

# Formation and Development of Japanese Development Aid Policies, 1954–1971

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## 1. Introduction

The history of Japanese development aid began with its participation in the Colombo Plan in 1954, and in the same year, Japan started providing technical assistance as reparations to Southeast Asian countries. Japan has increased its development aid rapidly since the 1970s and became one of the world's eminent donor countries by the 1990s. Japan's development assistance can be summarized in the following four points.

### 1) Emphasis on Southeast Asia

Japan's aid is concentrated in the Asian region. The percentage of aid to Southeast Asian countries in particular has been high since the 1960s. This reflects the fact that Japan's aid policy began with reparations to Southeast Asian countries and the fact that Japan has had strong economic ties to the region since before World War II.

### 2) Request-based aid and self-help assistance

The second feature of Japan's official development assistance (ODA) is that it is based on a policy of "self-help support" for developing countries. In other words, aid is based on requests from developing countries, and aid implementing agencies review and support them.

### 3) Relationship with the business world

Although Japan's development aid was "request-based," the Japanese business community has played a major role in its practice. Since Japan's post-war reparations began with technical assistance and infrastructure support, governmental aid and the activities of Japanese companies have been closely linked. In particular, the heavy and export goods industries have been strongly linked to aid.

### 4) The "four-ministry system"

The fourth characteristic of Japan's aid policy is that there was no single ministry or agency within the government that could formulate a comprehensive aid policy, and each ministry provided development assistance according to its own purpose. The Ministry of Foreign Affairs (MOFA) pursued diplomatic interests, the Ministry of International Trade and Industry (MITI) pursued economic interests, the Ministry of Finance (MOF) worked to expand exports, and the Economic Planning Agency (EPA) coordinated a broad strategy for economic and social

development, forming a “Big Four” in aid policy, each of which had its own implementing agency.

How did these features of Japanese development aid policy develop? What factors influenced decisions regarding Japan's development assistance policy? This paper examines the formation and development of Japan's development policy from the late 1950s to the early 1970s, when Japan emerged as a donor nation, from the perspective of its relationship with and responses to the domestic economy, Cold War diplomacy, and North-South issues.

## 2. Development Assistance as a Tool for Japan's Industrial Expansion

With the signing of the San Francisco Peace Treaty in 1951, Japan regained its independence the following year. While diplomatic relations with China were still not restored, Japan's relations with Asian countries began with post-war reparation negotiations with Southeast Asian countries. Although negotiations over the amount of reparations were difficult, agreements were reached with Burma in 1954, the Philippines in 1956, Indonesia in 1958, and South Vietnam in 1959. These reparations took the form of goods, such as ships and machinery, and services, such as technical assistance, for economic development projects in each country. Although ostensibly reparations, they were effectively "aid with strings attached" and became the prototype for Japan's development assistance. The Export Bank of Japan was established in 1950 with the aim of promoting Japanese exports. In 1952, it was reorganized as the Export-Import Bank of Japan and began providing export credit for Japanese industrial exports to developing countries.

Thus, Japan's development assistance policy was clearly aimed at promoting Japanese exports and developing its heavy industries, such as the plant engineering industry. Japan also aimed to import resources from Southeast Asian countries, and Japan's "economic cooperation" was inextricably linked to the promotion of Japanese exports and the securing of import markets (Sato, 2012, p.99).

In 1957, Nobusuke Kishi, who became prime minister in the same year, visited Southeast Asia and promoted cooperation between Japan and the non-communist countries of Asia. In 1959, the Liberal Democratic Party (LDP) established a special committee on external economic development in the Policy Research Council, and its chairman Hisato Ichimada, ex-president of the Bank of Japan and ex-Minister of Finance, visited Southeast Asia. In December, the Policy Research Council of the LDP recommended in the policy document “Strengthening Implementation and Promotion Measures for External Economic Cooperation” that a council should be established to focus on development aid.<sup>1)</sup> In April 1960, a bill was enacted to establish the External Development Cooperation Council (*Taigai Keizai Kyoryoku Shingikai*) under the Prime Minister's Office.

After the resignation of Prime Minister Kishi as a result of the political turmoil ensuing from the Japan-US Security Treaty, Hayato Ikeda's cabinet issued a decree promulgating the specific purpose of the External Development Cooperation Council. It was chaired by Prime Minister Ikeda and attended by the Minister of Foreign Affairs, the Minister of Finance, the Minister of Agriculture and Forestry, the Minister of International Trade and Industry, the Minister of Economy, Trade and Industry, the President of the Bank of Japan, the governor of the Export-Import Bank of Japan, the governor of the Overseas Economic Cooperation Fund, and nine experts.<sup>2)</sup> Thus, the Council was largely a consultative body of ministers and ministries focusing on economic cooperation rather than an advisory body.

However, the Council, which was to discuss comprehensive aid policy, faced strong resistance from the ministries and agencies involved, even before the first general meeting. Prior to the meeting, the Cabinet Secretariat of the Prime Minister's Office drafted a set of items for consultation and discussion. The ministries and agencies were consulted on seven items, including "Japan's Basic Policy for Promoting International Economic Cooperation and Diplomacy," "Regional Focus on Economic Cooperation," and "The Scale and Limits of Economic Cooperation from the Perspective of Japan's Economic Power."<sup>3)</sup>

In response to these proposals, MOF expressed a strong objection to pursuing this agenda in the Council, insisting that economic cooperation should be directed by the private sector, and that it was generally undesirable for the government to offer loans. If this was pursued, only conditional loans should be given, the targeted area should be limited to Southeast Asia, the relationship to other regions should be governed by international organizations, and government-directed expansion of economic cooperation should be limited to the payment of compensation, the balance of payments, and financial margins.<sup>4)</sup> MITI also opposed expanding economic cooperation through diplomacy, stating that economic cooperation should be investigated with reference to Japan's own industrial development and the international economy.<sup>5)</sup> The first meeting of the Council was held on December 7, 1961, and an inquiry was submitted by Prime Minister Ikeda. At the second general meeting, on December 20, the aid-related ministries and agencies reported on the present status of and problems with economic cooperation. At the third meeting of the Council, held on May 23, 1962, the Cabinet Deliberation Division presented the report "On Japan's Economic Cooperation Measures," which argued that the objectives of Japan's economic cooperation lay in four main areas: securing export markets, ensuring sources of important raw materials, developing closer ties with closely related developing countries, and developing international cooperation. Constraints were imposed on these activities in the form of restrictions on fiscal funding, restrictions on international funding, and constraints on human resources.<sup>6)</sup>

At the third meeting, Ikeda proposed that work on reviewing the scale of external economic cooperation should begin in the near future. However, the ministries and agencies were reluctant to discuss the matter or submit trial calculations to the Council. The fourth meeting of the Council was scheduled to be held in September 1963, and the materials were prepared for that purpose, considering the target amounts of foreign economic cooperation for 1965 based on: the scale of economic cooperation for future promotion relative to past achievements, and the size of economic cooperation necessary to achieve the target value of the export of machine tools and factory buildings to promote heavy industry.<sup>7)</sup> The calculated values were \$950 million and \$966 million, respectively. However, the fourth meeting of the Council, which was scheduled to be held on September 13, was canceled for "urgent reasons" related to Prime Minister Ikeda, and the Council did not meet again.

As described above, Japanese aid policy in the early 1960s was clearly positioned as a means of pursuing Japan's economic interests, including the promotion of exports to Southeast Asia and the development of the domestic industry. At the time, Japan's growing trade deficit was a constraint on economic growth, and increasing exports was an important policy issue. Meanwhile, Japan's membership in the Development Assistance Group (later the OECD Development Assistant Committee) required that Japan expand its aid to less-developed countries as one of the conditions for joining the group of developed countries, but the logic of the domestic economy took precedence over such diplomatic rationales.

### 3. External Pressure on Expanding Japanese Development Aid

In the latter half of the 1960s, the international environment surrounding Japan's foreign aid changed significantly, and the government requested new measures. The first change was the activation of international efforts on development aid. In 1964, the first United Nations Conference on Trade and Development (UNCTAD) adopted a resolution stating that industrialized countries should allocate 1% of national income to aid, in order to solve the North-South problem. The DAC also approved the UNCTAD resolution and recommended that member countries should at an early stage achieve a 1% aid ratio and achieve an official government aid ratio of 0.7% of GNP. Japan, as a developed country which had been a member since the foundation of the DAC and joined the OECD in 1964, was asked to respond to such requests for expansion of development aid.

The second change was the request for expansion of aid from the United States, which was suffering from a fiscal deficit caused by the Vietnam War and the balance of payments problem. At meetings of the U.S.-Japan Joint Committee on Trade and Economic Affairs, which were held every year starting in 1961, development aid was an agenda item from the first meeting and the U.S. government asked Japan to actively respond to calls for development aid. In February 1965, the U.S. military began bombing North Vietnam, and in April 1965 President Johnson delivered his "Baltimore Address" in which he pledged \$1 billion for economic development in Southeast Asia. The U.S. government was hoping that Japan would join them in expanding economic cooperation in Southeast Asia, and the Ministry of Foreign Affairs in Japan considered an "Asian Peace Plan" of \$500 million, but Prime Minister Sato rejected this proposal for financial reasons (Takahashi, 2018, pp.110-111). At the Fourth Japan-US Joint Committee meeting in July 1965, the issue of aid became the most important agenda, and the U.S. government strongly urged more aid be provided to Asian countries. In addition, President Johnson himself urged Prime Minister Sato and Finance Minister Fukuda to make a concrete contribution to ensuring Japan's peace and stability in Asia (Takahashi, 2018, pp.121-122).

As a result, Japan became more aggressive in its stance on development assistance to Southeast Asian countries. The result was the 1966 Ministerial Conference for Economic Development in Southeast Asia and the establishment of the Asian Development Bank in the same year. The Ministerial Conference for Southeast Asian Economic Development was held in Tokyo on April 6 and 7, 1966, with the participation of Thailand, Malaysia, Singapore, Laos, South Vietnam, and the Philippines, with Indonesia and Cambodia as observers. The conference proposed a regional development agenda that emphasized the importance of developing agriculture and light industry in Southeast Asia, and expressed Japan's readiness to make immediate efforts to direct 1% of its national income to aid for Southeast Asia in order to promote regional cooperation. However, a specific plan for increasing aid was never put forward because of the Finance Ministry's opposition to making it a financial commitment (Hatano & Sato, 2007, pp.155-156).

The idea for the Asian Development Bank was presented at the United Nations Economic Commission for Asia and the Far East (ECAFE), and the decision to launch it was made at the ECAFE Economic Cooperation Ministerial Conference in 1965. Prime Minister Sato announced that he would invest \$200 million in the ADB and \$100 million in a special fund for underdeveloped countries, but the Ministry of Finance, which was in charge of the Asian Development Bank, consistently insisted on maintaining the bank's soundness and lending on a commercial basis based on the principle of self-help (Hatano & Sato, 2007, pp.153-154).

As the Vietnam War escalated, the United States sought extensive cooperation with Japan over Southeast Asian stability from 1965, and the Sato administration responded by offering a new framework for Japan's intra-Asian cooperation. Within the government, however, there was a conflict between MOFA which wanted to actively engage in Asian development, and MOF which wanted to avoid increasing the financial burden in the face of economic recession. As a result, efforts to increase the scale of development assistance were slower than expected. At the 1967 Japan-US summit, President Johnson asked for aid expansion to Indonesia and South Vietnam, involving increased contributions to the ADB special fund (Takahashi, 2018, pp.191-206). In a subcommittee of the Joint Committee on Trade and Economics in January 1968, the U.S. government also called for improvements in Japan's development aid, pointing out that its ODA was below the average of DAC member countries and that the Japanese government did not have an organization or advisory body to oversee aid policy.<sup>8)</sup>

#### 4. Establishment of the Cabinet Meeting on External Development Cooperation and Reorganization of the External Economic Development Council

In 1969, Japan's aid policy moved into a new phase. The Nixon administration, which took office in January of that year, discussed its policy toward Japan. It focused on finalizing the issue of the reversion of Okinawa and responding to the balance of payments problem, and demanded more financial contributions from Japan (Takahashi, 2018, pp.218-219). Against this background, Japan's MFA and others began to work in earnest to formulate a comprehensive aid policy. In May 1969, the government held the "Cabinet Meeting on External Economic Cooperation" for the first time.<sup>9)</sup> The purpose of the meeting was to discuss aid policy in preparation for the forthcoming visit of Foreign Minister Kiichi Aichi to the United States and the seventh meeting of the Japan-US Joint Committee on Trade and Economic Cooperation to be held in July. At the second meeting held on July 11, Aichi presented a draft of "Japan's Concept of Aid to Asia."<sup>10)</sup> It consisted of six points: expansion of aid volume and easing of conditions, strengthening multilateral and regional cooperation, expansion of bilateral aid, expansion of technical cooperation, promotion of private sector cooperation, and international cooperation. At the third ministerial meeting, held on September 2, the reorganization of the External Economic Cooperation Council was approved. At that time, the Council decided to exclude ministers from the Council's membership and make it an advisory committee of private sector experts.<sup>11)</sup>

The new council consisted of 20 members: the deputy governors of the BOJ and the heads of the Export-Import Bank of Japan and other aid implementing agencies as well as seven members from Japan's major business organizations and seven members from academia. With the inclusion of so many members from the business community, which had been calling for the expansion of aid policy, the Council became a consultative body that reflected the views of both the government and the private sector on aid policy. Shigeo Nagano of the Japan Chamber of Commerce and Industry was appointed chairman, and Saburo Okita was named vice chairman.<sup>12)</sup>

At the Fifth General Meeting held on November 21, 2009, Okita gave a presentation on the report of the Pearson Commission, of which he was a member, and members of the Commission exchanged views on the report's recommendations, including the 1% GNP aid target and the relaxation of aid conditions. Nagano was very supportive of the expansion of aid and the relaxation of conditions and suggested that the recommendations should be implemented as they had been included in Pearson's recommendations at an early date.<sup>13)</sup> At the Sixth General Meeting held on 6 February 1970, a review of Japan's economic cooperation to date was reported by the Economic

Planning Agency, and the members of the Council agreed that "in the future Japan, as an economic power, will be requested to increase its aid at international conferences and other events. Therefore, this is the time to make a decision."<sup>14)</sup> They also agreed that the discussion should focus on revisiting technical assistance, specifically the relationship between trade, private investment, and government aid.

## 5. Discussion on Japanese Aid Policy

At the General Meeting on March 30, Prime Minister Sato submitted a consultation to the Council: "In the wake of Japan's recent economic expansion and improvement of its international standing, I would like to seek your opinion on the basic matters that should be taken into account in promoting Japan's foreign economic cooperation in the 1970s." The Council actively worked towards and expressed its views on the promotion of aid policy.<sup>15)</sup>

At its 8th General Meeting held on 14 May, the Council discussed the government's policy on the amount of aid, one of the major agendas for the OECD Ministerial Council held in Tokyo. The Council concluded that "maximum efforts should be made to ensure that the volume of our aid is as high as possible to achieve the 1% GNP target by 1975. The amount of official development assistance should be increased to contribute commensurate with the country's international standing."<sup>16)</sup> The opinion was approved and submitted to the prime minister on the same day. The Government held a Cabinet Meeting for External Economic Cooperation and formally decided on the above policy. The DAC annual review in July commended Japan's efforts for aid, but requested an increase in the ODA ratio, a higher percentage of gifts, and easing of loan conditions.

At the 10th General Meeting, held on 7 September, "Quality of Aid" was on the agenda. The purpose of the meeting was to consolidate the Council's views on the issue of aid untying, which was going to be on the agenda of the DAC Executive Committee in Tokyo. Mr. Nagata pointed out that if Japan were to oppose untying, which the United States favored, it would have an impact on Japan-US relations; he therefore expressed a positive attitude toward untying.<sup>17)</sup> There were no major objections from the committee members, and a final statement of opinion was submitted to Prime Minister Sato, stating that it would be desirable to take a stand on the principle of aid-untying at this time so as not to lose international trust and disappoint expectations of Japan. The government formally decided on the above policy.

The Council organized subcommittees on the issues of technical assistance and private economic activity. They reviewed past aid policies, heard opinions from experts, and considered future measures to promote them. The Technical Assistance Committee submitted its interim report to the General Meeting in July 1970 and its final report in September 1971. The report argued that the ratio of technical assistance to total aid was far below the average for DAC member countries and called for the active expansion of technical assistance. Specifically, the report proposed cooperation: in the development of human resources (e.g., acceptance of trainees); in development projects; in education, medical care and culture; between governments and the private sector; and with international organizations and other developed countries.<sup>18)</sup>

The Subcommittee on Private Economic Activity examined the promotion of private sector investment and trade activities in developing countries. The report, submitted in September 1971, confirmed the significance of private sector investment and trade activities in developing countries. At the same time, it argued that the private sector's activities had a detrimental effect on local economies through the pursuit of profit, and that they were being criticized as "economic animals". The report pointed out the importance of taking into account the sentiments of the

host country in private sector economic activities, including cooperation in economic development, industrialization, and improvement of the trade balance with the partner country, and dialogue with the local government regarding private sector investment.<sup>19)</sup>

In addition to the specific economic cooperation issues mentioned above, the Council discussed the future reform of the system and the organization of development assistance. At the General Meeting in December 1970, the Technical Assistance Subcommittee submitted its views on the establishment of a minister in charge of economic cooperation, the centralization and simplification of the administration of development aid, and the creation of a ministry or agency for foreign development aid.<sup>20)</sup> The Technical Assistance Committee's final report, creating a separate chapter, pointed out the need for unifying and simplifying aid administration, which was dispersed among several ministries and agencies, and establishing a mechanism to promote smooth external economic cooperation under a unified policy.<sup>21)</sup> However, the proposal for reforming the administrative structure to unify aid policy faced resistance from aid-related ministries. In the Council's final report on the issue of the mechanism, the proposal for appointing a minister in charge and establishing an independent ministry was toned down to the expansion of the Council of Ministers, the strengthening of the Council, and the establishment of a headquarters for the promotion of foreign development cooperation as immediate measures.<sup>22)</sup>

## 6. Conclusion

Japan's development assistance policy, which began with post-war reparations and participation in the Colombo Plan, was closely tied to its economic interests in promoting exports, developing its heavy and chemical industries, and securing resources. From the late 1950s, the Japanese economy was experiencing rapid growth, but it was also running a balance of payments deficit. Japan remained a medium-developed country that used World Bank loans to develop its domestic economy. Each ministry had its own aid policy with the common goal of Japan's economic development.

However, Japan's rapid economic growth led to the liberalization of trade and currency exchange rates in the mid-1960s. By that point, Japan had become one of the most advanced nations and was being asked to take the responsibilities of an advanced nation. At the same time, the development of the Cold War in Asia, the Vietnam War, and the deterioration of the U.S. balance of payments led to increased U.S. pressure on Japan's aid expansion. Within the government, however, there was still strong resistance to increased aid, which led to the formation of an original aid policy that emphasized loans rather than gifts and the self-help efforts of recipient countries.

At the end of the 1960s, Japan began defining its aid policy. Through the Council for Foreign Economic Cooperation and the Council of Ministers, Japan formulated a policy of quantitative expansion of aid, promotion of untying, and mainly technical and private sector aid cooperation. However, the proposal for a unified aid policy and the creation of an implementing agency failed to materialize due to resistance from the implementing ministries, and the four-ministry system was maintained. Thus, throughout the 1960s, the characteristics of Japan's aid policy were formed.

This paper concludes with a look ahead to the 1970s. The transition to a floating exchange rate system and the oil crisis dramatically changed the competitive environment of the Japanese economy, resulting in a sharp increase in foreign direct investment in Asia and further strengthening the economic relationship between Japan and Asia. In the process, however, friction between Japanese companies and their Asian counterparts surfaced and led to a

growing distrust of Japan. The main issue for aid policy in the 1970s was how to build economic relations between Japan and Asia while improving relations between donor and recipient countries. Analyzing this point is a subject for future study.

## Notes

- 1) Diplomatic Archives of the Ministry of Foreign Affairs of Japan, Files on the External Development Cooperation Council (hereafter DAMFA/EDCC), The Policy Research Council of the LDP, “Taigai Keizai Kyoryoku no Jissi Kyoka oyobi Sono Suisin Housaku,” December 1959.
- 2) DAMFA/EDCC, List of the Council members, December 1961.
- 3) DAMFA/EDCC, “Taigai Keizai Kyoryoku Shingikai ni Tsuite” [On the External Development Cooperation Council] by the Cabinet Secretariat, June 1, 1965.
- 4) DAMFA/EDCC, Ministry of Finance Memorandum on the Draft Agenda, August 29, 1961.
- 5) DAMFA/EDCC, Ministry of International Trade and Industry Memorandum on the Draft Agenda, August 29.
- 6) DAMFA/EDCC, “Taigai Keizai Kyoryoku Shingikai ni Tsuite” [On the External Development Cooperation Council] by the Cabinet Secretariat, June 1, 1965.
- 7) DAMFA/EDCC, “Waga Kuni no Keizairyoku kara Mita Taigai Keizai Kyoryoku no Kibo ni Tuite” [On the Scale of Japanese External Development Cooperation in View of Japanese Economic Power], September 12, 1963.
- 8) U.S. National Archives and Research Administrations, RG56/AI 859, Box 99, File JAP/0/82, Background Papers for Joint Subcommittee Meeting on Japanese Aid Program, January 25-26, 1968.
- 9) DAMFA, Files on Ministerial Meeting on External Development Cooperation, Memorandum by the International Cooperation Bureau, May 23, 1969.
- 10) DAMFA, Files on Ministerial Meeting on External Development Cooperation, Minutes of the First Ministerial Meeting, July 11, 1969.
- 11) DAMFA, Files on Ministerial Meeting on External Development Cooperation, Minutes of the Second Ministerial Meeting, September 12, 1969.
- 12) DAMFA/EDCC, Minutes of the Fourth General Meeting of the Council, October 30, 1969.
- 13) DAMFA/EDCC, Memorandum by the International Cooperation Bureau, December 25, 1969.
- 14) DAMFA/EDCC, Minutes of the Sixth General Meeting, February 6, 1970.
- 15) DAMFA/EDCC, Minutes of the Seventh General Meeting, March 30, 1970.
- 16) DAMFA/EDCC, Minutes of the Eighth General Meeting, May 14, 1970.
- 17) DAMFA/EDCC, Minutes of the Ninth General Meeting, September 7, 1970.
- 18) DAMFA/EDCC, Final Report of the Technical Assistance Subcommittee, September 7, 1971.
- 19) DAMFA/EDCC, Final Report of the Private Economic Activity Subcommittee, September 7, 1971.
- 20) DAMFA/EDCC, Minutes of the Eleventh General Meeting, December 23, 1970.
- 21) DAMFA/EDCC, Final Report of the Technical Assistance Subcommittee, September 7, 1971.
- 22) DAMFA/EDCC, Draft Final Report submitted to the Thirteenth General Meeting, October 22, 1971.



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