

# Comparative Analysis of Japan's Colonial and Foreign Aid Policy: Ideas of Economic Development and Institutions

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## Introduction

In 1989, Japan became the largest foreign aid donor in the world, and for the past fifty years, Japanese Official Development Assistance (ODA) has played a prominent role in Japan's foreign policy, and Japan has applied a unique economic development approach compared to other advanced industrial nations. Also, the Japanese ODA policy shares with its colonial policy a similar economic development approach in Asia even though the domestic political system and the external environment have experienced significant changes since World War II.

This study addresses the following questions: (1) why did Japan conduct its own independent economic development policies in Asia, although Japan's other foreign policies were greatly influenced by the external environment, especially, the United States?; (2) why did Japan's colonial policy and its Official Development Assistance (ODA) policy toward Asia share similar unique economic development approaches, even though historical contexts and purpose changed? This study examines theoretical explanations for continuity in foreign economic policy outcomes despite significant changes in international and domestic politics.

This research uses the role of institutions

and ideas decision-makers held to analyze Japan's colonial and foreign aid policies, since the idea of Japan's economic development approach caused the similarities in those economic policies in the prewar and postwar periods. The idea was carried out through the continuity of personnel and institutionalized ideas in Japan's ODA policy because "international and domestic constraints and opportunities, however, do not exist outside of individual cognition; rather they are perceived by policy makers based on their conceptual framework" (Sikkink, 1991: 19). In addition, Japanese political and economic organizations enforced the continuity of the ideas through organizational routines and a stable bureaucratic political system in the postwar period.

Through this research, six different ideas of Japan's economic policy were identified: (1) promoting a self-help effort system; (2) seeking mutual interests between Japan and Asian countries; (3) a state-led economy and long-term development plan; (4) efficient public-private cooperation; (5) utilizing foreign capital and technology; and (6) an aim to establish an Asian economic bloc. The continuity of these ideas can be seen even though historical contexts and purposes have changed. Continuity in the ideas of Japan's economic development approach was examined by two historical case studies to

provide empirical evidence: (1) Japan's colonial development policy for Manchuria between 1932 and 1945; and (2) Japan's ODA policies (focusing on 1965-90) for Indonesia. Personnel continuity explains intellectual continuity in these case studies.

## Research Questions

Japan's colonial policies in Taiwan, Korea, and Manchuria were enhanced by Japan's imperial motivations. Yet these policies included unique economic development policies comparing other Western imperialisms, and the policies share major similarities although Japan had different purposes in each colony depending on the stages and time of Japan's imperialism. After World War II, Japan started to provide its foreign aid to Asian countries like other Western industrialized nations. Why did Japan conduct its own independent economic development policies even though Japan's other foreign policies were greatly influenced by the Cold War, especially, the United States?

Moreover, why do Japan's colonial and ODA policy share similar unique economic development policies even though historical contexts and purposes changed? The Japanese domestic political system was restructured while the international system changed its configurations from a multipolar to a bipolar system. Yet Japanese economic policies in Asian countries did not change, and became recognized as the Asian Economic Development Style (The World Bank, 1988).

Structural Realism cannot explain the continuity in Japan's economic foreign policy despite radical changes in the external security environment. The bureaucratic politics approach

can account for continuity in the postwar era since the same bureaucratic political decision-making process was conducted for Japanese ODA policy. This approach, however, does not provide reasons why diverging interests among different ministries and agencies could be accommodated to continue the same economic development policy over the last hundred years. Also, ODA literature does not explain the origin of Japan's economic development policies completely because it does not examine Japan's foreign economic policies before World War II.<sup>1</sup>

Japan's economic development policies are the dependent variables for this study. Specifically, major similarities in the economic development policies of Japan's colonial and ODA policy will be systematically explained. The major similarities between Japan's colonial and ODA policy are 1) investing heavily in economic infrastructures, 2) investing in human capital, 3) developing raw materials, and 4) using Japanese currency for grants and loans.

### (1) Investing Heavily in Economic Infrastructure

A salient feature of the sectoral allocation of Japan's foreign aid was the emphasis on economic infrastructure. Economic infrastructure, especially in transport and energy, was 40 percent of Japan's ODA over the decade, roughly twice the Development Assistance Committee (DAC) average (Development Assistance Committee, 1996: 36).

The Japanese colonial governments spent a relatively large share of their budgets (Over 30 % for Korea and Over 25 % for Taiwan)<sup>2</sup> on economic infrastructure. These investments in economic foundation were one of reasons that Taiwan and Korea could achieve rapid economic

growth in the postwar period (Haggard, 1990; Wade, 1990).

## (2) Investing in Human Capital

Japan provided technical assistance as part of its ODA. The amount provided rose to 6.0174 trillion dollars (42.2% of the total ODA) in 1988 (Japan's Ministry of Foreign Affairs, 1989:155). Through programs such as the Trainee Acceptance Program, The Youth Invitation Program, and the Individual Expert Dispatch Program, Japan's ODA attempted to increase specialized knowledge and technology in a wide range of fields, including government administration, agriculture, forestry, fisheries, mining, manufacturing, energy, public health and medicine, transportation, and communication. As for regional distribution, Japan allocates a large share of its technical assistance to Asia. In 1988, Asia received 42.2% compared with 13.0% for Latin America, 7.8% for Africa, 5.1% for the Middle East, 2.0% for Oceania and 0.3% for Europe (Japan's Ministry of Foreign Affairs, 1989:155).

Japan's colonial development policy also invested in improving health, education, and labor skills. According to S. Pao-San Ho, the Japanese colonial governments created healthier environments by "compulsory testing for and treatment of malaria, vaccination campaigns, supervised collection of human waste, and regular public health inspections." (Ho, 1996: 353) As a result, the death rate in Taiwan declined from 33 to 19 deaths per 1,000 between 1906 and 1940. In Korea, death rates declined from 35 to 23 deaths per 1,000 between 1910 and 1940 (Ho, 1996: 352). The life expectancy at birth was also increased in Taiwan and Korea. From 1906 to 1940, the mean life expectancy

of Taiwanese males increased at birth by 13.4 years to 41.1, and that of Taiwanese females by 16.7 years to 45.7. In Korea, life expectancy at birth reached 40.4 for males and 41.7 for females in 1940 (Ho, 1996: 380).

Formal education in the colonies was also improved. In Taiwan, although one-third of school age (6-14) children were in schools in 1930-1931, 71 percent of children were in 1943-1944. Enrollment of Korean students in primary schools increased from 20,000 in 1910, to 90,000 in 1920, and 901,000 in 1937 (Ho, 1996: 353). Japan's developmental policy in its colonial policy also emphasized obtaining technical assistance, instituting elementary education, developing and diffusing appropriate agriculture technology (Jacoby, 1996: 75).

## (3) Emphasizing the Development of Natural Resources

Raw material was important for Japan's colonial and ODA policy. "Foreign aid as a means of responding to raw material dependency is also a significant motivator of policy. Faced with a need for imported raw materials and access to export markets, and with recourse to military tools, Japan has openly used foreign aid to enhance security of supply" (Lincoln, 1993: 116). Indonesia and China have been two of Japan's largest ODA recipients in the last two decades due to their rich resources. Japan also increased the volume of its ODA to the Middle East after oil prices increased in the 1970s, in order to reduce its vulnerability to higher petroleum prices. Japan's ODA, thus, has been used for national economic security (Yasutomo, 1986).

Like European colonial powers, Japan exploited natural resources from Asian colonies.

According to Louise Young, Japan envisioned “creating an autarkic trading sphere that would provide for self-efficiency in wartime” (Duus, Myers and Peattie, 1996: 84). Japan extracted coal, iron ore, salt, cotton, and wool from China. Japan also received sugar from Taiwan, cotton from Korea, oil from Indonesia, and iron from Malaysia (Ho, 1996).

#### (4) Using Japanese Currency

Using Japanese currency for grants and loans for Japan’s ODA has not changed since the 1960s. Japan’s loans recipients have to obtain yen to repay the loans. Arase, however, analyzed that it cannot be denied that yen credits were used, as before, as one aspect of an export promotion policy tied to natural resources for Japan. “The denomination of loans in yen, not then a freely convertible currency, preserved Japan’s foreign exchange reserves and tied procurement to Japan” (Arase, 1995: 41).

Japan created the yen bloc in Manchuria and North China in the 1930s. The monetary bloc partly extended into French Indochina and the Netherlands East Indies later (Nakamura, 1996:186). Forcing the use of Japanese currency was intended to promote an Asian regional economic bloc and enhance Japan’s economic control over the region. At the same time, Japan could maintain its foreign currency reserve.

#### **Analytical Framework of This Study**

The continuity in Japan’s colonial policy in the prewar period and foreign aid policy in the postwar period should be examined to determine the origin of Japan’s unique economic development approach. The bureaucratic politics

approach can offer an explanation that assisted continuity since Japan did not experience radical discontinuity in its bureaucratic system after World War II. However, this analysis does not explain how the unique ODA policy was created and why the continuity happened. Historical institutionalism can analyze the features of Japan’s ODA policy in the postwar period since the same policy-choice continued through institutional development in the postwar period, which is incremental and path dependent. Yet institutionalism cannot explain why Japan’s ODA policy was different from other Western countries or the cause of the policy continuity. Institutions do not have preference or perspective of an issue, and Japanese political and economic institutions were not well established when the continuity occurred before and after the Second World War.

This study argues that the origin of the economic development approach in Japanese ODA was primarily caused by the ideas that the personnel held, which were institutionalized through organizational routines, and the unchanged bureaucratic political system in the postwar period enforced the ideas. Economic bureaucrats and business leaders in prewar and wartime held beliefs about economic development for Asia and Japan’s foreign policy. These beliefs included the importance of a self-help effort system, mutual interests between Japan and Asian countries, a state led economy and long-term development plans, efficient public-private cooperation, utilizing foreign capital and technology, and an aim to establish an Asian economic bloc in the future. These ideas were carried by economic bureaucrats and business leaders through

restructuring the domestic and international political and economic system. These ideas became government and business organizations' properties because the ideas became gradually institutionalized in the domestic political and economic system. In the postwar period, the ideas have been enforced by stable Japanese bureaucratic politics.

### Ideas, Institutions and Intra-organizational Learning

This research applied the role of ideas and institutions to explain the continuity in Japan's economic development policy. Norms and ideas shape and define the preference of actors. State behavior is determined by ideas and shaped beliefs about what actions are legitimate and appropriate in international relations. Interest is important to define a state's behavior, and Ernst Haas argued, "Interests are not the opposite of ideas or values" (Haas, 1990:2).

An actor's sense of self-interest includes the desire to hedge against uncertainty, to minimize risk. One cannot have a notion of risk without some experience with choices that turned out to be less than optimal; one's interests are shaped by one's experiences. But one's satisfaction with an experience is a function of what is ideally desired, a function of one's values. Interests cannot be articulated without values, far from (ideal) values being pitted against (material) interests, interests are unintelligible without a sense of values-to-be realized. The interests to be realized by collaborative

action are expression of the actors' values (Haas, 1990:2).

Thus, we should not ignore the role of ideas in policies since ideas can influence and shape interests that determine a nation's behaviors. Thus, it is important to "seek to understand how preferences are formed and knowledge is generated, prior to the exercise of instrumental rationality" (Katzenstein, Keohane, and Krasner, 1998:681).

Epistemic communities, networks of knowledge-based experts, can also help states identify their interests (Haas, 1992). Epistemic communities created by "professionals ... who share a common causal model and a common set of political values" (Haas, 1990:41) can exist not only in the international community but also in domestic political institutions and organizations. This study argues that Japan had a network of knowledge-based professionals in economic development among the economic bureaucracy, politicians, and business leaders. The ideas shared and consented to by the economic development approach experts have continued to be implemented as Japan's foreign economic policies for Asia.

When and how can ideas shape the perception and preference of actors? Ideas can be defined as "the kind of structured information that is offered by epistemic communities as a guide for action" (Haas, 1990:74).<sup>3</sup> The ideas are socially constructed because they come from "the international and domestic societies in which states are embedded" (Katzenstein, 1996:23). When ideas or knowledge become consensual, they would be expected to help decision makers define their interests (Haas, 1990:12). Then, politicians and bureaucrats use power to translate knowledge-

based interests into policy and programs (Haas, 1990:12). The consensual knowledge that the decision-makers held is the independent variable of this study, thus, the ideas of Japan's economic development approach. Japan's economic development approach was shared by economic bureaucrats and business leaders through their experience and learning from colonial economic development policies.

How do ideas influence policy? The causal effect of ideas on policy is not easily identified, and the measurement of ideas, in particular, poses problems for causal modeling (Yee, 1996). Yet ideas that became embedded in political institutions are well recognized as an important influence on policy outcomes (Haas, 1990; Sikkink, 1991; Goldstein and Keohane, 1993; Hall, 1986; Adler, 1987; Lumsdaine, 1993). Institutions are important because "powerful individuals are important for the adoption of ideas, but if these ideas do not find institutional homes, they will not be able to sustain themselves over the long term" (Sikkink, 1991:248).

How could ideas be institutionalized? Japanese political agents such as the Ministry of Foreign Affairs and the Ministry of Finance assisted the institutionalization of ideas through organizational routines. Organizations develop routines based on standard operating procedures and organizational rules (Sagan, :72). The established routines are usually inflexible and allow incremental plans. Japanese bureaucracy developed strong biases that Japanese economic development policies are the most suitable and beneficial for other Asian countries and Japan itself. This is because Japanese decision-makers believed in its economic development experience in its

Asian colonies and continued to enhance the approach through Japan's foreign aid policy. Three ministries and an agency, the Ministry of Foreign Affairs (MOFA), the Ministry of International Trade and Industry (MITI), the Ministry of Finance (MOF), and the Economic Planning Agency (EPA), major actors in Japan's ODA policy making, enforced and did not change the ideas in the decision-making process that actors are "pulling" and "hauling" through bargaining situations. Thus, ideas became embedded in domestic institutions, and became Japanese custom and style that influenced the policy decision-making process (Sikkink, 1991: 21). Institutionalized ideas no longer required the presence of individuals to maintain their influence (Sikkink, 1991:250).

However, "institutional and personnel continuity is necessary for ideas to become embodied in institutions and for the policies to be successfully implemented" (Sikkink, 1991:24). Chalmers Johnson argued that the continuities in Japan's industrial policy tools over the prewar and postwar years can be explained by the continuity of people who executed the state's industrial policy because "leaders of politics, banking, industry, and economic administration were prominent in public life before, during, and after the war" (1982:309). The unique historical continuity that "Japan did not experience a radical discontinuity in its civilian bureaucratic and economic elites," (Johnson, 1982: 113) can also explain the continuity of Japan's economic development approach. In short, Japanese foreign policy decision-makers chose strategies shaped by their experience and learning rather than responding rationally to their external environment or structural imperatives (Goldgeier, 1994).

## The Ideas of Japan's Economic Development Approach

Although Japan's colonial and ODA policies had different objectives under the different domestic and international environments, they shared similarities to promote economic development in other Asian countries. The main purpose of colonial development policies was to support Japan against the Western powers. On the other hand, ODA policies to Asian countries were supposed to promote recipient countries' economic development though there were Japan's national interests to increase its economic expansion in Asia.

The economic development policies were mainly prepared by economic bureaucrats and business communities,<sup>4</sup> even while the military was taking control of Japan's government before and during World War II. The bureaucrats and business leaders involved in colonial economic policy-making continued to influence ODA policies in the postwar period. "An economics-first policy was shared by the economic bureaucracies whose power was enormously enhanced through war-time economic planning and reinforced during the U.S. occupation" (Sudo, 1992:36). Chalmers Johnson pointed out that bureaucrats learned how industrial policy worked in prewar and wartime, and that there is direct continuity between prewar and postwar officials in Japan's state bureaucracy. Nobusuke Kishi, for example, was once a Ministry of Commerce and Industry (MCI) officer who participated in colonial industrialization in Manchukuo. After World War II, Kishi became a prime minister who made efforts to rebuild better diplomatic

relations with Asian nations through Japan's ODA.

This study operationalized the ideas of Japan's economic development approach in the following six categories: (1) promoting a self-help effort (Jijyo Doryoku) system; (2) seeking mutual interests between Japan and Asian countries; (3) a state led economy and long-term development plans; (4) efficient public-private cooperation; (5) utilizing foreign capital and technology; (6) an aim to establish Asian economic bloc in the future.

### (1) Promoting a Self-help Effort (Jijyo Doryoku) System

Sustainable development should be achieved by economic cooperation between local governments and external partners. Local government should increase their capacities to be self-sufficient. In other words, local participation and efforts are indispensable for their successful development. The role of external partners is to help and provide what local ownerships need for their sustainable development. Foreign capital and advice, especially advanced technology from more developed countries, would not be used effectively if there were not the willingness and commitments of local politicians and technocrats to carry their own economic development projects. Therefore, Japanese colonial and ODA policy invested in human capital to promote a self-help effort economic system.

The self-help effort system was established in Japan in the Meiji era. Foreign advisers were hired and paid greater salaries than the prime minister while Japan did not have much foreign exchange earnings. The Japanese government made efforts to gain advanced foreign technology

and methods to catch up to Western countries (Kohama, 1998:56). The existence of a self-help spirit was present not only among politicians and bureaucrats but among citizens, as well.

Investing in human capital is also important to promote a self-help effort in developing countries. In the prewar period, Japanese colonial governments made considerable improvements in education and health systems since an illiterate, unskilled, and unhealthy population would not sustain successful economic development. The efforts to raise labor productivity did not significantly appear during the colonial period. Ho pointed out that “investments in elementary education during the late 1920s and the 1930s may have had a greater impact on post-colonial development than on economic growth during the colonial period” (Ho, 1996:345).

### (2) Seeking Mutual Interests between Japan and Asian Countries

Japan’s economic development approach was created based on the idea of “sharing prosperity through co-existence (Kyozon Kyoei).” The national interests of Japan and other Asian countries achieved through the economic development approach were not mutually exclusive but compatible. For example, Japanese colonial and ODA policy encouraged the development of natural resources because Japan could enhance economic security due to its high dependence on raw materials while Asian countries could increase exports and earn foreign currency. Thus, promoting economic development in Asia is intended to seek mutual interests between Japan and Asian countries because Japan can achieve comprehensive security and increase its trade and investment

to Asia while Asian countries enjoy prosperity.

### (3) State Led Economy and Long-Term Development Plans

The active role of government participation in the economy is one of the features of the Japanese development approach (Ohno and Ohno, 1998). Government intervention is important during economic crisis even for developed countries. A government should also prioritize its national interests, especially its long-term economic growth and the maintenance of a stable economy. Economic growth can be initiated and supported through strong government efforts to establish economic infrastructure, to increase investment in human resources, and to increase productivity. Although the expanding economic infrastructure is indispensable for industrialization, it is usually too costly and risky for private companies. The effective government for latecomer countries could be authoritarian rather than democratic. Since either a dependable bureaucracy or a stable legislature is desirable for strong state leadership in economic development, achieving political development, including political freedom and human rights, might be delayed.

Though the World Bank preferred short-term projects, long-term orientation is a distinguishing characteristic of Japan’s approach. It is important to set long-term economic development plans since economic growth, saving, industrial structure, an export base, and technology cannot be achieved in the short term (Ohno and Ohno, 1998:5). To implement Japan’s ODA policy successfully, it is a priority that aid recipients have a politically stable and strong government capable of planning and implementing long-term economic development

projects.<sup>5</sup>

#### (4)Efficient Public - Private Cooperation

Frequent communication and information exchange between government and business helped draft and implement better economic policies. Additional information and research to face uncertain markets and international competition was indispensable for a late industrialized country. "Efficient public-private cooperation" means that bureaucrats, politicians, and business people can work together to achieve national interests. Business leaders might also be forced to give up short-term profits to enhance long-term economic development plans under a government's guidance.

#### (5)Utilizing Foreign Capital and Technology

To maximize economic development, Japan's economic development approach did not hesitate to use foreign capital and technology. Even in its colonial development policy, Japan made efforts to gather more funds and advanced technology. This approach differs from other Western countries' colonial policies. Colonies under Western countries did not achieve rapid industrialization as in Manchuria since there was little transfer of advanced technology, technicians, or capital.

#### (6)Aim to Establish an Asian Economic Bloc in the Future

Japan's development approach had been oriented to establish an Asian economic bloc. In the prewar period, Japan attempted to create the Yen bloc in North Asia because Japan needed to establish an autarkic system

to serve the trend toward economic blocs in the world market. In the postwar period, Japan only used yen for ODA to maximize utility of its own currency among Asian countries since Japan wanted to take a leadership role in the Asian economic bloc. Also, creating an Asian economic bloc provided for Japan's comprehensive security. Japan supported and encouraged economic development in Asia, such as expanding markets for goods and services and bringing political stability to the region.

### Methodology

This study applies a comparative case study.<sup>6</sup> Selecting observations for testing the causal effect of ideas on policy requires cautious consideration because ideas are endogenous under some circumstance (King, Keohane and Verba, 1994:191). Ideas may be able to explain policies, but they could also result from these policies. Or ideas might be correlated with "a causal prior omitted variable". To solve this particular problem, King, Keohane and Verba suggest "the observed dependent variable (policies) and explanatory variable (ideas held by individuals) must be compared with a precisely defined counterfactual situation in which the explanatory variable takes on a different value" (King, Keohane and Verba, 1994:191). This study, therefore, chose a comparative analysis that should clarify whether ideas are exogenous or endogenous.

To investigate Japan's colonial economic development approach, this study chose Manchuria in China (1932-1945) for a case study. In the prewar and wartime period, international politics was characterized as an unstable multipolar system. The United States

did not provide an effective impact on Japan's foreign policy though it increased its presence in the postwar period. Domestic politics in Japan in the prewar and wartime period was an authoritarian government that depended on military force to achieve economic national security by means of imperialism.

Japan's foreign aid policy was also examined with a case study of Indonesia. This study examined ODA, focusing on the period from 1965 to 1990, while Japan was under a bipolar system in international politics until the Cold War was over. The Asian regional balance of power system also changed after the end of World War II because China joined the regional balance-of-power system. The United States increased political leverage on Japan's foreign policy. The domestic political system was reconstructed to democracy, and bureaucrats secured the essential role in the public and foreign policy decision-making process.

Despite significant changes in international and domestic political variables, Japan's economic development approach in colonial and foreign aid policies were systematically compared. The level of analysis for this study is, thus, approach. In this research, approach, strategy, and policy are interchangeable concepts. Research data was gathered through government documents, archives, and interviews. Each case study also examines who was involved in the decision-making process of the economic development approach (especially continuity of personnel), and how Japan's economic development approach was implemented.

## Case Study 1: Japan's Colonial Policy in Manchuria

For a case study in the prewar period, this study focuses on economic development in Manchuria between 1932 and 1945. In 1931, the Japanese Kwantung Army instigated the Manchurian Incident, providing for the creation of the puppet state of Manchukuo within Manchuria, and Japan therefore gained the relative autonomy to draft and implement its own comprehensive economic development plans. After 1932, the Manchukuo government under Japan's colonial policy sought rapid industrialization toward economic self-sufficiency and promoted massive migration from Japan to create the Japan-Manchukuo Economic Bloc. As a result, the Japanese population in Manchuria increased to over one million in 1940 (Manshikai, 1964:84), while the total population in Manchuria was approximately 43 million (Kinney, 1982:4).

Japan undertook significant industrialization in its colony, Manchukuo, unlike other Western imperial nations. Even Great Britain did not attempt to transfer advanced technology and industry in India. The typical pattern of western colonization focused on development of traditional local manufacturing and basic agricultural production. Japan, however, started new heavy industries in Manchukuo (Myers, 1996:137). Industrialization of colonies was part of Japan's competition with more advanced powers in the global economy since the increasing world trend toward economic blocs forced Japan to create its own autarkic territory (Cumming, 1984:488-9). Japan's colonial development policy was, thus, unique and included a long-term foreign policy agenda.

### Economic Development Approach

1) Self-help Effort system: According to the Outlines for Economic Construction in Manchukuo (Manshu Keizai Kensetsu Koyo), Japan intended to promote a self-help effort system in Manchukuo so that the Chinese people would participate and make commitments for sustainable development projects. Also, the Japanese government intended to create an independent state in Manchuria since the state could serve as a counter force against the Soviet Union and the force of Chinese nationalism (Nakagane, 1996:133). To raise technicians and professionals for economic development, Japan's government invited Chinese students to study in Japan. The numbers of Chinese students who came to Japan were 1,844 in 1937, 1,255 in 1941, and 933 in 1944 (Manshu Kokushi Kankokai, 1971:1104). These students attended Japanese universities, vocational schools, and high schools. In addition, Japan took serious efforts in urban planning for the Manchukuo state.

The social and city infrastructures were more modern than the existing system in Japan at the time. One of the basic principles for Japan's economic development policies was that spending money and energy on urban planning was a long-term investment for building and sustaining a self-help economic system. Basic human needs like clean water and better public health were provided in Manchukuo. Japan's development approach attempted to provide Chinese people a better standard of living to promote their participation in economic development plans.

2) Mutual Interests between Japan and Manchuria: Japan seized Manchuria as a colony partly due to rich natural resources in

Manchuria. The Japanese Army attempted to link Manchurian industrialization with national defense, and manage the development and conservation of strategic resources. Mining coal, iron, magnetite, and other material was proposed by the Manchukuo government's Economic Construction Program. The program also proposed refining and manufacturing the materials on site. The Japan-Manchuria Economic Bloc was, therefore, envisioned to create a self-sufficient economy and an autarkic trade sphere (Young, 1998:204).

Establishing social and economic infrastructures was also essential since Japan could promote economic development in Manchuria and then increase its trade and investment with Manchuria. Improving social and economic infrastructures provides a better life for local people and encourages foreign investments because it would be easy to transfer personnel and technology. Colonial policy has never been based on moral and humanitarian obligation. However, unlike other Western colonial powers, Japan located various heavy industries such as steel, chemical, and hydro-electric power in its colonies. Since the foundation of economic and social infrastructures was indispensable for successful economic development, the aforementioned Outlines for Economic Construction in Manchukuo specified basic construction targets including improvement of railways, harbor facilities, transportation on rivers, roads, telecommunication, air routes, and urban planning (Nishizawa, 1995:378).

As a result, the Manchurian railway network was extended by 6,354.2 kilometers. After adding other extended lines (6489.9km), the total length of new lines was 11,044.1km

exceeding the original target of 10,000 kilometers in ten years. The new rail lines improved strategic access, and developed new trade routes through Korea. In addition, the new lines helped develop the timber industry in Northern Manchuria, and expanded the influence of Japanese military and commercial penetration to the former Russian territory (Young, 1998:244). In addition to building new tracks, the Manchukuo government developed the high-speed train "Asia Express." The Asia Express ran between Dalian and Hsinjing traveling at an average speed of 81 kilometers per hour. The highest speed was 150 kilometers an hour, making the Asia Express the fastest train in the world at the time (Manshu Kokushi Kankokai, 1971:850).

Since roads needed urgent improvement, the Manchukuo government prioritized upgrading the road system in Manchukuo under the Five-Year Economic Development Plans. Flood control especially was the most urgent project because it was almost impossible to drive through the state in summer due to severe flooding (Manshu Kokushi Kankokai, 1971: 949). Also there were no reliable bridges in Manchukuo. Therefore, construction of solid bridges was another of the priorities for economic development. By the end of the Manchukuo regime, Japanese civil engineers had built 41 (the total length of 10,000 kilometers) concrete or steel bridges. Although the road system was improved, the Manchukuo government only reached one-fourth of the original target of 60,000 kilometers.

Most of all, the Manchukuo government took urbanization projects for economic development seriously, and installed urban infrastructure in the capital city, Hsinking.

Wide tree-lined boulevards, a war memorial, the palace of the emperor, and a train station were built. In addition, Hsinking had botanical gardens, decorative lakes and streams, a zoo, and other amenities. By the end of the first phase of construction in 1937, there were 105 new public buildings, including 17 for the Manchukuo government and 88 for other corporations, 3,000 special residences, 5,550 ordinary buildings, 1,067 rental office units, and 421 other houses (Young, 1998: 244-50). The Manchukuo government promoted urban development projects in 48 cities between 1932 and 1938. Yet most other cities gained the basic essentials such as running water and sewage systems, gas and electricity, telephone and telegraph lines, and a road network connecting to the railway station. The government also created parks, public squares, sports facilities, hospitals, and Japanese cemeteries for newly developed cities (Young, 1998: 245). As a result, a significant improvement of the social and economic infrastructure was brought to the Manchurian people by Japan's colonial governance.

3) State-led Economy and long-term development plans: Under the strong government, a modified controlled economy and two Five-Year Economic Development Plans were chosen for Manchurian rapid industrialization. The Guidelines for Controlled Industries (Sangyo Tosei no Taiko) was announced in 1934 to control industries closely related to Japan's national defense and important and basic industries for Manchurian economic development. "Special" and "semi-special" companies were joint-stock companies with public and private capital, and they were created to manage important industries. It

was called the “one enterprise managing one industry” (Ichigyo Ichisha Shugi) system. This “designated a single enterprise or joint-stock company as the agent to coordinate an entire industry on a vertical and horizontal production and distribution basis. Each special company had a director and vice-director appointed by the General Affairs Office, with the necessary business experience and administrative skills” (Myers, 1996).

Two Five-Year Economic Development Plans were the vehicles for Japan’s colonial economic development approach. The first one was successfully enforced between 1937 and 1941, and the second was incomplete but practiced from 1942 to the end of World War II. According to the Outlines for Manchukuo’s Five-Year Industrial Development Plan (Manshu Sangyo Kaihatsu Gokanen Keikaku Koyo), Five-Year Plans specifically aimed at 1)the development of natural resources for preparation for wars; 2)the establishment of a self-help economy while supplying resources to a needy Japan; 3)the foundation of the infrastructure for industrial development in Manchukuo (Kobayashi, 1996:134). The Five-Year Plans attempted to maximize industrialization to enable Manchukuo to manufacture its own weapons, munitions, aircraft, and vehicles, unlike other colonies. Steel, chemicals, and machine tools were also produced more than ever. The Five-Year Plans also had ambitious and specific targets for each area of industrial production. For example, the plan indicated the present capability of production for iron (.85 million tons), the target production (2.53 million tons), and the necessary capital (1.17 billion yen) (Kobayashi, 1996:134).

4) Efficient public and private cooperation:

The exchange of information and frequent communication between government and business helped draft and implement better economic policies. Although this system was formally established in Japan after World War II as the Singikai system, Kobayashi, political economist, argues that this productive government-business cooperation system was first introduced in Manchukuo (Kobayashi, Okazaki, Yonekawa and the NHK research group; 1995:223-6). The close relationship among economic bureaucrats, business people and military officials was observed through important policy-making processes. For example, Nobusuke Kishi, a subsequent deputy chief of the General affairs Office, had dinner meetings with business people, and military officers every night for his three-year stay in Manchuria. The new and important projects that would reform the South Manchurian Railway Company (Mantetsu) and build Manchurian Heavy Industries (Mangyo) were discussed and decided in details by three people, Nobusuke Kishi, Yoshisuke Aikawa, the president of Nissan Corporation, and Yosuke Matsuoka, the president of Mantetsu (Kobayashi, Okazaki, Yonekawa and the NHK research group; 1995:223-6: 50). The Ministry of Foreign Affairs in Japan also attempted to promote cooperation between top business executives and economic bureaucrats in Manchuria (Matsumoto, 1992:6).

5) Foreign capital and technology: In the aforementioned Outlines for Economic Construction in Manchukuo, foreign capital and technology were welcomed for economic development projects, although foreign investments, especially from the United States, had never arrived. Though the United States

did not invest much in Manchuria before 1932, Japan wanted the United States to be more interested in investing for two reasons. First, Japan simply needed more capital for economic development projects in Manchuria. Second, Japan wanted approval from the United States that Manchukuo was an independent state, while the United State could profit in Manchuria. Japan thought that it would be easier to get the support from the United States if both states shared common economic gains in Manchuria (Cho, 1971:116).

The Manchukuo government decided to ask for loans, technology, and construction business deals for the new capital city from France. Originally, 22.25 million yen of the total budget of 43 million yen was planned for loans. However, the Kwantung Army opposed the use of foreign capital, and Mantetsu opposed loans for city planning and the use of French developers for design and construction. Although the Manchukuo government argued that the loans could be diplomatic tools to invite France to Japan's side while the international environment against Japan was getting worse, the total budget for city planning was reduced to about 30 million yen, and 5 million yen was loaned from France. The 5 million yen was used only to build and fix the government offices. Thus, although the Outlines for Economic Construction in Manchukuo sought to apply the open-door and equal-opportunity policies for capital and technology from other industrialized countries, foreign capital and technology were not used for the actual city planning (Cho, 1971:209-10).

The president of Nissan Corporation, Yoshisuke Aikawa, thought that foreign capital and technology were necessary for

comprehensive economic development in Manchukuo. Aikawa originally planned to obtain 250 million dollars worth of investments from the United States to establish Manchurian Heavy Industries (Mangyo) (Johnson, 1982:133). However, since the war against China broke out and the international community criticized Japan's conduct, Aikawa had to give up on his plan to go to the United States to invite investment in Manchuria. Domestic criticism against foreign capital in Manchuria did not stop Aikawa (Manshu Kokushi Kankokai, 1971:551). Though the idea of using foreign capital and technology was there from the beginning, domestic and international constraints held back the plan. If foreign capital and technology had been available, the development plans would have had a greater scale of industrialization in Manchukuo.

6) Establishing Asian Economic Bloc: Japanese military, intellectuals, and politicians created many concepts to justify Japanese imperialism, including the establishment of an Asian economic bloc. The ideas were called the New Order in East Asia, the Japan-Manchuria Economic Bloc, the East Asian League, the East Asian Cooperative Community, the Japan-Manchuria-China Bloc Economy, the East Asian Coordinated Economy, the New Economic Structure, and the Greater East Asia Co-Prosperity Sphere. Since Japan needed more raw materials, markets, and land to solve its domestic population problems, Kwantung army officers sought to create a new kind of economic system in Asia that could be integrated with Japan's economy. Establishing the Japan-Manchuria Economic Bloc was, in particular, one of the most important goals for economic development plans in Manchukuo. The idea of

continental expansion for Japanese economic security was also at the core of Japan's foreign policy at that time. "The integrated industrial and trading unit formed with the Japan-Manchuria bloc economy was extended first to include north China, then the rest of China, and finally Southeast Asia in a self-sufficient yen bloc" (Young, 1998: 50). The Greater East Asia Co-Prosperty Sphere was the final and authorized product of Japan's foreign policy, in particular, to justify entering World War II.

### Case Study 2: ODA Policy for Indonesia (Focusing Between 1965-1990)

This study chose Indonesia as a case study because Indonesia is located in Asia and Indonesia became Japan's largest Official Development Assistance (ODA) recipient country between 1965 and 1990<sup>7</sup>. Japan's ODA to Indonesia is examined to compare with its colonial policy in Manchuria in the prewar period. Although there are significant changes in the international and domestic political system, continuities in Japan's economic development approach in the prewar and postwar periods are articulated through comparison of two case studies.

#### Economic Development Approach

1)Self-help Effort System: Between 1954 and 1990, Japan's ODA and technical assistance personnel had mostly gone to Indonesia. The total amount of technical assistance to Indonesia was 116,266,168 yen, and the number of Japanese specialists, including technicians and researchers, was 13,654. At the same time, Japan invited Indonesian people to Japan

to study or receive vocational training. The number of these Indonesian students was 8,957, and this number was also the largest among countries receiving technical assistance from Japan (Japan International Cooperation agency (JICA), 1998: 119, 267). Kimio Fujita, President of the Japan International Cooperation Agency (JICA), assessed that Japan's ODA for improving human resources was necessary and effective for economic development in Indonesia since the Dutch colonial government did not have any educational policy for the Indonesian people. A number of current Indonesian political and business leaders have received Japan's technical and educational assistance (Sugimoto, 1999:41).

One of the major characteristics of Japan's ODA was the large ratio of Yen loans to developing countries compared to its grant aid. Japan has offered Yen loans at low interest rates with long repayment periods. Japan's economic assistance has been criticized since other donor countries provide more grant aid, and it seems that Japan is doing business with poor countries. However, Japan believed that repayments of ODA loans should promote the self-help effort system in developing countries. The Ministry of Foreign Affairs' Japan's ODA stated, "The significance of ODA loans is that it meets large-scale demands for funds and imposes the obligation to make repayments, thus, support developing countries in making self-help efforts to become economically independent" (Ministry of Foreign Affairs, 1994: 149). This idea came out from Japan's own experience in the postwar period. Since Japan received loans from the World Bank, it could finish establishing economic infrastructures, in particular, in the transportation sector.

2) Mutual Interests between Japan and Indonesia: ODA has become one of the central pillars of Japan's foreign policy since the foreign aid policy was recognized as a comprehensive security policy to achieve Japan's national interests in the long term.<sup>8</sup> Providing ODA to raw material suppliers and using ODA to establish economic infrastructure in Asian countries to increase Japanese investments and trade was especially important for enhancing Japanese economic security policy. As Indonesian oil had been an important target for Japanese colonial and policy, ODA was used as a means of increasing access to Indonesian raw materials. For example, the Japanese government provided equipment and services to develop an Indonesian oil field, the first project for ODA loans through OECD (Arase, 1995: 45). The first projects for development of natural resources for JICA were also in Indonesia in 1970 (JICA, 1998). Indonesia was the largest recipient of Japan's ODA between 1965 and 1990 because of its rich raw materials, especially oil (Lincoln, 1993: 115-7).

A large amount of Japan's ODA to Indonesia had been spent to establish economic infrastructures, much like the colonial policies. The Ministry of Foreign Affairs' ODA report stated, "From the long-term viewpoint, developing countries need to enhance their social and economic infrastructure, which enables them to achieve sustained economic development, in order to realize economic independence and eliminate poverty." (Ministry of Foreign Affairs, 1995:149) The largest percentage of Japan's ODA project loans went to Indonesian economic infrastructures such as construction of transportation, power plants, and telecommunication. Between 1966

and 1990, nearly 47 percent of ODA loans was spent for economic infrastructure in Indonesia. Japan was also willing to provide economic assistance to the Indonesian government to reduce its heavy financial burden. In 1968, the budget for economic development was 41.5 billion rupiah, with 25.7 billion rupiah planned for infrastructures. Indonesia depended on this financial support from Japan to carry out its economic development plans.<sup>9</sup>

3) State-led Economy and Long-term Development Plans: President Suharto introduced the Twenty-five Year Economic Development Plan in 1969. This long-term plan was divided into five-year periods so that the fifth Five-year Development Plan ended in 1994. Compared to Sukarno's regime, the political and economic system had been liberalized under Suharto's administration, yet a state led development strategy was adapted for rapid industrialization. Major industries including oil were still run by the Indonesian government. The authoritarian developmental state was established by President Suharto, and the Japanese government supported that regime. The developmental state provided political stability and long-term national economic planning for economic development in Indonesia.

Japan had assisted the Indonesian government, which did not have a democratic political system, and intervened in the market. The Overseas Economic Cooperation Fund (OECF), an implementing agency of Japan's ODA loans, "carries out studies of macroeconomic conditions and of various sectors of a recipient country based on its national development plan and/or its five year development plan. This information is used to analyze development issues and identify the

priority of projects through policy dialogue” (Overseas Economic Cooperation Fund, 1998:32).  
4) Efficient Public and Private Cooperation: The Shingikai system, one of the characteristics of Japan’s politics, began to work effectively in the Manchukuo state. Shingikai consists of representatives from private sectors to advise bureaucrats in making feasible and effective policies. This mechanism can incorporate private sector views into bureaucratic viewpoints so that efficient public and private cooperation also brings successful implementation of policies. The Shingikai system was also introduced in Japan’s ODA policy.

The Asian Economic Deliberation Council (Ajia Keizai Kondankai) was formed in 1953. It was “under the chairmanship of Yasusaburo Hara, an eminent Asia-oriented business leader from the Mitsui group. This officially sponsored policy deliberation council composed of business executives and government officials helped to institutionalize the close linkage of the government and the private sector in economic cooperation (keizai kyoryoku)” (Arase, 1995:27). One of the achievements of this council was creating the Asian Association (Ajia Kyokai). By the joint sponsorship of the Ministry of Foreign Affairs (MFA) and the Ministry of International Trade and Industry (MITI), the Asia Association was staffed by retired bureaucrats, active and retired government economists, and engineers and professionals, many from the old South Manchurian Railroad Research Department. The association took responsibility for handling Japan’s tasks in the Colombo Plan and research into the Asian economies (Arase, 1995:42).

For effective economic development in Indonesia and achieving Japan’s national

interests, in particular its economic interest, the Foreign Economic Cooperation Advisory Council (Taigai Keizai Kyoryoku Shingikai) was reorganized in 1965. This council was originally formed to monitor new organizations for Japan’s economic assistance in 1961. Although the council was at first chaired by the prime minister, cabinet members and prominent business people attended the council meetings, and later the president of the Japan Chamber of Commerce and Industry took the chairmanship with Saburo Okita as the vice-chairman (Arase, 1995:42, 61). The Foreign Economic Cooperation Advisory Council had been involved in Japan’s ODA policy-making by issuing reports and opinions to prime ministers.

5) Foreign Capital and Technology: Japan did not exclude participation from other countries to assist economic development in Asia. The Southeast Asian Development Cooperation Fund was proposed by Prime Minister Nobusuke Kishi in 1957 to promote economic development in Southeast Asia. The idea of this fund was to gather more capital and technology for Asian developing countries; however, the United States did not approve of this idea.

Japan joined the multilateral aid group for a comprehensive economic development plan in Indonesia. In 1967, the Inter-government Group on Indonesia (IGGI) was created by twelve non-communist countries and international organizations to support Indonesian economic development.<sup>10</sup> Japan was one of the major donors to the IGGI based on the one-third formula. Japan committed 50 million US dollars to rescue Indonesia from a financial crisis in 1967. The United States arranged a loan of 45.5 million US dollars at the same time (Yamada, 1998: 27-8). The IGGI members discussed

technical and financial assistance to Indonesian economic development while coordinating donor interests.

6) Asian Economic Bloc: Establishing an Asian economic bloc like the EC in Europe was considered the long-term aim to assist economic development in Asia. Although the Pacific Basin Community Plan was officially introduced by Prime Minister Masayoshi Ohira in 1978, the idea of a regional bloc in the Pacific Basin had been discussed since 1968.<sup>11</sup> As already noted, more than 60 percent of Japan's ODA concentrated on Asian countries because Japan used ODA not simply to develop new sources of supply and to open new markets but more broadly to integrate the Asian-Pacific region under Japanese leadership (Waltz, 1993:58). Japan wanted an institutional economic and military framework for cooperation in the Asian-Pacific region, similar to NATO and the EC in Europe (Funabashi, 1992: 63).

Promoting economic development in Asia was also part of Japan's comprehensive security policy. Poverty, undeveloped medical care, public health, and educational systems might cause conflicts between North and South countries. To avoid wars and create a peaceful international environment, Japan should increase its economic assistance to Asia.<sup>12</sup> In particular, economic assistance to Southeast Asia was considered vital to promote economic development. To stabilize economic systems in Southeast Asia, Japan recognized its responsibility to offer long-term financial and technical assistance to the region.<sup>13</sup>

Establishment of the Asia Development Bank (ADB) was primarily to promote regional economic development. The ADB's fund was planned to effectively develop resources in Asia,

and to promote balanced economic development and expansion of trade in the regional bloc.<sup>14</sup> Japan attempted to take a leadership role in the organization by sharing more financial costs and voting rights, providing the location for the headquarters, and the presidency of the ADB (Yasutomo, 1983, Wan, 1995). Although the headquarters were not built in Tokyo, the ADB president has always been Japanese. However, since the idea of creating a regional economic bloc and obtaining the leadership role was similar to the "Greater East Asia Co-Prosperty Sphere," Japan was careful not to offend other members of the ADB.<sup>15</sup> The Asia Pacific Economic Cooperation (APEC) was founded in 1989. Although the APEC philosophy was the idea of "open regionalism," the organization was to promote economic cooperation among Asian countries. The APEC could be established since many Asian countries achieved economic development.

## Research Findings

This study discovered significant continuity in personnel in Japan's colonial and ODA policies despite major changes in the domestic and international political systems. Continuity of personnel in decision-making organizations was chosen by the United States and Japanese governments, and the idea of the economic development approach was carried forward by the continued decision-makers through their learning and experience. As seen in Table 1, the organizational framework of the decision-making process changed between two policies before and after World War II. Each policy had different players in bureaucracy, think-tanks, and political parties. However, the

Ministry of Commerce and Industry (MCI) in the prewar and war time period became the Ministry of International Trade and Industry (MITI) after World War II. The bureaucrats in MCI continued to be involved in foreign economic policies through staying in MITI or becoming politicians. For example, though Nobusuke Kishi and Etsusaburo Shiina were MCI officers in the prewar period, they became politicians after World War II (Table 1).

The continuity in personnel in the policy-making process explains why and how the ideas of Japan's economic development approach were institutionalized. For example, Kishi was the most influential person in organizational continuity. While he was prime minister, Kishi created his own faction in the LDP, which carried his agenda and policy choices and raised other prime ministers. Takeo Fukuda belonged to Kishi faction, and succeeded to Kishi's personal connections in Japan and foreign countries. Fukuda made efforts to reconstruct Japan's Asian diplomacy like Kishi did with the South Asian Development Cooperation Fund. Also, Japan did not experience a radical discontinuity in its civilian bureaucracy. The unique history can explain the continuity of Japan's economic development approach because institutionalized ideas no longer required the presence of individuals to maintain their influence.

Since the colonial period in Manchuria, Japan's economic development approach had been discussed and drafted in think-tanks or committees: the Economic Research Association (ERA) in Mantetsu and the Japan-Manchukuo Finance-Economic Research Association (JMFERA) for Manchurian development, and the Asian Economic Deliberation Council (AEDC)

and Foreign Economic Cooperation Advisory Council (FECAC) for ODA policy. All the above advisory organizations were comprised of politicians, bureaucrats, and business leaders to share information and discuss Japan's national interests in Asian economic development.

In the Japanese business community, Yoshisuke Aikawa, Yutaka Kubota, and others continued to participate in decision-making and the implementing of Japan's economic development approach before and after World War II. They were significantly influential due to their personal connections with Asian political and business leaders, and their experience in the economic development projects in Japan's colonized Asia. In sum, the idea of economic development approach was shared among Japanese politicians, bureaucrats, and business leaders, and was institutionalized in the ODA community. Ideas have to become embedded in state institutions to be successfully implemented. In the case of Japanese ODA policy, personnel continuity and bureaucratic organizational routines institutionalized the ideas of economic development. The ideas were clearly identified in official documents continuously because they became embedded in the incremental and path dependent ODA bureaucratic politics system. Therefore, the Japanese economic development approach shaped by personal experience and learning explains the intellectual continuity that has become consolidated in Japan's current ODA policy.

The institutionalized ideas of Japan's economic development approach were analyzed mainly through Japan's official documents and the minutes of Diet committees. As Table 2 shows, the ideas continued to have influence,

**Table 1: Continuity and Change in Policy-Making Organizations**

	<b>Prewar</b>	<b>Postwar</b>
	Colonial Policy for Manchuria	ODA Policy for Indonesia
Domestic Actors	<p><b>Bureaucracy</b> Ministry of Commerce and Industry</p> <p>Ministry of Finance Kwantung Army</p> <p><b>Think-Tanks</b> Economic Research Association Japan-Manchukuo Finance Economic Research Association</p> <p><b>Government</b> Key players Shimpei Goto Nobusuke Kishi Masayoshi Miyazaki Etsusaburo Shiina Kanji Ishiwara</p> <p><b>Business</b> Yoshisuke Aikawa Aiichiro Fujiyama Yutaka Kubota Yasuzaeon Matsunaga Tatsunosuke Takasaki</p>	<p><b>Bureaucracy</b> Ministry of International Trade and Industry(MITI) Ministry of Finance (MOF) Ministry of Foreign Affairs (MOFA) Economic Planning Agency (EPA)</p> <p><b>Committee</b> Asian Economic Deliberation Council (AEDC) Foreign Economic Cooperation Advisory Council (FECAC)</p> <p><b>Political Party</b> The Liberal Democratic Party (LDP) Oversea Economic Cooperation Committee</p> <p><b>Government</b> Prime Minister Nobusuke Kishi Eisaku Sato Takeo Miki Takeo Fukuda Masayoshi Ohira Minister Aiichiro Fujiyama Tatsunosuke Takasaki</p> <p><b>Business</b> Consulting Companies</p> <p>Yutaka Kubota Yasuzaeon Matsunaga</p>
International Actors		The U.S.A. Inter-Government Group on Indonesia (IGGI)

from Japan's colonial policy in Manchuria to its ODA policy, although there were some modifications. One of the similarities in Japan's colonial and ODA policies, investing in human resources, can be explained by the idea of supporting self-help efforts. All policies attempted to enhance the self-help effort system

in Asian countries through different programs. The fellowships program had a long history that rose political and business leaders in Asian countries. While Japan expanded technical assistance and Yen loans to Asia in the postwar period, the idea of supporting the self-help efforts of developing countries had become

**Table 2: Continuity and Change in Japan's Economic Development Approach**

Policy Ideas	Colonial Policy for Manchuria	ODA Policy for Indonesia
Self-help effort system (Jijyo Doryoku)	-Fellowship program -Urban planning	-Fellowship -Expert Service -Yen Loans
Mutual interests between Japan and Asian Counties	-Economic infrastructure establishment -Development of natural resources	-Economic infrastructure establishment -Development of natural resources
State-led Economy	-Controlled Economy -Five-year development plans	-Supported Sukarno's and Suharto's regimes
Public -private cooperation	-Shingikai system was established	-Asian Economic Deliberation Council (AEDC) -Foreign Economic Cooperation Advisory Council (FECAC) -Consulting companies
Foreign capital & technology	-the United States -France	-Inter-Government Group on Indonesia (IGGI) -World Bank -IMF
Asian economic bloc	-Japan-Manchukuo Economic Bloc -Yen bloc	-Pacific Basin Community Later, Asian Pacific Economic Community (APEC) -Yen Loans

the most important aid philosophy, and was finally stated in the basic principles of Japan's ODA Charter in 1992 (Nishigaki and Yasutani, 1999:146).

The focus on development of natural resources and economic infrastructure projects is a salient similarity in Japan's colonial and ODA policies. Enhancing the security of raw material supply was essential for Japanese foreign policy, and will continue to be important in the future. The development of colonial infrastructure and industrialization of colonies was part of Japan's competition with more advanced powers in the global economy, since the increasing world trend toward an economic bloc forced Japan to create its own self-help territory. The trend toward a regional economic

bloc reoccurred in the postwar period. Thus, the feature of investing in economic infrastructure in Japan's colonial and aid policies is explained by the ideas of seeking mutual interests between Japan and Asian countries through the establishment an Asian economic bloc. First, Japan's aid to establish infrastructure was important for economic development in developing counties due to their lack of skills and capital. Aid recipient countries cannot promote further industrialization without efficient transportation and telecommunication systems. Second, Japan could increase its investments and trade if economic development succeeded in the Asian developing countries. Japan especially needed to secure natural resources from Asian countries such as

Indonesia. Third, economic infrastructure development contributed not only economic but political stability since it improved local peoples' standards of living. As a result, relations between Japan and Asian countries should improve and promote cooperation to establish an Asian economic bloc.

The active role of government was also particularly significant in Japan's economic development approach. Japan's colonial governments in Asia installed controlled economic systems, and Japan supported authoritarian governments in Asia to promote economic development in the postwar period. Strong governments were effective in the early stages of development for the Manchurian and Indonesian cases for two reasons. First, although they were not democratic, and human rights were violated, Manchuria and Indonesia maintained political stability, a premise for sustainable economic growth. Second, the politically stable governments could set long-term national goals and enhance comprehensive economic development plans. Manchuria had two Five-Year Economic Plans, and Indonesia had the Eight-Year Economic Development Plan under Sukarno and Twenty-five Year Economic Development Plans under Suharto.

Efficient public and private cooperation systems for economic development were originated in the Meiji era. To catch up with Western industrialization, Japan had to enhance rapid and comprehensive economic development with limited resources. The formulation of this cooperation as the Shingikai system occurred in Manchuria. Since then Japanese economic policies have been discussed and drafted between government and business leaders in various Shingikai meetings.

The case studies of Manchuria and Indonesia showed that public-private cooperation was a major feature of Japan's economic development approach from decision-making to implementation. In the prewar and wartime periods, the Economic Research Association (ERA) in Mantetsu and the Japan-Manchukuo Finance-Economic Research Association (JMFERA) for Manchurian development assisted in drafting colonial development policies. Mantetsu and Mangyo were joint-stock companies that implemented economic development plans in Manchuria. In the postwar period, the Asian Economic Deliberation Council (AEDC) and the Foreign Economic Cooperation Advisory Council (FECAC) were involved in decision-making for ODA policy. The public corporations, the Japan International Cooperation Agency (JICA) and the Overseas Economic Cooperation Fund (OECF) were implementing agencies.

Utilizing foreign capital and technology was important in Japan's colonies and their domestic economic development since Japan was about twenty years behind European and American developments. The use of advanced foreign technology was not seen in Western countries' colonies, and it shows that Japan was seriously engaged in Manchurian colonial development to promote industrialization. Although the idea of introducing French capital and technology for urban planning of Hsinking and American capital for the Five-Year Economic Development Plans was there, the Japanese government could not implement them due to objection from the Japanese military and international political circumstances.

In the postwar period, Japan became an aid recipient for its economic recovery, and

later became the largest aid-giving country. Japan received 0.86 trillion US dollars in loans from the World Bank between 1953 and 1966. More than 60 percent of these loans was used for infrastructure (Nishigaki and Yasutani, 1999:141). Based on its own experience, Japan provided ODA to Asia through bilateral and multilateral methods, and made sure that developing countries could take advantage of technology and capital from industrialized nations. The case study of Indonesia showed that Japan joined the Inter-Government Group on Indonesia (IGGI), and played a significant role in supporting Indonesian economic development. Yet Japan still enhanced its economic development approach in the multilateral framework.

The aim to establish an Asian economic bloc was one of the most important economic development approaches of Japan through the colonial and ODA policies. Creation of the Greater East Asia Co-prosperity Sphere in wartime, and the Pacific Basin Community Plan (PBCP) and the Asia Pacific Economic Cooperation (APEC) in the postwar period, were built on the idea that Japan could achieve comprehensive security to survive trends of regionalism in world politics. Regional economic development secured the source of natural resources and promoted political stability for the foundation of an Asian economic bloc. Thus, the idea of seeking mutual interests between Japan and Asian countries also aimed at establishing an Asian economic bloc. Attempting to establish the Yen bloc in Asia during wartime, and the usage of Yen for grants and loans of its ODA in the postwar period, was designed to promote regional economic cooperation, and Japan was willing to play the leadership role in

an Asian economic bloc.

## Conclusion

This study examined how Japan enhanced its economic development approach in Asia through colonial and ODA policies over one hundred years. Although there are some changes, the basic ideas of Japan's economic development approach still exist in the current ODA policy. However, what would have happened if Japan's ODA policy did not have ideas of its own economic development? Japan's ODA might have followed the World Bank's direction based on a neoclassical economy opposite to Japan's preference of a state-led economy. Since Japan received loans from the World Bank to reconstruct its economy while it started ODA, the World Bank could influence Japan's ODA policy. If this were the case, the institutionalist approach would claim that the international institutions like the World Bank and the United Nations can spill over the idea of economic development to individual countries. The approach also argues that international norms and ideas can shape a state's policy preference.

Japan could have adopted a welfare state policy that gave more grant aid to the poorest countries if Japan had not had the idea of an economic development policy. Instead, Japan provided Asian countries most of their ODA as loans. This policy was chosen because the Japanese government and business organizations shared the idea that mutual interests between donor and recipient countries are important. Providing ODA to Asian countries assisted Japanese business to expand investment and trade, as shown in

the Indonesian case study. Also, yen loans are designed to promote the self-help effort system in developing countries.

If an external factor like the United States were more important than ideas in shaping Japan's preference, Japan's ODA loans could not have focused on Asia, since the United States suggested Japan change its geographical distributions. If Japan had not provided ODA loans to Asian countries, economic development in Asia might have been delayed, and it might also not have been easy to create the Asian Pacific Economic Corporation (APEC).

However, will Japan continue to use those ideas? Some of the ideas probably will be enforced and continued, while others may not. The idea of support for self-help efforts is clearly emphasized in Japan's basic philosophy in its ODA Charter of 1992. Also, the importance of self-help effort was recognized in the global aid community (Development Assistance Committee (DAC), 1996:1). The idea of seeking mutual interests between Japan and recipient countries was also enforced and recognized by the DAC (DAC, 1996:6). Moreover, advocating national interests achieved through ODA helped Japan's government justify the large volume of ODA under the sluggish domestic economy. Efficient public-private cooperation through ODA will be inevitable since Japan's government needs more assistance from Japanese business for burden sharing due to its economic condition.

On the other hand, the idea of a state-led economy has tended to disappear, since support of authoritarian states has become more difficult in the international community. Political freedom and human rights are more important, and one of the four principles of the ODA Charter states "full attention should be

paid to efforts to promote democratization and introduction of a market-oriented economy, and the situation regarding the securing of basic human rights and freedom in the recipient country" (Ministry of Foreign Affairs, 1998:151). Although Japan did not practice this principle by continuing aid to China and Myanmar, Japan should recognize the responsibility of its leadership role in the global aid community, and enhance its ODA principle in the future.

The aim to establish an Asian economic bloc was achieved when APEC was created, though its economic integration is still weak. Maintaining a large volume of ODA to developed Asian countries was no longer justifiable. Yet Japan's ODA should continue helping other Asian countries in economic crisis and promoting economic stability in the regional bloc. Thus, the idea to establish an Asian economic bloc has transformed into the idea of promoting and maintaining the Asian economic bloc. In conclusion, since the ideas of Japan's economic development policy did not change through drastic changes in the domestic and international system at the end of World War II, as we have seen in this study, Japan's ODA policy will continue to carry most of the ideas that have already been institutionalized in its ODA policy.

## NOTES

- 1 Except Akira Nishigaki and Yasutanmi Shimomura, *The Economics of Development Assistance* (Tokyo: LTCB International Library Foundation, 1999), 153-5 and Akitoshi Miyashita, "Gaiatsu and Japan's Foreign Aid: Rethinking the Reactive-Proactive Debate," *International Studies Quarterly* (1999) 43, 696. Nishigaki and Shimomura traced the ideas of Japan's ODA to the Edo period. Miyashita

states that Japan's postwar foreign aid was designed to reestablish wartime "Co-Prosperty Sphere."

- 2 Yukiko Kuramoto, "Japan's Foreign Policy for Asia: Ideas of Economic Development and Institutions" (George Washington University, 2003: 17). The data was based on Toshiyuki Mizoguchi and Mataji Umemura eds., *Basic Statistics of the Former Japanese Colonies 1995-1938*.
- 3 This study borrows Haas' definition of knowledge to define the ideas as independent variables.
- 4 Except Kanji Ishiwara, who was in the Kwantung Army. Ishiwara had knowledge of economics, and he also initiated an outline plan to develop Manchuria.
- 5 An interview with a Japan International Cooperation Agency (JICA) officer (November 11, 1996).
- 6 This study applied the method from Alexander George, "Case Studies and Theory Development: The Method of Structured, Focused Comparison," Paul Lauren, *Diplomacy* (New York: The Free Press, 1979), 43-68.
- 7 Between 1965 and 1990, Japan's ODA to Indonesia was nearly 74.36 billion US dollars
- 8 For instance, in 1968, even when Japan was not wealthy enough to increase its foreign aid further, the Foreign Minister Takeo Miki (later prime minister) explained the importance of Japan's obligation of economic assistance. Diet, the Upper House, the Committee on Closing Accounts, the 58<sup>th</sup> Diet, no.13 (April 19, 1968).
- 9 In comments by an officer of the Economic Planning Agency. Diet, the Upper House, the Committee on Commerce and Industry, the 58<sup>th</sup> Diet no.22 (May 24, 1968).
- 10 Current IGGI members are Austria, Belgium, France, Germany, Italy, Japan, Netherlands, United Kingdom, Australia, Canada, Switzerland, United States, the World Bank, the International

Monetary Fund (IMF), United Nations Development Programme (UNDP), and Asian Development Bank(ADB).

- 11 Comment by The Foreign Minister Takeo Miki (later prime minister). Diet, the Lower House, the Committee on Closing Accounts, the 58<sup>th</sup> Diet no.10 (April 22, 1968).
- 12 For example, Prime Minister Eisaku Sato explained the purpose of Japan's economic assistance as an important foreign policy. Diet, the Upper House, the Committee on Commerce and Industry, the 58<sup>th</sup> Diet no.22 (May 24, 1968).
- 13 This point was explained by the Foreign Minister Kiichi Aichi to introduce the view of the Ministry of Foreign Affairs. Diet, the Lower House, the Committee on Budget, the 61<sup>st</sup> Diet no.17 (March 3, 1969).
- 14 Agreement of the establishment of the ADB. Diet, the Upper House, the Finance Committee, the 68<sup>th</sup> Diet no.33 (June, 12 1972).
- 15 The Finance Ministry officially explained the role of Japan in the ADB for the Finance Committee. Diet, the Upper House, the Finance Committee, the 68<sup>th</sup> Diet no.33 (June, 12 1972).

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