

Governance, Political Conditionality, and Japan's Aid Policy

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SINCE THE END OF THE COLD WAR, leading industrialized nations' governments have emphasized that East and West have a common interest in the promotion and establishment of democracy and human rights. In addition, the view that the promotion of recipient countries' democratization is one aim of economic aid and that the establishment of democratic political institutions is one condition for receiving such aid has gained ground. Consequently, in 1991 and 1992 major industrialized nations' governments incorporated political conditionality in their bilateral aid guidelines.

The European Bank for Reconstruction and Development (EBRD), established in 1991, was the first multilateral development bank (MDB) that incorporated political conditionality in its foundation agreement.* Article 1 of the agreement states that "in contributing to economic progress and reconstruction, the purpose of the Bank shall be to foster the transition towards open market-oriented economies and to promote private and entrepreneurial initiative in the central and eastern European countries committed to and applying the principles of multi-party democracy, pluralism and market economics." And Article 8, paragraph 3, states: "In cases where a member might be implementing policies which are inconsistent with Article 1 of this Agreement, or in exceptional circumstances, the Board of Directors shall consider whether access by a member to Bank resources should be suspended

* French President François Mitterrand proposed the establishment of the EBRD at the European Community summit in December 1989. The need for such a bank was contested from the beginning.

or otherwise modified and may make recommendations accordingly to the Board of Governors. Any decision on these matters shall be taken by the Board of Governors by a majority of not less than two-thirds of the Governors, representing not less than three-fourths of the total voting power of the members."

The EBRD limited loans to the Soviet Union to the amount of its capital contributions. Loans to the Soviet Union were suspended altogether after the coup d'état of August 1991, as EBRD President Jacques Attali claimed that this constituted a setback to democratization. It is important to note the difference behind this decision and the World Bank's decision to suspend loans to China after the Tiananmen Square incident of 1989. In keeping with the World Bank's principle of non-political consideration, political instability of the borrower state was given as justification for the latter decision. After the Soviet Union's collapse, the EBRD removed limits on loans to the former Soviet republics, but the total amount of loans to the Commonwealth of Independent States did not exceed 40 percent of all EBRD lending in March 1992.

Asian countries bitterly criticized the idea of linking democracy and economic aid, arguing for "Asian human rights" and "Asian values." Even if they shared the idea that democracy and the protection of human rights were important goals, they emphasized the "Asian way" of achieving these goals. Thus, Asian values and the Asian way became controversial issues in the post-cold war period.

Japan was caught between Asia and the West, as it had been during the Meiji period (1868–1912) of early modernization. The government and public agreed with the Western idea that democracy and the protection of human rights were universal goals, but were also sympathetic to the governments of developing countries, which gave priority to economic development while constraining political democracy during the transitional period.

Specifically, the debate over Asian values and the Asian way raised two questions for Japan. First, there was the question of domestic governance, especially in regard to the relationship between government and markets, that is, whether the Japanese model and East Asian models, in which governments frequently lead markets, were right. Second, it raised the question of whether Japan should maintain the principle of the separation of economic and political considerations in its aid policy.

This chapter will examine Japanese policy regarding the issue of

political conditionality in its official development assistance (ODA), examining how Japan has dealt with the problems raised in the debate over Asian values and the Asian way in the post-cold war period.

AID POLICY DURING THE COLD WAR

In the 1970s and 1980s, Japan showed little concern for the international protection of human rights and the democratization of Asia. Japan's low profile during the cold war period can be attributed to the following factors.

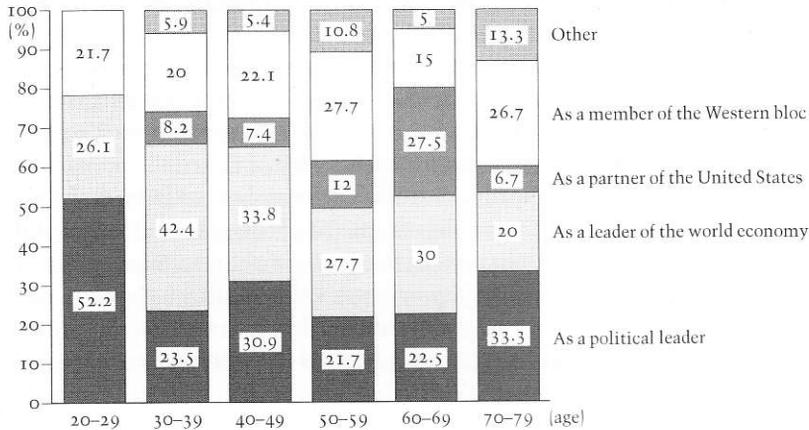
First, as Ōnuma Yasuaki has observed, "the failure of Japan to confront the problems of war guilt and colonial guilt has prevented Japan from taking a leading role in Asia, particularly in areas where ethics or morality are involved. The issue of human rights is precisely such an area. Had Japan openly criticized China or Korea for their failure to secure human rights, there would have been a harsh reaction, being that Japan had not yet taken full responsibility for a colonial rule replete with human rights abuses" (1996, 5).

Second, during the post-World War II period many Japanese believed that Japan should not play a political and military role in the international community but should concentrate on improving economic well-being. Most Japanese saw seeking political leadership in international relations as leading to the revival of a military giant. A 1988 Japan Association of International Relations questionnaire sounded out members' perceptions of the issue. Of the some 1,200 members, 329 answered the questionnaire, a rate of return of about 27 percent. The results indicated that the older generation preferred the economics-oriented approach to political leadership (fig. 1). Neither the international protection of human rights nor support for the democratization of developing countries attracted much attention (Ishikawa and Ōshiba 1992).

Third, the distinct separation of economic assistance from politics greatly limited opportunities for political debate regarding Japan's aid policy, although it was said to be ambiguous (Yasutomo 1993, 326).

The Tiananmen Square incident posed an extremely difficult problem for the Japanese government. Western governments bitterly criticized the Chinese government's behavior and immediately decided to suspend economic assistance. They pressured Japan to take a similar line, and the Japanese public also demanded that the government express opposition to China's behavior. The government reluctantly

Figure 1. What Role Should Japan Play in the International Community?



SOURCE: Ishikawa and Ōshiba (1992, 275).

decided to suspend new aid to China but continued to provide aid for ongoing projects because it would be extremely expensive to resume projects that had been frozen. In addition, the Japanese business community argued that Japan had many more commercial interests in China than Western countries had.

The government lobbied hard at the July 1990 Houston summit of the Group of Seven for resumption of Japanese bilateral ODA to China and succeeded in gaining the approval of the Western members (Ōshiba 1991, 24). Japan still adhered to the principle of the separation of economic and political considerations.

AID POLICY AFTER THE COLD WAR

In the post-cold war period, there appeared to be a major shift from the principle of the separation of economic and political considerations that was one of the basic premises of the Bretton Woods system as leading industrialized nations began extending economic assistance with the aim of supporting democratization. It was in accordance with this line of thinking that the Kaifu Toshiki cabinet announced four guidelines for ODA in April 1991, which included efforts for democratization and the protection of human rights.

In June 1992, the government adopted the so-called ODA Charter by cabinet decision. The charter states that Japan should take into

consideration efforts for democratization (which can be called democratization conditionality), the securing of basic human rights and freedoms (human rights conditionality), and the reduction of military arms expenditures, arms trade, and weapons of mass destruction (nonmilitarization conditionality) in potential recipient countries (Ministry of Foreign Affairs 1997, 72). The charter was not adopted by consensus, however. A few staff members of the Ministry of Finance opposed the idea of political conditionality, whether bilateral or multilateral. Staff members of aid agencies were also skeptical of the practical applicability of political conditionality as set forth in the charter. Some officials in industrialized nations saw Japan's new ODA policy as merely paying lip service to the Western industrialized nations.

The government claims that it has applied the principles of the charter in some cases. The 1997 ODA white paper classified these into the following three categories:

- ♦ Positive linkage: Japan increased its aid in response to recipient countries' efforts to introduce market economies or move toward democracy. Examples included Cambodia, Central Asian countries, Mongolia, and Vietnam.
- ♦ Negative linkage: Japan decreased or suspended aid because of repeated violations of basic human rights and freedoms in recipient countries. Examples included Congo, Myanmar, Nigeria, and Sudan.
- ♦ From negative to positive linkage: Japan resumed aid to countries to which aid had been suspended for reasons of political conditionality. Examples included China, Haiti, and Kenya (Ministry of Foreign Affairs 1997, 74–80).

The government has accumulated experience in applying the principles of the ODA Charter, but there are still some problems that need to be examined in detail. First, the government increased aid to transitional countries, such as Cambodia, Central Asian countries, Mongolia, and Vietnam, in connection with efforts to introduce market economies. The ODA Charter does list efforts to introduce market economies as an aid criterion. However, it is also a fact that Japan has major commercial interests in these countries.

Second, Japan suspended aid to Congo, Myanmar, and Nigeria but resumed emergency aid to these countries easily, although the policy of political conditionality cannot be effective unless all donors cooperate. In addition, even when only humanitarian and emergency aid was provided, the resumption of aid to nondemocratic countries

was criticized on the grounds that it might encourage the governments of nondemocratic countries. For example, in February 1990 Japan resumed aid for uncompleted projects in China that had been suspended since September 1989, although pledges for new aid contracts were still frozen.

Third, even when Japan suspended grants to China in 1995 in protest against Chinese nuclear tests, it continued to provide loans. Moreover, Japan started to provide grants again as soon as China declared that it would undertake no further tests.

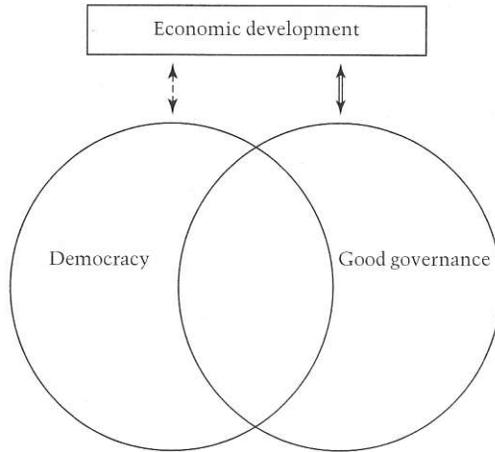
Many Japanese doubted that the Japanese government would seriously apply human rights conditionality for fear of being criticized for having committed violations of human rights in the prewar and wartime period. Even so, they expected Japan to adhere to nonmilitarization conditionality because of the Constitution's stipulation of pacifism and because Japan was the only nation to have undergone nuclear bombardment. However, the government's behavior toward China increased their skepticism regarding the government's willingness to apply nonmilitarization conditionality as well as democratization conditionality and human rights conditionality.

DEMOCRACY OR GOOD GOVERNANCE?

Political conditionality raises an important question not only for Japan but also for MDBs, such as the World Bank and the Asian Development Bank. The World Bank's response to this question has opened a new dimension concerning the issue of political-economic linkage. Traditionally, MDBs have been forbidden to consider borrowers' political factors in making loans (Yokota 1977; Ōshiba 1994, chap. 3). Therefore, they faced the question of how to bring traditional rules into line with leading industrialized nations' political conditionality. Through a debate over political conditionality, the World Bank decided to emphasize the concept of good governance rather than democracy in its development policy. The bank defines good governance as comprising four elements: efficiency of public-sector management, accountability, transparency, and a legal framework for development (World Bank 1992; World Bank 1994).

The World Bank distinguishes between democracy and good governance. For example, democratic political regimes do not guarantee the efficient management of the public sector, which is one element of good governance. The World Bank considers support for good

Figure 2. *The World Bank's Perception of the Relationship among Economic Development, Democracy, and Good Governance*



SOURCE: Ōshiba (1994, 143).

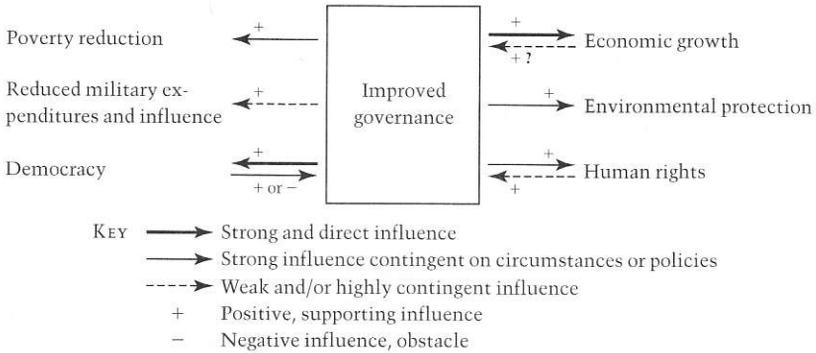
governance more important than support for democracy, since the former is directly related to development (fig. 2). As a result, the bank is able to maintain its principle of nonpolitical consideration, remaining true to the functional approach.

The World Bank's emphasis on the promotion of good governance is not simply a means of getting around the problem of political conditionality. In fact, a World Bank report issued just before the end of the cold war explained that the idea of good governance had emerged from the bank's experience of structural-adjustment financing and institutional development in the 1980s (World Bank 1989).

The concept of governance has become important in the field of development assistance. There has been a great deal of discussion of the relationship of democracy, governance, human rights, and other factors. Joan Nelson and Stephanie Eglinton (1993) have diagrammed the relationship among them (fig. 3). The World Bank regards good governance as compatible with democracy, arguing that its policy is consistent with developed countries' political-conditionality policy because improved governance, greater disclosure of information, and increased transparency in government decision-making processes contribute to democratization.

"Good governance" is a politically convenient term to satisfy both donors and recipients. In addition, improving governance can be dealt

Figure 3. Interaction among Various Goals



SOURCE: Nelson and Eglinton (1993, 74).

with as a technical issue. As a result, economists and technocrats in Japanese aid agencies prefer to emphasize improving governance in order to avoid the politicization of economic assistance.

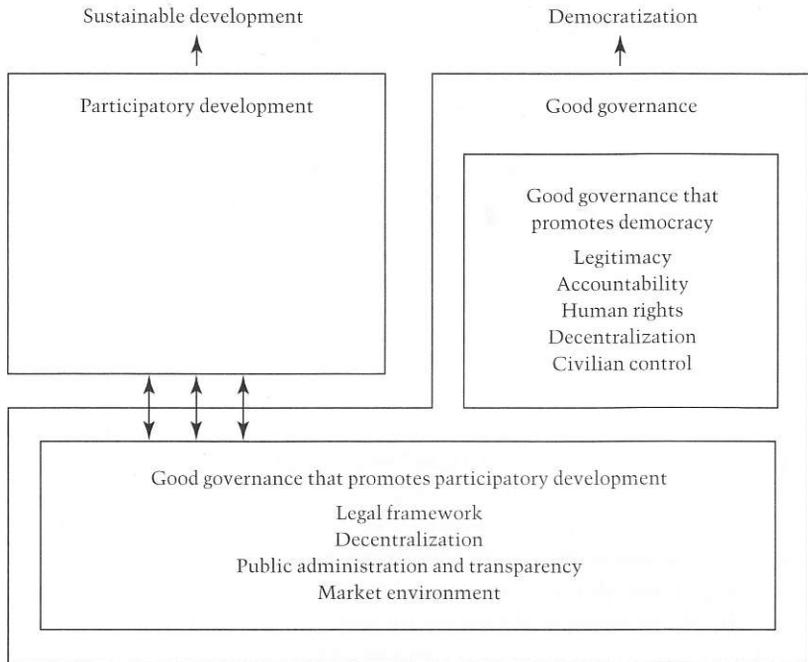
When good governance became a key concept in the field of development assistance, developing countries raised the issue of which was more important, democracy or good governance, and insisted that priority should be given to the latter. Despite its recognition that there is a difference between democracy and good governance, the World Bank and industrialized nations basically consider the two compatible, and thus have no clear answer to this question.

Japanese aid agencies, which preferred the principle of the separation of economic and political considerations, also began to stress governance rather than political conditionality. For example, the Japan International Cooperation Agency (JICA) set up a study group on the definition of participatory development and good governance and published its definition of good governance in 1994 (fig. 4; Japan International Cooperation Agency 1994).

Asian countries were major critics of political conditionality. Because East and Southeast Asian nations had become more prosperous and self-confident since the 1980s, they opposed the simple linkage of economic development on the one hand and democracy and human rights on the other.

First, the governments of Asian countries and Western developed countries debated the priorities of economic development and democracy and human rights. Generally speaking, Asian governments emphasized the importance of social stability and economic development,

Figure 4. JICA's Definition of Participatory Development and Good Governance



SOURCE: Japan International Cooperation Agency (1994).

whereas Western governments stressed the priority of democracy and human rights. In the 1980s, a number of Asian countries achieved remarkable economic growth and shifted to more democratic regimes. The governments of these countries advocated the idea that economic development would eventually lead to democratization.

Second, Asian governments were afraid that West European countries and the United States might apply standardized criteria in examining political conditions in recipient countries rather than consider the differences among these countries. At the same time, they were worried that donors might apply political conditionality to a few countries while not applying it to friendly countries—the so-called problem of double standards.

Third, Asia and the West evaluated the economic growth of Asian countries differently. West European countries and the United States did not accept strong government-led policy as a legitimate

economic-development model partly because government-led economies differed from Western capitalist economies and partly because dictatorships in developing countries could restrict political freedoms for the sake of economic development.

This was the environment when, in a 1993 report titled *The East Asian Miracle: Economic Growth and Public Policy*, the World Bank, which had hitherto stressed a neoclassical development strategy, to some extent recognized the validity of the Asian development model, which gives government an active role in market economies. Japan, the number-two capital-subscriber state, had played a big part in bringing about this state of affairs (Lincoln 1993, 215).

Opinions on the "Asian-style development strategy" differ greatly. Differences of opinion are evident even among World Bank staff members, since many are still critical of the 1993 report. For example, there are doubts about the extent to which the experiences of newly industrialized economies (NIEs) can be generalized as a developmental model. Investment from Japan as well as open markets in the United States were made possible by the cold war, which facilitated rapid economic growth in those countries. But it seems unlikely that such favorable conditions will exist in other developing countries. Moreover, Asian NIEs' economic successes are often attributed to strong intervention and leadership by governments that have pushed for a shift from import-substitution to export-oriented policies.

Furthermore, while some have praised the role played by "effective bureaucracies" in East Asian development, those critical of the Asian model point out that these dynamic bureaucracies eventually lose their flexibility and that this can lead to political corruption and economic protectionism.

PROSPECTS FOR THE NEXT DECADE

To summarize, in the first half of the 1990s Western industrialized nations emphasized that all human beings have a common interest in the promotion and establishment of democracy and human rights. As a result, Asian and Western governments entered into a controversy over the relationship between economic development on the one hand and democracy and human rights on the other and the legitimacy of political conditionality and the problem of double standards in its application. The Japanese government was caught between Asia and the

West. Finally, in response to pressure from Western countries, it decided to switch from the principle of the separation of economic and political considerations to that of political conditionality.

Western popular agitation subsided in the latter half of the 1990s, and good governance became an important concept in the field of development assistance. While Western developed countries saw good governance as compatible with democracy, Asian countries accepted this new concept on the basis that they had demonstrated good governance. Thus, Asian and Western governments had a less bitter conflict regarding development assistance. The Japanese government welcomed this situation and incorporated the concept of good governance in its own aid policy.

As shown in this chapter, the opinion that all countries have a common interest in the promotion and establishment of democracy and human rights strongly influenced Japan's foreign policy, especially its aid policy, in the 1990s. Japan's domestic governance problems, such as government-market relations, were debated in the context of the "East Asian miracle," but the government had strong confidence in its system of governance.

The Asian financial turmoil that began in 1997 has had a direct impact on Japan's domestic governance. The Japanese people are becoming skeptical of the accomplishments of state-led economic development in Japan and have started to reexamine the government-business relationship. Western governments, meanwhile, see the controversy over the effectiveness of the Asian-style developmental model as over and are pressuring Japan to change its domestic governance and abandon its Asian model. Reexamination of the relationship between government and markets will be the central political issue for Japan in the next decade. Few people today now raise the question of which is more important, democracy or governance. The idea that governance without democracy cannot contribute to economic development prevails.

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