese aid is almost thrice as large as Chinese aid in 2009. Kobayashi and Shimomura (2013) estimate the volume of Chinese aid to be around US5 billion dollars while Japanese aid allotted in the same year was about US14.8 billion dollars. A comparative overview of how their aid was appropriated is provided in table 9 below. China's foreign aid is concentrated mainly on less developed members of ASEAN, namely, the Mekong countries of Cambodia, Laos, Myanmar, Vietnam and less advanced maritime countries of Indonesia and the Philippines. Figure 10 below, on the contrary, reveals that Japan had consistently disbursed huge amount of loans to the three most populous states within ASEAN, Indonesia, the Philippines and Vietnam, while Cambodia and Vietnam received considerable amount of grants and technical assistance in the period shown. Table 9 also indicates that China

is a major donor to both Myanmar and Cambodia. While Japan's ODA to Cambodia was focused more on grant programs, China's aid was largely in the form of loans (interest-free and concessional).

Table 9: Chinese and Japanese aid to selected ASEAN countries, (various years in US dollars)

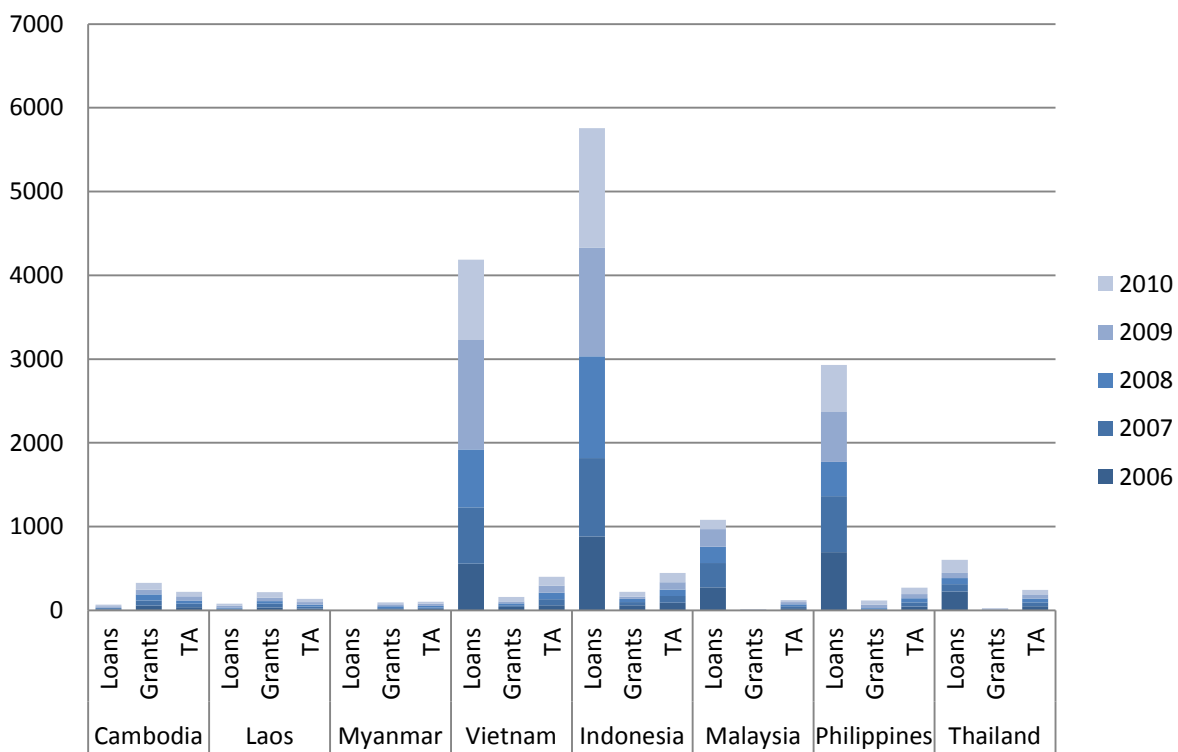
	China	Japan
Cambodia:		
Grants (2000-09)	204.41 million ⁺	1018.7 million (includes Technical Assistance)
Interest-free loans (2009)	74.80 million ⁺	None
Concessional loans (2000-08)	500.00 million ⁺	60.81 million (ODA loans)
Laos:		
FY2000-08	123.47 million [^]	768.44 million
Myanmar:		
FY2000	186.70 million [*]	51.78 million
FY2005	289.80 million [*]	25.49 million
Vietnam:		
FY2000	87.50 million [*]	923.67 million
FY2005	299.20 million [*]	602.66 million
Indonesia		
FY2005	534.60 million [*]	1223.13 million
Philippines:		
CY2008 (Jan.-Dec)	1110.00 million [#]	470.68 million

Sources: ^{*}Kobayashi (2008); ⁺Chap (2010); [^]Syviengxay (2010); [#]National Economic and Development Authority, Philippines (NEDA) (2008); Figures for Japanese aid are cumulative consisting of grants, technical assistance and loans for each year, compiled by the author from various edition of ODA White Paper

China's historical connection with CLMV as well as its interest to successfully develop its western region as discussed above provides implicit reasons for Chinese aid appropriation in those countries. Nonetheless, the case of the maritime countries (the Philippines and Indonesia) requires further elaboration. It can be argued that at least in these two cases, Chinese aid carried explicit strategic/diplomatic and commercial/economic goals. China's aid strategy was part of a broader effort to improve bilateral ties with both countries following years of hostility and suspicion in the past. China's support for local communist insurgents in Southeast Asia in the 1950s/60s had left a legacy of distrust in Indonesia during the Suharto era and in the Philippines

when the Maoist-based Communist Party of the Philippines (CPP) was formed in 1968. Unresolved territorial disputes between China and the Philippines had occasionally led to severed bilateral relations. Table 9 indicates that, for a while, the Philippines seemed to be the largest beneficiary of Chinese aid in the region. While difficulties in their bilateral relations remain, economic interdependence has progressed. In 2011, China is the third largest trading partner of the Philippines after the United States and Japan with trade volume amounting to US 12.3 billion dollars (NSCB website). Many cooperation deals were also signed after 1999 especially in agriculture sector.

Figure 14: Japan’s ODA to selected ASEAN members (2006-10 in US\$ million)



Source: Compiled by the author from various issue of Japan’s ODA White Paper

Since 2000s, China has offered financial assistance in various forms to the Philippines from humanitarian aid for typhoon victims to grants and concessional loans. A number of projects funded supposedly by loans from China were monumental including the US 329.5

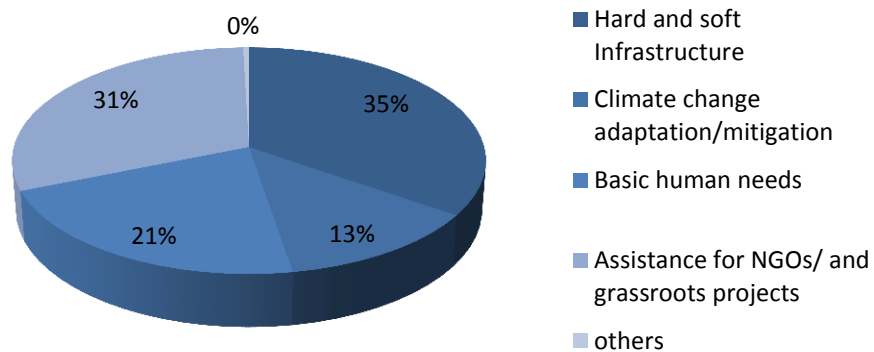
million dollars allotted for Philippine National Broadband Network (NBN) project and the US 400 million dollars, which represented the first tranche of loans to finance the North Rail project. But while Chinese economic cooperation helped to cement ties with Cambodia, as a form of China's regional 'charm offensive' it failed in the Philippines. Instead, the two Chinese flagships in the Philippines were mired with controversy which culminated to the filing of three graft cases against former president Gloria Macapagal-Arroyo. Moreover, China's increasingly aggressive stance toward the South China/ West Philippine Sea has been viewed widely among Filipinos as 'creeping invasion' of the Philippine sovereignty.

In stark contrast, although concentrated largely in Vietnam, Japanese aid to Mekong-basin countries from 2006 to 2010 was more balanced, when counted in terms of number of cases/projects rather than by volume, and reflected the interests of all stakeholders in the region. Figure 11 below indicates that, during this period, Japan gave high importance to international aid agenda in its ODA allocation to CLMV. Of the 228 cases, support for projects related to climate change adaptation/mitigation and basic human needs collectively represented 34 percent of the total. This is almost comparable to the sector that traditionally received high priority in Japanese aid, infrastructure, at 35 percent. The JICA Annual Report of 2012 (p. 29-30) declares that social and economic structure would remain the top priority of Japanese ODA to Cambodia as the country seeks to integrate itself to ASEAN. For Laos, "JICA's aid approach is centered on support for the achievement of the MDGs and for building a foundation for economic growth that will be a driving force for the country's self-reliant and sustainable growth" (p. 30).

In light of the on-going political and economic reforms in Myanmar, Japanese ODA would be used to support the reform efforts of its government and to enlarge the scope of Japan's aid programs while continuing the existing priorities on supporting basic human needs. The

sectors under consideration for inclusion are health, agriculture and economic infrastructure (JICA Annual Report 2012, p. 30). In the case of Vietnam, JICA maintains that Japan's ODA would be used to support the country's goal of improving national competitiveness and support for the creation of strategic industry. Vietnam is also the only country among CLMV to receive ODA under the PPP scheme for its Lach Huyen Port Infrastructure Construction Project and the first to receive ODA loan for satellite procurement (p. 30).

Figure 15: Japanese Aid to CLMV by Priority Sector (project-based, 2006-10)



Notes: hard and soft infrastructure includes scholarship grants; Climate change mitigation includes flood-mitigation related projects; Basic human needs include MDG targets. Source: Compiled by the author from MoFA data, excludes technical cooperation projects.

Chapter 5

Some Policy Implications and Conclusion

5.1 Implications to Japan' Aid

Although some JICA staffs are more interested in developing aid cooperation with China, it is notably evident that Japan's aid strategy has responded to China's rise as a non-DAC donor. Although not articulated as the 'official' response, there is an on-going formulation of an aid strategy in Japan that seeks to strategically differentiate Japanese aid to Chinese aid in terms of value orientation, modality, and process and to enhance Japan's competitiveness in the light of China's cheaper economic assistance. The ODA Review Final Report (2010, p. 3) released by Japan's Ministry of Foreign Affairs emphasized that the increasing competition from emerging countries (including China, though not specified) and increasing competition for markets and resources have eroded Japan's international presence. The Report also mentioned that the domestic situation in Japan was not favorable to ODA expansion. Hence, it was recommended that ODA allotments from 2010 should be more 'strategic and effective'.

5.1.1 Emphasis on 'green aid'

The launching of the Green Mekong Initiative and the Green Innovation incorporated in the New Growth Strategy gives credence to Tokyo's image as promoter of environmental sustainability in stark contrast to Chinese firms that evade environmental compliance to achieve maximum profitability. China faces gargantuan tasks of reducing carbon emissions and other pollutants from industries, vehicles and households.

5.1.2 Value-oriented aid strategy

The emphasis on value-oriented diplomacy, first introduced by Taro Aso in 2006, clearly capitalizes on universal values such as human rights, democracy and rule of law where China has difficulty realizing.

5.1.3 Comprehensive new scheme that combines loan, grants, and technical cooperation

The intense competition that DAC and multilateral aid face from Chinese aid especially over contracts for infrastructure projects in developing countries has led some donors, like Japan, to focus on quality and ‘value for money’, which includes use of superior technology and high-grade materials, as selling point. Against this backdrop, in Japan, the New Growth Strategy recommended a ‘package of infrastructure-related system export’ or the “strategy to expand Japan’s overseas involvement in the infrastructure field that is based on public-private sector collaboration” (JICA Annual Report 2011, p. 11) was launched in 2010. Japan also promotes the deployment of integrated infrastructure systems which combines hard and soft infrastructure and mixes loans, grants and technical cooperation.

5.1.4 Adoption of ‘triangular cooperation’ or Japan’s version of South-South cooperation

Coincidental or not to China’s rise as South-South development partner, Japan’s own version of South-South Cooperation, the so-called Triangular Cooperation, has come to the fore recently as one of JICA’s aid strategy under its Partnership Program (JICA News from the Field 2010). South-South cooperation pertains to ‘sharing of resources, technology, and knowledge between developing nations’. As of November 2009, JICA reported that it has concluded Partnership Programs with twelve countries: Singapore, Thailand, Egypt, Tunisia, Chile, Brazil, Argentina, Philippines, Morocco, Mexico, Indonesia and Jordan.

5.1.5 More favorable terms and conditions for Japanese ODA

In part, developing countries were attracted to borrow from Chinese aid due to its more favorable terms and conditions. Apart from grants and concessional loans, China offers interest-

free loans which can be used as infrastructure finance. In fiscal 2006, the Government of Japan introduced the Minimal Interest Rate Initiative (MIRAI) for low-income countries which offers nearly zero percent interest rate (at 0.01 percent). MIRAI is intended for the most impoverished countries in Africa, where Chinese aid is geographically concentrated.

5.1.6 Improving the ODA process

It was observed in one study that Chinese assistance “are often made available relatively quickly and easily without the political, economic, social, and environmental conditions and safeguards and bureaucratic procedures that major OECD aid donors, multilateral financial institutions, and multinational corporations typically impose” (Lum, et al. 2009, p. 4). An interview with a researcher from JICA Research Institute reveals that there is a need to shorten the ODA process from conception to implementation due to some complaints about the long period it takes (Shiga 2012 interview).

5.1.7 Establishment of ‘Pro-Japan’ Group

Japan’s aid differentiation strategy is evident in its recent plurilateral diplomacy with Mekong countries in the new millennium. Plurilateralism¹⁰ refers to a small group of select countries that cooperate to address specific issues. Since 2004, the Japanese government has sought ways to engage the Mekong countries collectively in a more straightforward manner. The ODA White Paper justifies that such engagements and their subsequent institutionalization were aimed at enhancing Japan’s efforts to contribute more effectively to ASEAN integration by addressing the development gap between its members. Except for Thailand and Vietnam, the economic significance of CLM to Japan’s economic interest in Southeast Asia is much less evident. A BRC Research Report (2010) showed that in 2008 China was the largest trading partner for CLV while Japan came in third behind South Korea. Japan is neither the largest

¹⁰ Some scholars like Bayne (2010, p. 205) add a qualifier, ‘like-minded states’ to the definition.

investor in CLMV. The same report showed that the accumulated Japanese FDI inflow from 1995 to 2008 to Cambodia was nil at 0.6 percent of the total while that of China was 24.5 percent. For Laos, Japan's accumulated FDI inflow from 2001 to March 2009 was 4.4 percent compared to China's 15 percent. Thailand is the largest investor in the country with 34.3 percent of total investments. It is only in Vietnam where Japanese FDI inflow is significant. Up to October 2009, Japan's accumulated FDI inflow to Vietnam was 10.2 percent of the total compared to the 12.2 percent of total investments from its largest investor, Taiwan.

Thus, it can be said that Japan's economic cooperation with CLMV has more strategic and diplomatic relevance. As one MOFA official admits, Japan's Mekong strategy is intended to establish a 'pro-Japan' group in the Southeast Asian region (Kuroishi 2012, Interview).

5.2 Implications to International Aid Community

Cheng (2012, pp. 24-26) admits that Chinese aid deviates from DAC-accepted principles of aid giving in four counts — deviation from conditionality, untying, debt sustainability, and transparency. This set of aberration has put Chinese aid as well as those from other emerging donors in the limelight of debate within international aid community recently (see Woods 2008; Reisen 2007; Manning 2006). While there is so much to improve on the quality and effectiveness of non-DAC donors, there are major concerns that DAC donors have to reconsider too:

5.2.1 Economic or social infrastructure, which should be aid's top priority?

Non-DAC donors like China, Brazil and India ARE developing countries. As such, aid strategies would be shaped logically by their desire to develop economically. This explains why 'win-win' and 'mutual benefits' typically underpin their aid 'philosophy'. Western donors should understand that ordinary citizens from developing countries usually look for tangible outcomes

(for example, bridges, irrigation system, railways, roads, and other infrastructure development that many people from advanced countries have taken for granted because these have existed since many of them were born) as ‘measure’ of the country’s economic success even though this manner of assessment is, at best, fallacious. Since politicians in developing countries are interested to show tangible results to the public for whatever purposes they may serve them, they will naturally seek foreign aid to finance infrastructure projects. The point here is that, DAC donors should reconsider giving priority to economic infrastructure in their aid appropriation in an equal manner that they assign for social infrastructure. DAC can help recipients identify which economic infrastructure will give the maximum benefit to their development effort.

5.2.2 There is complementarity between DAC and non-DAC donors

China’s focus on economic infrastructure complements DAC donors’ emphasis on social and administrative infrastructure. The rise of non-DAC donors provides more choices to developing countries in securing much-needed capital for national development.

5.2.3 High-level clarity of aid’s development purpose

Perhaps the strongest neoliberal argument against aid effectiveness is that since it consists of public funds, aid is inherently political (Economides 2002, p. 130). As such, the strategic/diplomatic goal of aid takes precedence over its developmental purpose. And as Bearce and Tirone (2010) found in their study, foreign aid effectively promotes economic reform and, thereby, economic growth when “strategic benefits associated with providing aid are small for donor governments”. It is therefore imperative that donors (both DAC and non-DAC) to define

clearly the development purposes of their foreign assistance in the highest political level as possible. As emphasized in an OECD Report (2008), one way to do this was through legislation.

5.2.4 Develop more favorable terms of repayment

Least Developed Countries (LDCs) borrow because they are strapped of cash. Other donors should take China's commodity-for-infrastructure scheme introduced in Angola as a challenge to develop more favorable (and maybe innovative) terms of debt repayments.

5.3 Conclusion

The study found that the aid policy of two major Asian donors, Japan and China, were shaped by changes in domestic institutions and fashioned by international exigencies. As a mature economic power, Japan's ODA was characterized by innovation to effectively pursue (1) the international aid agenda defined in the context of UN MDGs, (2) rejuvenation of industries and Japanese businesses as part of New Growth Strategy to address the stagnant economy, and (3) the strategic goal of limiting China's growing influence in the region.

Amidst declining Japanese ODA budget and deteriorating public support for continuing its aid programs, a new ODA charter was adopted in 2003; new development goals reflecting the new broader perspective on development such as poverty reduction, education, addressing human security and environment sustainability issues were highlighted. The implementation of ODA projects was also transferred to a new JICA in 2008 while inter-bureaucratic rivalry over ODA policy ended when MOFA was finally designated under the ODA reform as the main agency in-charge of ODA policymaking. These changes have led to increased grant allocation for social infrastructure, climate change mitigation/adaptation, support for rule of law, and democratization in Southeast Asia particularly CLMV recently.

On the other hand, the brief quote from Chen Yongcai in the opening part of chapter 3 summarizes quite succinctly what the foreign aid policy of a rising Asian economic power is like: (1) gaining new friends/allies while maintaining old ones, (2) enhancing its international reputation, and (3) serving the goals of economic development. China's experience as an aid donor is indeed long. As an instrument of economic diplomacy, its aid disbursement patterns underwent transformation from advancing political and security concerns to serving a mixture of diplomatic, strategic and economic intents.

The volume of Chinese aid has increased dramatically annually since 1992. The gap in the amount of aid between some members of DAC and China is closing. However, if compared to a major donor, for example, Japanese aid, whose volume was around US14.8 billion dollars in 2009, Chinese aid is still small. Nonetheless, it was much more appreciated by many recipients as Lum, et al. (2009) claimed because it does not carry any political conditionality, is cheaper, and is spent in a hugely in-demand sector in many developing countries – infrastructure. Two, Africa is a geographical priority. China has allotted funds in several sub-Saharan African countries which would not qualify to receive assistance, much more loans from DAC donors due to human rights record, debt sustainability issues and the likes and finally, economic infrastructure is the top priority sector.

For ASEAN, Chinese and Japanese economic aid to CLMV is necessary in order to achieve the goal of rectifying the economic disparity between ASEAN members. This goal is important to ASEAN integration and a good opportunity for ASEAN to engage both Asian donors constructively for the development of the sub-region and the Southeast Asian region as a whole.

More specifically, for China, foreign aid to Mekong countries also serves its Western Development strategy, particularly the provinces of Yunnan and Guangxi. As such, the political and economic stability of CLMV is advantageous to China and its expanding economy. This is manifested by China's emphasis on energy sector, specifically hydropower stations and infrastructural projects which would link Yunnan to the countries south. The diplomatic goal of China's broad economic cooperation with CLMV is intended to demonstrate its policy of 'good neighborliness'. For China, it is an opportunity to demonstrate its long-term benign intentions to the region. Economic cooperation is also a way to allay the 'China threat perception'. Nonetheless, with increasing assertiveness in the South China/West Philippine Sea, China's relations with maritime countries like the Philippines has went down to an all-time low.

For Japan, economic cooperation with CLMV is a demonstration of its desire to remain relevant by supporting ASEAN goals and aspirations in the belief that, in the long run, political and economic stability of the region is beneficial to Japan. However, Japan has to take into account China's growing political and economic clout in the region in its Southeast Asia/ASEAN policy. To some extent, Japan's development assistance to CLMV is intended to prevent these countries from relying too much on China's economic assistance.

Japan is still undisputedly the largest source of foreign aid to Southeast Asia including CLMV although it was observed that China's foreign aid has also expanded. Japan's ODA is highly concentrated in Vietnam while Chinese aid is more concentrated in Cambodia, Myanmar and Vietnam. A huge proportion of Chinese aids were spent for hard infrastructure so was Japanese aid to Vietnam while aids to CLM were mostly in the form of grant which were used for the development of both hard and soft infrastructures. It should be noted that China's aid to CLMV was tied to Chinese contractors under the FCEC scheme. As such, Chinese aid also

serves China's economic expansion and growth. On the other hand, Japanese aid has 94.8 percent untied since 2008. The diplomatic goal of Chinese aid to the Philippines was as important as serving China's economic growth. For a while, the Philippines was the largest recipient of Chinese assistance in Southeast Asia, with around US 1.1 billion dollars in loan assistance in 2008 alone. Some projects were of symbolic significance such as the rehabilitation and expansion of the only Philippine railway or the North Rail Project and expansion of the national government's broadband network or the ZTE-NBN Broadband Project. Both were suspended on the basis of alleged unscrupulous awarding of contracts to Chinese firms and reescalation of territorial disputes once more.

Both countries have resorted to high-level meetings and summitries to engaged Southeast Asian countries either collectively as a regional group or plurilaterally. In its efforts to strengthen ties with CLMV in a more straightforward way, Japan has employed a 'plurilateral' strategy by institutionalizing the Japan-CLV foreign ministers' meeting and Japan-Mekong Region Partnership. In so doing, Japan hopes to shape development efforts in CLV based on its own preferences and outside the IAI, ASEAN and GMS frameworks.

The resource and market-seeking types of economic cooperation of China is represented by the economy's continuing growth and expansion that is reflected in "Go Global" policy, prominence of Chinese contractors and suppliers in its economic aid, and huge investments in CLMV's primary and energy sectors. Meanwhile, the innovativeness in Japan's economic cooperation with CLMV is demonstrated in its emphasis on "Green Mekong" initiative, absorption of CLMV's export products, emphasis on sustainable development, initiatives from AMEICC, and promotion of "common values". Moreover, domestic factors such as public debts, strong yen, issue of financial and pension reforms, and rehabilitation of Tohoku region after the

March 11 disaster may cause Japanese policymakers to scale down further on its financial assistance not just to CLMV but to other countries and regions as well.

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