

# Dueling Development Models: Japan's Challenge to the Washington Consensus in the 1990s

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DUELING DEVELOPMENT MODELS: JAPAN'S CHALLENGE TO  
THE WASHINGTON CONSENSUS IN THE 1990S

A Dissertation

by

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## ABSTRACT

### DUELING DEVELOPMENT MODELS: JAPAN'S CHALLENGE TO THE WASHINGTON CONSENSUS IN THE 1990S

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In the early 1990s, at the height of the Washington Consensus, its hegemonic model of neoliberal development was strongly challenged by Japan, the U.S.'s greatest ally. The key event characterizing this challenge occurred when Japan's Overseas Economic Cooperation Fund (OECF) began criticizing the World Bank's famous Structural Adjustment Loans (SALs). This subsequently led to the publication of the "East Asian Miracle Report" by the World Bank financed by the Japanese government. This poses a great puzzle considering Japan's historically submissive and politically deferential relationship with the U.S. since the end of World War II. I address two questions in my thesis to solve the above puzzle: (1) why did the Japanese state choose to oppose American ideological hegemony in the 1990s? (2) how did the ideas involved in this challenge develop within and beyond the institution of Japanese policy bureaucracy?

The theory and methods used in this paper are inspired by the historical institutionalist tradition in sociology and political science. I argue that the shift in Japan's foreign aid strategy in the late 1980s was driven by a mixture of economic, institutional and political factors. This along with the escalating influence of the Washington Consensus and its interference with Japanese aid policy, drove Japan to oppose American ideological hegemony in the 1990s. Furthermore, tracing the policy discourses of the OECF during this period revealed that not only economic and political factors, but also

the developmentalist idea that valued the central role of the state in its economic development was essential in instigating Japan's construction and promotion of its own development model. I conclude that Japan's challenge was both a local and a global social construct, developed in the processes of transnational interaction with other states and their actors, and drawing on internationally available economic ideas.

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## ABBREVIATIONS

AIIB	Asian Infrastructure Investment Bank
ADB	Asian Development Bank
AJDF	ASEAN-Japan Development Fund
ASEAN	Association of Southeast Asian Nations
BAAC	Bank for Agriculture and Agricultural Cooperatives
DAC	Development Assistance Committee (of the OECD)
EPA	Economic Planning Agency
FILP	Fiscal Investment and Loan Plan
FDI	Foreign Direct Investment
GATT	General Agreement on Tariffs and Trade
GHQ	General Head Quarters
IDE	Institute of Developing Economies
IDA	International Development Association (of the World Bank)
IDB	Inter-American Development Bank
IFC	International Finance Corporation
IFI	International Financial Institution
IMF	International Monetary Fund
JBIC	Japan Bank for International Cooperation
JDB	Japan Development Bank
JDR	Journal of Development Assistance (of the OECF)
JETRO	Japan External Trade Organization

JEXIM	Export-Import Bank of Japan
LDP	Liberal Democratic Party
MDB	Multilateral Development Bank
MITI	Ministry of International Trade and Industry
MOF	Ministry of Finance
MOFA	Ministry of Foreign Affairs
UNCTAD	United Nations Conference on Trade And Development
OECE	Overseas Economic Cooperation Fund
OECD	Organization for Economic Cooperation and Development
ODA	Official Development Assistance
PHRD	Policy and Human Resource Development
RFB	Reconstruction Finance Bank
RIDA	Research Institute of Development Assistance (of the OECE)
RQ	Research Quarterly (of the OECE)
SAL	Structural Adjustment Loan
WDR	World Development Report
WBI	World Bank Institute

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# CHAPTER 1

## Introduction

Between the 1980s and early 2000s, countries around the world were strongly encouraged to adopt the neoliberal model of economic development—the so-called “Washington Consensus”—which was largely characterized by freeing markets and diminishing the role of the state<sup>1</sup>. The Washington Consensus was heavily endorsed by International Financial Institutions (IFIs) such as the World Bank and International Monetary Fund (IMF) backed by the United States treasury (Babb 2009). However, in the early 1990s, at the height of the Washington Consensus, its hegemonic model of neoliberal development was strongly challenged by Japan, the greatest ally of the U.S. Japan became the first advanced industrialized country to explicitly defy the ideological premises of the Washington Consensus and question the efficiency of its economic model.

The key event characterizing Japan’s dramatic but gradual questioning of the institutional legitimacy of the Washington Consensus happened in the early 1990s when Japan’s Overseas Economic Cooperation Fund (OECF),<sup>2</sup> which handled Japan’s overseas development loans, began criticizing the World Bank’s famous Structural Adjustment Loans (SALs) and its neoliberal prescriptions. The World Bank’s subsequent publication of the “East Asian Miracle Report” orchestrated and financed by the Japanese government can be seen as the pinnacle of Japan’s ideological challenge (Rodrik 1994; Terry 1995; Wade 1996; Terry 2002; Taniguchi and Babb 2009). The event demonstrates

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<sup>1</sup> The term “Washington Consensus” was coined by John Williamson, an economist at the Institute for International Economics in Washington DC. He summarized the term with 10 policy recommendations that were commonly promoted by Washington-based financial institutions such as the IMF, the World Bank and the U.S. treasury department at that time. Some of the key recommendations included trade liberalization, privatization of state enterprises and deregulation.

<sup>2</sup> The OECF was established in 1961 as a quasigovernmental organization responsible for managing Japanese loan aid in developing countries.

a great puzzle considering Japan's historically submissive and politically deferential relationship with the U.S. since the end of World War II. How can we explain such an apparent anomaly?

In my quest to solve the above puzzle, the two primary questions that I address in my thesis are: (1) why did the Japanese state choose to oppose American ideological hegemony in the 1990s? (2) how did the ideas involved in this challenge develop within and beyond the institution of Japanese policy bureaucracy?

The theory and methods used in this paper are inspired by the historical institutionalist tradition in sociology and political science (Hecló 1974; Katzenstein 1978; Skocpol 1985; Weir and Skocpol 1985; Hall 1992; Immergut 1992; King 1992; Weir 1992; Blyth 2002; Pierson and Skocpol 2002; Steinmo 2008). The historical institutionalist approach demonstrates that social institutions—particularly a state's organizational structures, its policy legacies and existing policy arrangements—matter because they influence the state's policy making at large. Within this view, private interests and political groups have some powerful influence over policy making; however, they are not the sole producers of a state's policy. A state is considered an autonomous entity which holds an independent capacity over its policy making. The historical institutionalist approach uniquely highlights the impacts of historical circumstances and the role of ideas on a state's policy making.

In addition to the above approach, I will draw on theories from the new institutionalist tradition in organizational sociology which theorizes how organizations within a field, such as national governments, are structured by forces in their environments (Meyer, Boli and Thomas 1994; Boli and Thomas 1997; Meyer et al. 1997;

Meyer 2000; Boli 2006). In what follows, I will first describe the historical background of Japan's political economy followed by a review of the relevant theoretical literatures that inform my research.

## THE HISTORY OF JAPANESE POLITICAL ECONOMY

After its victory in World War II, the U.S government played an enormous role in shaping Japanese policy models in many different areas. Some of these influences were direct and others more indirect.

### *I. Postwar U.S.-Japan Relations in the U.S. Occupation Era (1945-1950)*

After the wartime destruction, the Japanese economy occupied only a tiny place in the world. It was generally conceived of as an economy closely associated with, and often subordinate to, the U.S. economy. The favorite phrase was, When the United States sneezes, Japan catches pneumonia. Japan was completely under U.S. hegemony in the economic as well as the political sense (Hamada and Patrick 1988:110).

The U.S. occupation of Japan began in 1945 following the end of World War II. The occupation policies were framed around two primary goals—"demilitarization" and "democratization"—to restructure the Japanese economy, polity and society as a whole. Demilitarization policies included demolishing *zaibatsu* structures<sup>3</sup> and purging wartime economic elites along with a number of strict regulations and restrictions on economic activities. Democratization measures included constitutional reforms along with the implementation of new policies such as agricultural land reforms and institutionalization

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<sup>3</sup> Japanese Zaibatsu refers to industrial and financial business conglomerates that emerged during the late 19<sup>th</sup> and early 20<sup>th</sup> century (the Meiji period) and held dominant power until the end of WWII. Under Zaibatsu structure, a few families controlled a significant part of Japanese economy and finance.

of labor rights. Most of the fundamental principles for Japan's early postwar reforms were crafted in Washington (Nakamura 1993; Kobayashi et al. 1995).

Fearing the spread of Communism throughout Asia, the U.S. dramatically shifted its policies toward Japan to stabilize Japan's economy in order to halt the spread of the Communist bloc. In 1948, the U.S. National Security Council (NSC) passed a resolution that lifted most of the economic restrictions on Japan in order to promote the state's rapid economic recovery. In this context, U.S.-led General Head Quarters (GHQ) introduced the controversial "Dodge Line" on March 7, 1949. This was named after the new economic advisor to GHQ, Joseph Dodge, who had been the president of the Detroit Bank. The Dodge Line consisted of severe monetary and financial contractionary policies to reduce the size of Japan's domestic money supply to deal with extreme postwar inflation (Hadley 1989:297-299; Nakamura 1993; Takagi et al. 1994; Dower 1999:540). Primary measures included balancing the national budget to reduce inflation, dissolving the Reconstruction Finance Bank<sup>4</sup> to eliminate its uneconomical loans and postwar subsidies, and fixing the exchange rate (at 1 dollar =360 yen) to make its exports competitive internationally. The Dodge Line lasted for three and a half years. Initially, Japanese economic bureaucrats had hoped to adopt these austerity measures gradually, but the GHQ demanded their immediate implementation. The quick adaptation of these drastic policies led to severe deflation and economic chaos as many of the domestic industries and private banks were pushed to the brink of bankruptcy. Japan's Ministry of Finance and the Bank of Japan aggressively purchased credit from private financial

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<sup>4</sup> The Reconstruction Finance Bank (RFB) was created by the Japanese government in 1947 to try to pull itself out of the massive postwar economic collapse and to restore economic production to a prewar level. According to Johnson (1982:179), "SCAP [the Supreme Commander for Allied Powers] derided these institutions as perpetuations of the old cozy relationship between government and business."

institutions while vigorously providing government lending in order to rescue these banks from bankruptcy and prevent the whole economy from falling into depression (Nakamura 1993:155; Takagi et al. 1994:13; Dower 1999:540-545). This “over-lending” scheme by the central bureaucracies strengthened the central authority’s influence over the banks and reestablished intimate ties between industries and financial institutions in Japan<sup>5</sup>. Scholars further suggest that some of the important characteristics of the postwar Japanese economy were shaped while Japan was struggling to negotiate its economy under the Dodge Line (Nakamura 1993:155; Kobayashi et al. 1995:207 and 226-228; Dower 1999:544-545). Lastly, working under Dodge’s plan represented a critical moment in which Japanese and American conservative politicians and businesses formed a structure of alliance and a bond that lasted for decades. According to Theodore Cohen quoted in Hadley (1989:298), Dodge “more than any other individual, engineered the historic tacit alliance between American and Japanese conservatives and business elements that endured for the decades that followed.”

With the boost in war procurements, the beginning of the Korean War on June 25, 1950 brought an end to Japan’s deflation under the Dodge Line. Between 1949 and 1951, Japan’s exports almost tripled and production increased by 70 percent. U.S. “special procurement”— foreign currency inflow associated with American military spending— played a significant role in increasing Japan’s total exports<sup>6</sup> (Nakamura 1993; Kobayashi et al. 1995:148-150; Dower 1999: 541-542). By 1951, imports had doubled which allowed Japan to increase its capacity for further economic production (Nakamura

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<sup>5</sup> I will discuss this in more detail in section II.

<sup>6</sup> According to Dower (1999:542), special procurements brought approximately 2.3 billion dollars into Japan between 1950 and 1953. This exceeded the total amount of aid received from the U.S. between 1945 and 1951.

1993:157). Between 1949 and 1952, several key institutional developments pushed Japan's economic recovery forward. In May 1949, the Ministry of International Trade and Industry (MITI) was created to promote international trade, commerce and Japan's industrial development. Between 1950 and 1952, the Development Bank of Japan (JDB) and the Export-Import Bank of Japan (JEXIM) were also established in order to allocate low interest loans and investments to domestic industries as well as to promote exports (Nakamura 1993:159; Kobayashi et al. 1995:151). Noguchi (1995a) demonstrated how these government financial institutions and their creative schemes of long-term lending and fiscal investment supported by high saving in the private sector played a strategic role in the early phases of Japanese economic growth especially in the 1950s.

Finally, and most importantly, the San Francisco Peace Treaty between Japan and the United States and its allies was signed in September 1951 and effectively ended the U.S. occupation of Japan in April 1952. In addition to various social and political institutional reforms, the Japanese government began to reshape the economic institutions and regulations that had been introduced by GHQ; for example, it relaxed the anti-monopoly law in 1953. These changes also had a great impact on the development of the Japanese economy in the following decades (Nakamura 1993:161).

## *II. The High Growth Era from the 1950s to the Early 1970s.*

Japan's high growth era began in the 1950s and lasted until the beginning of the 1970s. This period is often characterized as the decades of the "Japanese Miracle" during which Japan experienced steady economic growth by an average of 10 percent (Nakamura 1993:163). One of the primary factors that caused Japanese growth was the

stable currency environment put in place by the international monetary regime. The Bretton Woods system of the dollar standard and fixed exchange rate<sup>7</sup> helped Japan achieve steady economic growth through exports and a continuous inflow of dollars. At the same time, Keynesian policies of full employment, which spread throughout the world, increased demand for Japanese exports. Japan maintained the exchange rate of 1 dollar=360 yen for 22 years until 1971 when the U.S. abandoned the dollar standard. As a result, this ended the fixed exchange system by the Bretton Woods (Hamada and Patrick 1988; Nakamura 1993:168-170). The Japanese government announced its first national economic plan in 1955 when Japan also joined the General Agreement on Tariffs and Trade (GATT). The 1955 plan particularly addressed Japan's need for economic independence from the U.S. (transforming its economy from a special procurements-driven one to a self-sustainable one), full-time employment and steady growth accompanied by expansion of exports and trade. Policy makers began constructing a roadmap for Japan's economic growth, which at the same time, instigated and strengthened the public sentiments to create "modern industries" and the desire to "catch up with the West" (Komiya and Itoh 1988:175-176; Yamamura 1995:111-113).

The 1960s brought a number of big events and challenges to the Japanese state. 1968 was the "epoch making year" when Japan's GNP became the second largest in the world surpassing West Germany (Hamada 1996). In February 1963, Japan joined the Article 11 countries in the General Agreement on Tariffs and Trade (GATT). In the following year, Japan became the first non-Western country to join The Organization for

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<sup>7</sup> The Bretton Woods system was created in 1944 and made the dollar the international standard currency by linking the U.S. dollar to gold. Countries agreed to fix their exchange rate by tying their currencies to the U.S. dollar. This was monitored by newly established International Monetary Fund (IMF) (See Hamada and Patrick 1988).

Economic Co-operation and Development (OECD) and became an Article 8 country in the International Monetary Fund (IMF)<sup>8</sup>. All these transitions meant that Japan was finally welcomed back to the international community and was now expected to play a more active role in international economic governance and take more responsibility as an “advanced industrial nation” in addressing North-South gap. In 1966, the Asian Development Bank was established with Japan’s leadership.

### *III. The Breakdown of the International Monetary Regime and Development of U.S.-Japan Trade Conflicts.*

The Bretton Woods system of fixed exchange rate ended in August 1971 when President Nixon announced his New Economic Policy, which severed the weakening link between the dollar and gold. According to Hamada, Nixon’s new policy was especially (although not exclusively) targeted towards Japan, which was becoming a growing exporter of manufactured goods to the U.S. (Hamada and Patrick 1988). This event marked the official end of the era of high growth, which had been greatly sustained by the fixed exchange rate of 1 dollar = 360 yen. The end of the Bretton Woods system meant a volatile exchange rate, decrease of exports, rapid inflation accompanied by a hike in domestic property values and goods prices along with worsening government debt. Finally, in 1973, the Japanese government adopted anti-inflation policies which marked the official end to the high growth era that had lasted for more than 20 years (Nakamura 1993:215-225).

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<sup>8</sup> These memberships required Japan to abandon various economic privileges enjoyed as a poor war-recovering nation since 1945 (e.g. Japan was no longer able to restrict imports due to the international trade balance).

This also meant that Japan finally graduated from American economic support and protection. The U.S. could no longer afford to treat Japan paternalistically due to growing problems and the decline of the U.S. economy accompanied in 1971, by its first global trade deficit in 78 years (Higashi and Lauter 1987:26). Trade disagreements between Japan and the U.S. began to emerge. Japan's role as a rising global competitor led to frequent and often long-lasting trade conflicts that threatened the relationship between the two countries from the late 1960s to the mid-1980s. Structural differences between the two economies also aggravated these conflicts. Higashi and Lauter (1987:29) observed the ambivalent state of the Japanese polity during this period.

Gradually emerging economic power and its aggressive international trade competitiveness contrasted the self-effacing and passive behavior exhibited by Japanese representatives in the international arena. The "little brother" attitude of military, political, and economic dependency toward the United States, the wait-and-see approach marked by defensiveness in international negotiations in general and in the trade conflict with America in particular, was a reflection of the unresolved clash between long-held self-perceptions and the sudden economic reality.

Moreover, cultural and normative differences among policy makers from the both sides further complicated the issue (Higashi and Lauter 1987:30-31). Japanese policy makers' limited international orientation and communication skills (e.g. language barriers) also made it difficult for both parties to reach consensus. Finally, political scientists such as Katzenstein (1978:7) keenly observed that trade conflicts were the result of "redistribution of economic power" among the advanced industrial countries, and this challenged the long history of U.S.-led international political and monetary system established since the end of World War II. Moreover, Japan's non-tariff barriers such as testing procedures and government procurement made it very difficult for the U.S. and other competitors to intervene in Japan's domestic market by holding back their

imports. Clearly, Japan's record high trade surplus accompanied by the U.S.'s record high trade deficit with Japan, further aggravated the political and economic relationship between the two states.

U.S. pressure to open up the Japanese economy reached a peak in the 1980s during the presidency of Ronald Regan. Under the severe influence of "Reaganomics" and U.S. domestic political pressures caused by rising unemployment (e.g. auto-industries) accompanied by high inflation, the U.S. condemned the closed nature of Japanese domestic economy, especially its rigid financial regulation. According to Higashi and Lauter (1988:156),

U.S. pressure for reform was based on the belief that Japanese financial regulations had driven down the value of the yen by making it an unattractive currency. U.S. officials argued that freer capital markets would increase international use of the yen, thereby raising its value and also moderating some trade problems. Moreover, American financial firms wanted greater access to Japanese capital markets, and complained that Japanese regulations hindered them from playing a larger role in competing for institutional and private investments, particularly the lucrative pension funds.

Such contexts gradually made Japanese policy makers succumb to U.S. demands to liberalize its financial market structure (Nakamura 1993:245).

Between 1981 and 1984, the Japanese government adopted various market-opening measures that included further tariff reductions (Higashi and Lauter 1987:52-53; Mabuchi 1993; Muramatsu 1993). On November 1983, a Yen-Dollar accord was signed between the U.S. treasury and Japan's Ministry of Finance (MOF) which included a set of measures such as (1) liberalization of capital flows, (2) internationalization of the yen, (3) increased foreign participation, and (4) deregulation of domestic capital markets (Higashi and Lauter 1987:156-157). Finally, in 1984, the MOF published an official document titled "The Current Status and Future Prospects for the Liberalization of

Financial and Capital Markets, and the Internationalization of the Yen” (MOF 1984; Nakamura 1993:246). The report argued that internationalization of yen represented “unavoidable steps” for the progress of the Japanese economy, and in order to internationalize the yen, financial liberalization of domestic institutions and the capital market was essential (MOF 1984:2). Trade frictions and the U.S. pressure to deregulate the Japanese economy also began to threaten the power of economic bureaucracies particularly the MOF during this period (Mabuchi 1995).

Finally, the Plaza agreement was signed on September, 1985 among financial ministers of the group of five (France, West Germany, Japan and the U.S., and the U.K.), which unexpectedly announced a currency intervention to depreciate the U.S. dollar against the yen and the German mark. As a result, the value of dollar dropped by almost 40 percent between September 1985 and September 1986 (Hamada and Patrick 1988:122-126; Nakamura 1993:253). Some scholars argued that Plaza agreement and sudden devaluation of the dollar against the yen was one of the fundamental causes of the crisis and deep recession of the Japanese economy in the subsequent years, i.e. the “bursting of the bubble” and Heisei recession that lasted for more than a decade (Iida and Mizutani 1995; Brenner 1998).

## JAPANESE POSTWAR DEVELOPMENTALISM AND THE ROLE OF ECONOMIC POLICY BUREAUCRACY

Many scholars argue that Japan’s extraordinary economic progress in the postwar era was driven by its developmentalist ideology promoted by Japan’s bureaucratic elites (Johnson 1982; Gao 1997). Japan’s developmentalist ideology is composed of several key beliefs that characterize its core values and policy orientation. First, it believes that

fulfilling the country's economic development is a top priority and the prime responsibility of the state and its bureaucracy. Second, to realize the above goal, the state must play a leading role in prioritizing and promoting economic development within the framework of a capitalist market economy. Third, the state should serve as an architect of national economic development by guiding the nation's long-term economic development through implementing industrial policy (e.g. the government does not only maintain macroeconomic stability but also needs to direct scarce resources to productive investment sectors). According to Johnson (1982), the collaborative strategy between the state and private sector was one of the most important and unique parts of Japanese industrial policy particularly during the high-growth era. The main mechanisms of this cooperative form of government-business relationship were:

selective access to governmental or government-guaranteed financing, targeted tax breaks, government-supervised investment coordination in order to keep all participants profitable, the equitable allocation by the state of burdens during times of adversity (something the private cartel finds it very hard to do), governmental assistance in the commercialization and sale of products, and governmental assistance when an industry as a whole begins to decline (Johnson 1982:311).

Key ministries that promoted the industrial policy were the Ministry of International Trade and Industry (MITI)<sup>9</sup> and the Ministry of Finance (MOF). They also gave birth to important financial institutions such as the Development Bank of Japan (the JDB established in March 1951) and the Export-Import Bank of Japan (the JEXIM established in December 1950) that became the central instruments of Japan's postwar industrial policy (Johnson 1982). Generally bureaucrats from the both ministries shared the above-mentioned ideology of Japan's long-term economic development. They

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<sup>9</sup> MITI (Ministry of International Trade and Industry) was reorganized into the METI (the Ministry of Economy, Trade and Industry) in 2001.

performed distinct but sometimes overlapping institutional tasks to realize such national economic goals. For example, the MOF supervised overall national finance and thus regulated interest rates in various submarkets of the capital market. Another important function of the MOF was to control foreign parties operating in Japan. According to Mabuchi (1995:292),

During the high growth era, financial officials tightly controlled the flow of foreign and domestic capital to and from Japan, by using the Foreign Exchange Law in order to maintain Japan's international balance of payments at a given level. It was necessary to insulate the Japanese capital market from influences of foreign capital in order for domestic regulations to function effectively. If the inflow and outflow of capital were not regulated, the domestic system of regulated interest rates could be easily circumvented, thereby undermining the system [of industrial policy].

Overall, the MOF played a key role in creating the broader domestic financial environment that best promoted Japanese industrial policy.

One of the most important financial instruments created by the MOF to support the country's industrial policy was a government-run financing scheme called the Fiscal Investment and Loan Program (FILP). FILP was often referred as "the second budget" and provided ample financing to important government affiliated institutions such as the JDP and JEXIM (Noguchi 1995b:261)<sup>10</sup> According to Noguchi (1995b) and Johnson (1982), FILP provided the Japanese government great financial flexibility, particularly considerable freedom of action in policy making due to the fact that it was out of Diet's control until 1973. This budget was constructed annually by the bureaucrats from the Ministry of Finance and the Industrial Capital Section of MITI's Enterprises Bureau.

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<sup>10</sup> The size of the FLIP and it share in GNP were as follows. 1955(297.8 billion dollars/3.4% of GNP), 1960 (625.1/3.9), 1965(1,776.4/5.3), 1970(3,799.0/5.1), 1975 (10,561.0/6.9), 1980(18,103.6/7.4), 1985(20,495.0/6.3), 1990(35,815.8/8.2) cited in (Noguchi 1995b:267).

According to Johnson (1982:210), “From 1953 on it became the single most important financial instrument for Japan’s economic development.”

With respect to the MITI, its primary role was to design the details of Japan’s industrial strategy and to put it into effect by directly working with the nation’s private sector. In order to execute this task, it also exercised strong policy-making influence over the government’s key financial institutions<sup>11</sup> including the JDB and the JEXIM (Johnson 1982). For example, the MITI played a dominant role in selecting which industries to develop to meet the nation’s economic priorities. It held control over all foreign exchange and imports of technology and had the ability to dispense preferential financing, tax breaks, and protection from foreign competition to private sectors. The MITI used the power of “administrative guidance” (Johnson 1982) and informal and formal sanctions to control/guide the actions of private sector particularly during the high growth era<sup>12</sup>.

## THE CHANGING ROLE OF JAPANESE FOREIGN AID

Since the initiation of its foreign aid program in the mid-1960s, Japan had been a passive participant in multilateral as well as bilateral foreign aid (Lincoln 1993:109; Yasutomo 1993:324). Japan also lacked an explicit philosophy or strategy for foreign aid (Kusano 1997:50-51; Shimomura, Nakagawa, and Saito 1999:62-64; Sugishita 2005: 91). The primary purpose of aid had been the pragmatic promotion of Japanese private sector

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<sup>11</sup> According to Johnson (1982:209 in footnote), eight government banks existed at the end of 1953: the Central Cooperative Bank for Agriculture and Forestry (1926), the Bank for Commerce and Industrial Cooperatives (1936), the People’s Finance Corporation (1949), the Housing Loan Corporation (1950), the JEXIM (1950) and the JDB (1951).

<sup>12</sup> According to Johnson (1982:224-225), “On February 25, 1952, it [the MITI] informally advised ten big cotton spinners to reduce production by 40 percent, and the ministry assigned quotas to each individual firm. To enterprises that rejected this ‘administrative guidance,’ MITI mentioned (again verbally and informally) that foreign currency allocations for their next month’s supply of raw cotton might not be available.”

interests<sup>13</sup> (Rix 1980; Yasutomo 1986; Yanagihara and Emig 1991:38; Yasutomo 1995; Terry 2002; Sugishita 2005:83-84). According to Yasutomo (1995:6), “Under a policy of ‘separation of politics from economics,’ the political dimension of Japan’s aid was, in large part, a concession to the American hegemon, while economic objectives constituted Japan’s indigenous national interest.”

Beginning in the late 1970s, however, this shifted: Japan started using foreign aid as a strategic tool. It greatly expanded its foreign aid to meet a wider range of demands and policy goals in the international community. Overall, Japan’s total contributions tripled during the 1980s, transforming the country into the largest foreign-aid provider in the world, surpassing even the USA in 1989. Meanwhile, Japan also increased its monetary contribution to multilateral development organizations such as the World Bank, the Asian Development Bank (ADB), and the International Monetary Fund (Yasutomo 1995:71; Araki 1997b:144). By 1991, Japan had become the second largest donor to multilateral aid organizations after Germany (Lincoln 1993:115). The key factors that contributed to the rise of Japanese foreign aid were: (1) international pressures, (2) economic interests, and (3) the policy bureaucracy’s increased interests in enhancing Japan’s global role. This increased interest was supported by Japan’s “new nationalism” fueled in part by growing economic tensions with the U.S.

First, the end to the fixed dollar-yen exchange rate in 1971, accompanied by the Plaza Accord in 1985 produced a sharp rise of the yen<sup>14</sup> as well as a growing trade surplus, which generated tremendous pressure from Western countries for Japan to

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<sup>13</sup> Through tied-aid, developing countries are required to purchase goods and services from Japan, which satisfied the commercial interests of Japanese firms.

<sup>14</sup> The dramatic appreciation of the yen made the total amount of foreign aid greater in value relative to other currencies.

recycle some of its funds as foreign aid. As the country became richer, Japan was also under enormous pressure to increase monetary contributions to international financial institutions and to take a greater leadership role in solving the deepening problems of the Third World debt crisis. Secondly, financial deregulation in the 1980s as well as the heightened value of yen resulted in waves of overseas investments by Japanese manufacturing industries. Such circumstance encouraged the government to provide more foreign aid as well as loans to Asia to set up favorable infrastructure and investment conditions for Japanese industries (Lincoln 1993:110; Söderberg 1996:Ch 3). Thirdly, by the mid-1980s, Japanese aid officials became increasingly interested in raising Japan's position and status in the world particularly through increasing its influence in international financial institutions, a goal that required increased contributions (Yasutomo 1995).

The shift in state-wide policy discourse over Japan's foreign aid initially appeared in the early 1970s following Prime Minister Tanaka Kakuei's official visits to the Association of Southeast Asian Nations (ASEAN) in January 1973. Importantly, the normalization of diplomatic relations between Japan and China took place in September 1972, following U.S. President Nixon's visit to China in February 1972<sup>15</sup>. Apart from the Philippines, Prime Minister Tanaka encountered student-led anti-Japan demonstrations in all the countries he visited. Especially massive demonstrations took place in Bangkok and Jakarta, and the latter developed into the society-wide anti-Japan riots (OECD RQ 1974/16:1; Araki 1997a). According to Lam (2013:11), a number of factors drove these anti-Japanese riots.

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<sup>15</sup>This was in concordance with the changing reality of geo-politics in the Southeast Asian region brought by the announcement of the Nixon Doctrine by U.S. President, Richard Nixon (Araki 1997a:4-5).

[T]he Southeast Asian perception that Tokyo was dominating the region economically whereas it was doing so militarily three decades before; that Japanese management did not promote indigenous talent and unduly relied on ethnic Chinese domiciled in Southeast Asia for business deals. Demonstrating against Japan was also an indirect way for the protesters to embarrass the ruling regimes of Thailand and Indonesia.

The protesters called for a state-wide boycott of all Japanese merchandise and expressed strong anger and frustration against Japanese businesses operating in these countries.

Not surprisingly, these events brought immense shock to the Japanese state and its policy leaders (Lancaster 2007:116). Top state officials blamed the “mal-behavior” of Japanese business abroad and advocated for the government leadership to promote “economic cooperation” in Southeast Asia. At the same time, this event was also a great blow to Japanese business communities with rapidly increasing investments in the region backed by the MITI<sup>16</sup>. Soon after his return from the ASEAN visits, Prime Minister Tanaka announced the shift from the private sector (business) to the government<sup>17</sup> in handling economic aid. The early 1970s marked the turning point for the Japanese state to rethink and upgrade its geo-political and economic aid strategy in Southeast Asia.

Furthermore, the Japanese state’s desire to reconstruct its global self-image became increasingly important in this context. By the mid-1980s, Japanese policy makers were clearly considering foreign aid, particularly multilateral aid, as the state’s unique political tool to elevate Japan’s political position and national prestige (Yasutomo 1995; Lancaster 2010:35-36). For example, several scholars pointed to several “symbolic goals”

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<sup>16</sup> By March 1973, 1736 Japanese companies were operating abroad and the total number of their oversea offices and factories were 3426. Among them, 1594 offices and factories were located in Asia (Araki 1997a:95 citing Keidanren’s research). Araki (1997a:96) lists various initiatives taken by the MITI and Keidanren (Federation of Economic Organizations in Japan) in order to better understand this conflict in Asia.

<sup>17</sup> Tanaka also expressed a similar view of state’s management of the domestic economy during the first oil shock of 1974. Tanaka severely criticized oil companies for raising the price of oil and warned business leaders that if the private sectors fail to cooperate with the state (and raised oil prices disproportionately), the state would take direct control over its economy (Gao 1997:301).

associated with Japan's dramatic increase in foreign aid during this period. First Japan wanted to reestablish the honorable and respected status—which had been shattered by its defeat in World War II—in the international community. Secondly, Japan wished to construct its self-image as a highly “developed” nation comparable to Western civilization through catching up in aid spending with the rest of the donor countries. Finally, Japan hoped to consolidate its national pride by demonstrating Japan's own experience as the recipient of foreign aid in the postwar period and how Japan transformed itself from one of the largest recipients of aid to one of the largest providers of aid (Orr 1989-1990:479; Yasutomo 1989-1990; Yasutomo 1995; Lancaster 2010:35-36; Sato and Shimomura 2013). These observations resonate with the Japanese state's initiatives between the 1980s and 1990s. These initiatives aimed to construct Japan's unique development model and philosophy based on its historical experiences of postwar economic development (King and McGrath 2004:156-173; Lancaster 2007:124-125 and 129).

This desire to construct national identity and “symbolic power”<sup>18</sup> through the means of foreign aid also coincided with Japan's emerging domestic contexts of “new nationalism”<sup>19</sup> in the late 1980s. According to Iida (2002), 1989 was a landmark year, which marked both an end and a new beginning for Japanese economy and polity. 1989 saw the death of Emperor Hirohito, which brought a closure to the six-decade long Showa era (1926-1989). It was also the end of the postwar economic recovery and the so-

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<sup>18</sup> A number of scholars have demonstrated the role of nationalist myths and symbols in constructing a state's collective identity (Anderson 1983; Gellner 1983; Smith 1988; Smith 1991; Hobsbawm 1992; Migdal 1997:228-230; Loveman 2005). Some also discuss the case of the Japanese state's identity construction (Lee 2006; Ashizawa 2008).

<sup>19</sup> It is important to note that the “new nationalism” of Japan did not happen in a vacuum. Indeed, there have been various types of nationalisms throughout Japanese history. However, what many scholars seem to suggest is that the nature of its nationalism greatly transformed in the 1980s with the advent of various external as well as internal pressures (Pyle 1988; Iida 2002; McVeigh 2004).

called “1955 system of politics”—the Liberal Democratic Party’s political monopoly that lasted for four decades. Japan faced the beginning of the decline of its economic power caused by the financial deflation known as the “burst of the bubble economy,” which was followed by the long lasting Heisei era recession. Globally, the Soviet Union collapsed and the U.S.-led “New World Order” began with the Gulf War which brought new global obligations to Japan as well (Iida 2002:209-225; Hein 2008:448).

Some scholars suggest that this new nationalism not only highlighted Japan’s new stance vis-à-vis the U.S. but also toward Asia. For example, there was the idea of the “flying geese model” of economic development that resurfaced during the 1980s and 1990s within a large circle of Japanese economic bureaucracies. This model conceptualized Japan’s role in Asia as a powerful “leading geese” whose development model should be replicated by other Asian nations in order to achieve greater regional economic integration (Terry 2002:93). In 1995, a key Japanese bureaucrat was quoted in the Los Angeles Times agreeing that, “Half of the prosperity of Southeast Asia is the achievement of Japan” (Jameson 1995)<sup>20</sup>. According to McVeigh (2004:273), despite the fact that Japan was growing confident and was speaking out in the 1990s, “What troubles us is that Japan’s new nationalism is linked to a sentimental and patronizing notion of ‘Asianism’<sup>21</sup> that appears to be defined only in contrast with an equally vague conception of ‘Western’ values”<sup>22</sup>

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<sup>20</sup> Terry (2002:93) quoting from (Jameson 1995).

<sup>21</sup> It is important to note that because Japanese bureaucrats held rather “patronizing” views toward Asia, at least within the foreign aid sphere, the bureaucrats did not yet seem to recognize the emerging East Asian economic powers such as China or Korea as economic and political threats. These rapidly growing East Asian countries were seen as essential partners and key resources for Japan’s future economic growth. For example, in the aftermath of China’s massacre of students in Tiananmen Square in June 1989, Japan initially joined Western donor’s efforts to pursue aid sanction against China. However, Japan almost immediately initiated an international campaign to soften sanctions against China. According to Yasutomo

Meanwhile, domestically, public criticisms and backlash against the rigid institutions of Japanese policy bureaucracies and their inability to deal with emerging global issues began to emerge in the early 1990s<sup>23</sup> (Noguchi 1995a; Ōmae 1995; Vogel 2005; Hein 2008:448; Hatch 2010:144-145). According to Gao (2000), globalization also presented serious challenges to Japan's established institutions and the norms and values that governed the Japanese state. The advent of globalization generated a variety of intense economic policy debates domestically such as "a major battle between the market principle and the institutionalized beliefs of developmentalism" (Gao 2000:451). Such context might have reinforced some portion of Japanese bureaucrats' desire to cement their legitimacy by reconstructing Japan's national identity, pride and goals in ways that would resonate with a larger Japanese public. The institutional crisis within these bureaucracies also seemed to have enhanced bureaucrats' desire to reestablish institutional morality and legitimacy.

This shift to pursuing more symbolic goals through foreign aid was concentrated in the OECF, which was established in March 1961. Its decision-making was supervised by four ministries: the Ministry of Finance (MOF), the Ministry of Foreign Affairs (MOFA), the Ministry of International Trade and Industry (MITI)<sup>24</sup> and the Economic Planning Agency (EPA)<sup>25</sup>(See Figure 1). According to the OECF History Report

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(1993:328 and 336), then prime minister Kaifu made active efforts to persuade European and American leaders not to isolate China and to resume aid to Beijing.

<sup>22</sup> McVeigh (2004:273) quoting from (Hatch and Yamamura 1996, 27:199).

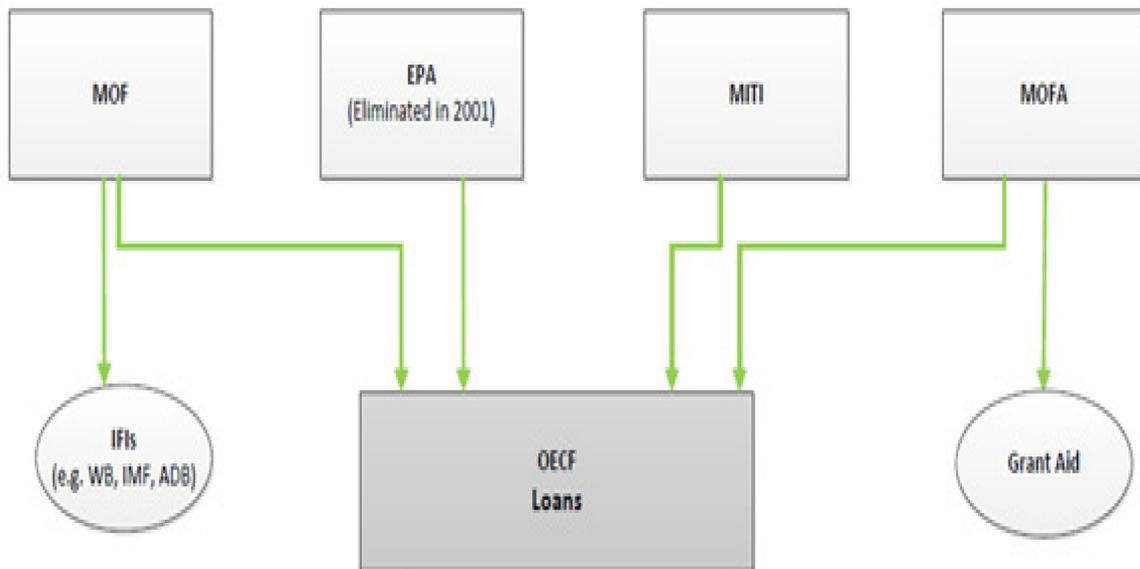
<sup>23</sup> For instance, the MOF had experienced one of the worst institutional crises in its history due to increasingly prevalent political scandals and corruption in the late 1980s.

<sup>24</sup> OECF History Report (2003:11) as well as Matsui (1983:61) noted that the initial proposal included the Ministry of Agriculture and Forestry as one of the supervising ministries, but later it was modified to include only three ministries: the MOF, MITI and MOFA as "consultation ministries" in addition to the EPA as "the supervising ministry."

<sup>25</sup> According to Hirata (1998:314), the EPA played the least influential role over loan-related policy making among the four bureaucracies. Despite the fact that the EPA held legal authority over the OECF, the other

(2003:14), it was established to support “economic cooperation” in Southeast Asia, especially to promote the industrial development of the region by providing “soft loans<sup>26</sup>” to the sectors that did not qualify to receive loans granted by the Export-Import Bank of Japan (JEXIM) or Japanese private financial institutions<sup>27</sup>.

Figure 1: The OECF and Four Ministry System of Foreign Aid (Based on Lancaster 2007:114).



In 1966, the OECF began providing direct loans to the governments of developing countries (so-called “yen loans” because of its yen denomination) starting with South Korea in 1966, Taiwan in 1967, Malaysia and Indonesia in 1969, and Cambodia,

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three ministries carried much stronger influence over it than the EPA did. The EPA no longer exists as an independent agency. It was eliminated in 2001.

<sup>26</sup> A soft loan refers to a loan with comparatively lenient terms and conditions as compared to other loans in the market. For example, a soft loan generally offers a below-market interest rate and a longer repayment term.

<sup>27</sup> The JEXIM was established in 1950. Its primary task was to provide government-funded financial services (including export loans and equity financing) to private sectors to promote Japanese trade (import and export) and overseas investment. It also provided loans to developing countries so that they could import Japanese goods. The JEXIM offered loans with higher interest rates than ones provided by the OECF. The JEXIM was officially supervised by the MOF but guided closely by the MITI.

Afghanistan and Thailand in 1969<sup>28</sup>. It is important to note that until 1966, all the OECF loans were given only to Japanese oversea business-related entities but not to the recipients' governments (OECF 2003:28). Western criticisms about the commercial nature of Japanese aid began to emerge around this period, particularly from the OECD's Development Assistance Committee (DAC)<sup>29</sup> (Araki 1997a:31-32; OECF 2003:20). For example, OECF's "commodity loans" which started in 1968, were directly tied to Japanese export businesses. This infuriated Western donors (Araki 2005:276). After reflecting on this, the Japanese government announced its intention to revising the tied nature of Japanese aid at the UNCTAD (United Nations Conference on Trade And Development) and began to untie commodity loans in 1972 (Araki 2005:276). Japan increasingly faced the need to construct a more refined system of development cooperation that met "Western standards" and was not focused on its own economic interests.

In this context, the OECF became the designated agency for realizing a new conception of Japanese foreign aid—one that was focused on yen-denominated soft loans to meet the long-term economic development of developing countries, particularly ones in Asia. A key event that made this possible was a clear task differentiation between the JEXIM and the OECF. From 1973 to 1974, a member of the ruling party (Liberal Democratic Party), Tetsuro Minato, insisted on clear demarcation of tasks between the JEXIM and the OECF, the urgent need for reinstating the OECF as the primary

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<sup>28</sup> This does not mean however, that there were no yen loans dispersed by the Japanese government before 1966. Japan was providing commercial yen loans to several governments in South Asia and Africa before 1966 (OECF 2003:28)

<sup>29</sup> DAC members consist of many of the largest funders of foreign aid and became a part of the OECD in 1961. The DAC has always emphasized the importance of grants and technical assistance over loans as a key part of foreign aid (Kusano 1997:144).

institution of yen loans and the importance of integrating social development initiatives as the OECF's loan mission. After several difficult negotiations involving the supervising ministries along with the JEXIM and OECF, the final draft was approved in June 1975. This made the OECF the central institution for Japanese yen loans to developing countries (OECF 2003:31-33).

Meanwhile, the OECF and the Export-Import Bank of Japan (JEXIM) started to develop themselves as clearly distinct institutions—the OECF being in charge of long-term economic development in recipient countries focused on infrastructure aid<sup>30</sup> while the JEXIM targeted the commercial sectors with the higher investment returns (OECF 2003:28-29). Both continued to implement yen loans but different types of loans. The JEXIM focused on commercial loans with higher interest rates while the OECF provided soft loans. As the OECF began to establish its institutional base, it started to experiment and diversify its practices, which gave birth to various original loan disbursement tools such as “two-step loans.” These later become the central focus of the challenge in the 1980s (OECF 2003:30).

In line with the above reform of the Japanese aid bureaucracy, the institutional expansion and reorganization of the OECF proceeded and was completed in June 1974. One of the key features of this reform was to strengthen the research capacity of the OECF, especially its capacity to examine and evaluate the increasing number of yen loans. By the mid-1970s, the OECF's provision of yen loans grew exponentially, from 7 projects worth approximately 20 billion yen in 1966 to 63 projects worth approximately

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<sup>30</sup> Infrastructure development generally includes constructing dams, power plants, electricity systems, railways, bridges, highways, and setting up factories etc.

280 billion yen in 1974 (OECD 2003:29). The number of staff also increased from 41 at its establishment in 1961 to 170 by 1975 (OECD 2003:36-37).

OECD Research Quarterly from the early 1970s clearly demonstrated the new thinking underlying Japanese foreign aid. Okita Saburo, one of the most influential economic bureaucrats in Japan's foreign aid bureaucracy and, the third president of the OECD, warned of the dangers of the business-driven system of Japanese aid. In 1972, Okita asserted in a "foreword" to OECD Research Quarterly,

I believe that playing a significant role in actualizing the world-wide eradication of poverty is a task given to today's Japanese people. Actively dealing with such a task is essential both to promote Japan's international status and to remake Japan's existing image as a selfish, short-sighted, 'economic-animal'" (OECD RQ 1972/14:1 my translation).

Similarly, two issues of OECD Research Quarterly of 1974, both began with a section discussing Tanaka's visit to the ASEAN and problematized the business-driven structure of Japanese economic aid (OECD RQ 1974/16; OECD RQ1974/17).

## THEORETICAL LITERATURE

### *I. Restating the Research Questions*

Historical accounts of Japanese political economy demonstrate that through most of its postwar history, Japan had taken the role of the U.S.'s quiet younger brother—being largely submissive to U.S. economic and political demands. Domestically, the Japanese state bureaucracy took an active role in engineering its own economic development but had been hesitant to take geopolitical leadership. However, this governance pattern began to shift as the economic and political circumstances surrounding Japan gradually changed in the late 1970s. It is suggested that Japan's

dramatic increase in foreign aid and the institutional strengthening of the OECF in particular reflected such global historical transformations.

At the same time, as discussed earlier, Japanese policy making had long been influenced by international pressure from the U.S. and other developed countries. This raises the question: why did Japan suddenly defy this tradition and oppose American development ideology in the late 1980s despite the fact that there were no other developed countries doing so? What other factors could have influenced Japan's challenge to the Washington Consensus?

## *II. Economic Interests*

An observer with a political economy framework might suggest that Japan's challenge to the Washington Consensus in the late 1980s grew out of the shifting economic interests of Japan's business sector. For example, political economy scholars often highlight the centrality of large Japanese corporations operating in developing countries, particularly in Asia, and how they benefited from an increase of overseas development aid and an increasing flow of yen loans from the Japanese state. The loans that financed local infrastructure development presumably brought these Japanese multinationals exclusive benefits such as enhanced access to local market and raw materials. Thus economic interests' accounts stress a strong link between Japanese business interests and state foreign aid decision- making (Ensign 1992; Arase 1995; Söderberg 1996; Söderberg and Magnus 1996; Zhang 1996).

Nevertheless, if the interests were purely pragmatic (the advancement of Japanese business interests), we would expect the Ministry of International Trade and Industry

(MITI), to have taken more active roles in constructing the challenge of the Washington Consensus. The MITI had been the primary coordinator of Japanese overseas business interests, along with the Export-Import Bank of Japan (JEXIM), which handled Foreign Direct Investment (FDI) that supported Japanese overseas business; yet the MITI's and JEXIM's role in the challenge, as well as the construction of the East Asian model, was rather secondary. More importantly, if the goal was the pragmatic promotion of business interests in Asia, it seems almost certain that the Japanese state and its bureaucracy did not have to defy the Washington Consensus in such an open manner. In other words, the Japanese state could have continued with its traditional practice of quietly pursuing its economic interests while not standing up to the U.S.—but instead chose to challenge Washington publicly, and on the terrain of abstract ideas about economic development.

### *III. Cultural Accounts*

Others might suggest that the Japanese state's culturally unique development ideology / philosophy—which contradicted with American free-market ideas and values—was the major source of Japan's challenge to the Washington Consensus (Fajnzylber 1990; Sakakibara 1993; Kosai and Tho 1994; Shiratori 1995; Yanagihara 1998; Furuoka 2005). Many trace the origins of Japanese development ideology to pre-World War II economic philosophy such as Kaname Akamatsu's flying geese theory of development, which was considered to be a pure "Japanese" cultural construct. This scholarship seems to highlight the authenticity and cultural exclusivity of Japan's developmental culture, ideas and philosophy. However, such a romanticized notion of culture does not seem to explain the actual nature and characteristics of Japan's

development ideas. Indeed, since the start of its modernization in late 19<sup>th</sup> century, Japanese policy makers selectively chose and actively integrated some foreign ideas and systems that particularly resonated with Japanese historical experiences (Westney 1987). This process of “hybridization” of economic ideas was central in the construction of postwar developmentalist ideology in Japan (Gao 1997). Thus, even though Japanese economic ideology was seen as purely “cultural” and such cultural uniqueness has been repeatedly emphasized by Japanese policy makers as well as some Western scholars, it has always been an “imagined” concept.

#### *IV. Institutions and Ideas*

A third approach describes the behavior of states as emerging from historically-constituted institutions (Skocpol 1985; Pierson and Skocpol 2002; Steinmo 2008). Scholarship in the historical institutionalist tradition treats states as influenced by, but not reducible to, the powerful private interests that surround them (Skocpol 1985). In this view, states’ distinct organizational structures (e.g. the various institutional arrangements of government agencies) and their current and pre-existing policy legacies contribute to making their distinct policy choices.

Historical institutionalist scholarship brings up an important idea of “unintended consequences”—how state policies are often shaped by particular historical circumstances not of its own choosing. Examples of endogenous factors include the legacies of past policy decisions (e.g., laws, particular bureaucratic structures), the interests of policy makers, and their relationships with various internal and external social groups. Exogenous factors include the transnational economic and political environments

surrounding the state at specific historical eras (Evans 1985; Skocpol 1985; Weir and Skocpol 1985; Thelen and Steinmo 1992:16-17). A major advantage of this approach is that it allows us to examine the Japanese state's independent capacity to organize a challenge (e.g. the state's rigid institutional structure composed of a strong cohort of career bureaucrats/autonomy of its bureaucracy), while highlighting its relative position in relation to other states in the global political economy.

A second advantage of adopting a historical institutionalist approach, from the point of view of this study, is that it allows for a more sophisticated conception of the role of ideas and culture in shaping policy outcomes (Hall 1992; King 1992; Weir 1992; Ikenberry 1993; Blyth 2002; Campbell 2002; Anderson 2008). Ideas matter to the extent that they become embedded in the taken-for-granted practices of institutions, especially state bureaucracies. According to Weir and Skocpol (1985:118),

[T]he administrative, fiscal, coercive, and judicial arrangements of given states, as well as the policies that states are already pursuing, influence the conceptions that groups or their representatives are likely to develop about what is desirable, or possible at all, in the realm of governmental action

For example, Hall (1993:279) demonstrated how "policy paradigms" played a central role in the Britain's dramatic policy shift in the 1970s.

[Policy paradigms] specified what the economic world was like, how it was to be observed, which goals were attainable through policy, and what instruments should be used to attain them. They became the prism through which policymakers saw the economy as well as their own role within it.

Similarly, Weir (1992) highlighted the interdependent relationships between ideas, institutional structures and interests. Based on her historical study of American employment policy innovation between 1930 and 1980, she demonstrated how ideas drove and constrained institutional innovation and policy change, while at the same time,

institutions guided the development of particular ideas and interests among policy actors. Interestingly, contrary to some studies that mainly emphasized policy continuity (e.g. naturally occurring “path dependence”) of institutions, Hall and Weir recognized and advocated the potential roles of institutions and their ideas in facilitating a state’s policy innovation and change (Weir 1989; Hall 1992; Thelen and Steinmo 1992:24-26; Weir 1992).

To this historical institutionalist framework, I add two insights from “new institutionalist” scholarship in organizational sociology. First, institutions are constraining but not static, and may be transformed through the agency of strategically-located actors, or “institutional entrepreneurs” (DiMaggio 1988; Fligstein and Mara Drita 1996; Fligstein 1997, Fligstein 2001). Second, the norms and ideas that shape state behavior can be transnational in scope. World polity theorists argue that national states share a common cultural framework of modern values (e.g., economic development), which leads to increasing similarity over time and the transmission of ideas across national boundaries (Meyer et al. 1994; Meyer et al. 1997; Boli and Thomas 1997; Meyer 2000; Boli 2006). Professions are a critically important vector for the transnational transmission of ideas, and one of the most important transnational professions is economics—a discipline that is consulted by states around the world, irrespective of political and cultural differences (Fourcade-Gourinchas and Babb 2002). Yet because economics is not a perfectly unified discipline, states may draw selectively on expert ideas that best suit local circumstances and political agendas (Babb 2001; Taniguchi and Babb 2009).

## RESEARCH METHOD AND MATERIALS

To reiterate, my dissertation explores how the Japanese state came to oppose the hegemonic policies of the Washington Consensus and examines the origin of the ideas used in formulating the challenge. I utilized several research techniques that are widely used in historical institutional studies: process-tracing and drawing from a number of different sources. Many historical institutionalist scholars agree that historical institutionalism is as much a method as it is a theory (Steinmo 2008). According to Pierson and Skocpol (2002), there are three important methodological features that differentiate historical institutionalist work from others. First, it addresses big-substantive questions that interest a broad public as well as scholars. Second, it “takes time seriously” and develops temporal arguments by “specifying sequences and tracing transformations and processes of varying scale and temporality” (Pierson and Skocpol 2002:695-696). Third, it conducts a macro analysis by highlighting “the combined effects of institutions and processes rather than examining just one institution or process at a time” (Pierson and Skocpol 2002:696).

To take “time/history seriously,<sup>31</sup>” I traced the Japanese state’s foreign aid policy making focusing on two periods: a period preceding the challenge (from the post-World War II era to the mid-1980s), and the period of the actual challenge (from the late 1980s to the early 1990s). A great number of historical institutionalists advocate the idea of “path dependence” which is founded on the logic that “outcomes at a ‘critical juncture’ trigger feedback mechanisms (negative or positive) that reinforce the recurrence of a particular pattern into the future” (Pierson and Skocpol 2002:699). Secondly, in my attempt to examine the multidimensional institutional dynamics of Japanese foreign aid

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<sup>31</sup> Also see (Steinmo 2008:127).

policy making and to pay closer attention to macro historical contexts surrounding the state during these periods, I used a combination of secondary and primary sources. These included academic and nonacademic publications, newspapers and journal articles in English and Japanese, as well as information from the bureaucracies derived from their own websites and from a series of publications and historical documents published by the bureaucracies. For instance, I obtained much of the statistical information on Japanese foreign aid from a series of annual reports<sup>32</sup> published by the MITI. I found the ones published between 1980 and 1994 (14 volumes) particularly useful for my research.

In addition, in order to provide a more contextual and nuanced account of the actual challenge and to explore the origins of the ideas driving the challenge, I traced Japan's policy-making processes by focusing on institutional policy discourses of the OECF. The main source for my analysis was a consecutive series of quarterlies published by the OECF between 1968 and 1999<sup>33</sup>. Ninety-nine issues were published during this period, and each issue is approximately 150 to 200 pages in length. I read all of the issues, constructed detailed notes and performed content analyses to investigate the overall patterns and ideological changes in the OECF's policy discourse and policy making. Additional sources include, but are not limited to, Japanese government's whitepapers on foreign aid, OECF's discussion papers that were published between 1994 and 1999<sup>34</sup> and a 508 page-long historical volume produced by the OECF in 2003 that traces its 50 years of organizational history.

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<sup>32</sup> The title of the annual report is "Economic cooperation: Current conditions and issues" (*Keizai Kyoryoku no Genjyo to Mondaiten*). They were published annually by the MITI between 1958 and 2001.

<sup>33</sup> "The OECF Research Quarterly" was published between 1968 and 1994 and changed its name to "Journal of Development Assistance" (1994-1999). When cited in the text, The OECF Research Quarterly is abbreviated as OECF RQ and The Journal of Development Assistance is abbreviated as OECF JDA. I added their issue number after the year of publication for clarity.

<sup>34</sup> OECF Discussion Papers are abbreviated as OECF DP when cited in the text.

OECD research quarterlies contain a wide range of information, and their intended audience is Japanese foreign aid bureaucrats. For example, they contain a combination of research papers, opinion pieces, summaries of key development reports and minutes of symposiums and roundtable discussions on the latest issues of Japanese economic aid/loans and global economic development. A large portion of the contents of these quarterlies was written and prepared by OECD bureaucrats while some of it was prepared by selected external researchers from major think tanks and Japanese academia. Such publications, in which discourses of development among bureaucrats were embedded, highlight the issues, interests and concerns of not only the institution of the OECD but also the Japanese economic development bureaucracy and the state at large.

All of the primary sources were gathered at several private and public libraries across Japan including, but not limited to, Seinan Gakuin University Library, Fukuoka Prefectural Library and the National Diet Library. Since it is the only national library in Japan, the National Diet Library owns the most extensive and complete selection of the materials published by the OECD as well as other economic bureaucracies. I also contacted the public relations office at the JBIC (Japan Bank for International Cooperation) Institute<sup>35</sup> to collect issues that were not available or missing from the above libraries.

My chapters are designed to tackle each of my main research questions. In Chapter two, I explore why the Japanese state chose to oppose American ideological hegemony in the late 1980s and early 1990s. In this chapter, I analyze the political and economic environments that promoted the Japanese state to change its foreign aid

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<sup>35</sup> The JBIC Institute holds the majority of historical materials related to the OECD because the OECD and the JEXIM were merged in 1999 to create the JBIC.

strategy during this period. I begin by evaluating two competing theoretical explanations. First, I present a materialist account that emphasizes the centrality of Japanese business elites and their economic interests in driving the shift. Second, I explore an institutionalist /state-centered account that highlights the autonomy of the Japanese state and the changing power configurations among its bureaucracies. I argue that a mixture of economic, institutional and political factors drove Japan to make a gradual shift in foreign aid strategy in the late 1980s and early 1990s.

In Chapter three, I explore the origins of the ideas that challenged the Washington Consensus by tracing the policy discourses of the OECF during the 1980s and early 1990s. Based on this analysis, I argue that not only economic and political factors, but also the developmentalist idea that valued the central role of the state in its economic development were essential in instigating Japan's construction and promotion of its own development model challenging the Washington Consensus. I further argue that Japan's challenge was both a local and a global social construct, developed in the processes of interaction with other states and their actors, and drawing on internationally available economic ideas.

In Chapter four, I review the main findings and arguments of the dissertation, and return to addressing the puzzle posed at the beginning.

## CHAPTER 2

### **Shift in Japan's Foreign Aid Strategy in the 1980s and 1990s: Material Interests or Institutional Politics?**

Prior to the 1980s, Japanese foreign aid had been merely used for fostering the short-term interests of Japanese businesses, particularly the interests of Japan's aid project contractors. However, during the late 1980s, Japanese foreign aid began to be transformed into a vehicle for promoting a particular "model" of export-oriented industrialization based on Japanese development experience. For example, rising concerns among Japan's foreign aid officials regarding the lack of a "Japanese model" were documented in official publications during the late 1980s. A 1987 report by the Overseas Economic Cooperation Fund (OECF) quoted a comment by a foreign aid official that states "Although Japan has become the second largest provider of foreign aid in the world . . . it is not clear what Japan is trying to execute based on what principles. . . . Unless Japan presents [to the international community] a specific set of principles and endorses actions that derive from these principles, its foreign aid will only be considered as a continuation of the past aid practice [of promoting its business interests through aid]" (OECF RQ 1987/57:159, my translation). What were the political and economic environments that instigated Japanese state to change its strategy of foreign aid in the 1980s and early 1990s? How did this shift happen?

In this chapter, I evaluate two competing theoretical explanations for Japan's foreign aid strategy shift: first, a political economy/materialist account that emphasizes the centrality of Japanese business elites and their economic interests in driving the shift. The second is an institutionalist /state-centered account that highlights the autonomy of

the Japanese state and its institutions in shaping the course of change. A large number of the Western literature suggests that the shift in Japan's foreign aid strategy in the late 20<sup>th</sup> century was largely driven by several economic events and forces surrounding the state and its private sectors. However, I follow a few interdisciplinary literature (Yasutomo 1986; Yasutomo 1995; Wade 1996; Shimomura et al. 1999: Ch 2; Terry 2002; Lancaster 2007; Lee 2008) in proposing that there were also political and institutional causes for the shift. After closely examining both positions, I observed that the Japanese government used foreign aid to serve “multiple purposes” (Lancaster 2007:7) —domestic and international as well as economic and political.

Overall, I argue that a mixture of economic, institutional and political factors contributed to Japan's shift in foreign aid strategy in the late 1980s and early 1990s. Material factors, particularly the changing economic environments of the 1980s affecting the Japanese state and its private sectors, pushed forward the early development of the shift. Importantly, they laid a foundation for the state's particular political interests to emerge. At the same time, unintended institutional consequences, mainly the reconfiguration of power dynamics among the four ministries of foreign aid and a key political change, namely Japan's intensified involvement in multilateral development organizations, were indispensable in driving the latter shift of Japanese foreign aid strategy toward promulgating a national model.

## POLITICAL ECONOMY EXPLANATION

The scholars interested in the political economy of Japanese foreign aid (Lincoln 1993; Arase 1995; Söderberg and Berg 1996) point to the importance of the unprecedented economic challenges faced by the Japanese state and private sectors in the

1980s—increasing state capital surplus and the appreciation of the Japanese yen—in reshaping the structure of Japanese foreign aid. Within this view, a strong link between Japanese business interests and the state’s foreign aid decision-making is highlighted.

More specifically, they argue that the signing of the Plaza accord in 1985 (which devalued the U.S. dollar <sup>36</sup> and in turn appreciated the Japanese yen) greatly impacted the shift in Japan’s foreign aid strategy by increasing trade and investment with Asia.

Between 1985 and 1986, the yen’s overseas purchasing power doubled while simultaneously making Japanese manufacturing less competitive in the global market due to higher domestic costs of production. The higher value of the Japanese yen also meant that Japanese companies needed to and were capable of transferring these uncompetitive manufacturing sectors abroad. Southeast Asia looked most attractive in that regard due to Japan’s deep historical and geographical ties to the region, along with the low cost of land and low wages. In this context, foreign aid, including subsidized yen loans (e.g. two-step loans<sup>37</sup>) provided by the Japanese government to the target sectors in the recipient countries began to be seen as a strategic tool for the Japanese government to support its overseas manufacturing sector<sup>38</sup>. Edward Lincoln (1993:123) asserts that the Japanese government’s increased emphasis on yen loans in the 1980s provided “a convenient way

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<sup>36</sup> During the early 1980s, the energy crisis drove the U.S. into serious economic recession with a rising current account deficit. The U.S. hoped to tackle these problems by pressuring Japan and Germany to sign the Plaza Accord in 1985 that would have depreciated the U.S. dollar relative to the Japanese yen and the German deutsche mark. This was intended to increase the U.S. trade surplus and improve conditions in manufacturing sectors such as the automobile industry, which was hit hard by the recession.

<sup>37</sup> Two-step loans are a type of yen loans that are first given to the local financial institutions then to the private sector, particularly small and medium enterprises as well as agricultural sector of these countries.

<sup>38</sup> Interestingly, Söderberg and Berg (1996:72) note that the MITI, the prime supporter of the interests of Japanese businesses had become enthusiastic about the idea of increasing Japanese aid to export industries of Southeast Asia after the signing of the Plaza Accord. The MITI had long opposed the idea during the 1970s and early 1980s.

to keep aid money flowing into projects likely to benefit Japanese commercial interests.”

Similarly, David Arase (1995:111) states,

[I]ncreased ODA spending also served Japan’s own interests . . . because in coordination with trade and investment measures, the ODA could play a role in restructuring Japan’s industrial profile and raising its position in the international division of labor.

Japan’s capital recycling plan initiated by the MOF and implemented by the OECF and Export-Import Bank of Japan (JEXIM), which provided additional forms of subsidized loans and investments to the recipient countries, was considered to offer unique solutions to addressing the emerging economic needs of the Japanese state and its businesses. For example, The OECF, the Institute of Developing Economies (IDE) and the Japan External Trade Organization (JETRO)<sup>39</sup> jointly issued a report in October 1986, urging the Japanese government to increase its assistance to the ASEAN (Association of Southeast Asian Nations). The report recommended the enhanced use of yen loans, particularly the use of two-step loans to promote the export-oriented industries in the ASEAN. In turn, such development would attract more Japanese businesses and encourage Japanese direct investments in the long run. In accordance with the report’s content, the MITI announced the “New Asian Industries Development (AID) Plan” in Bangkok in 1987.<sup>40</sup> As a major part of the government’s capital recycling plan, the ASEAN-Japan Development Fund (AJDF) was also founded in 1987, by then Prime Minister Noboru Takeshita. The AJDF had two primary components: one was to stimulate intra-ASEAN development projects and the other was to provide two-step loans to small and medium scale industries that supported export manufacturing in the

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<sup>39</sup> The IDE and the JETRO were considered to be MITI’s subsidiaries.

<sup>40</sup> See (MITI 1986; MITI 1987:166-170; MITI 1992:170).

ASEAN<sup>41</sup> where a number of Japanese companies were investing. The OECF and JEXIM administered the fund, and the Japanese government had pledged to give more than \$2 billion over three years. Approximately, \$1.43 billion was used to implement loans executed by both the OECF and the JBIC in the region<sup>42</sup>. Japan's two-step loans program in the Philippines that stirred the conflict between the OECF and the World Bank were a central component of AJDF finance initiative.

### *I. Japan's Material Interests Reflected in the Two-Step Loan Projects*

By looking at a specific case in Thailand, Arase (1995) argues that the two-step loan initiative implemented by the OECF greatly supported the Japanese private sector's commercial interests. The Bank for Agriculture and Agricultural Cooperatives (BAAC) rural lending program in Thailand began in 1976. The OECF provided initial loans to the BAAC so that it could make small, subsidized loans to rural farmers. Based on BAAC's evaluation report from the period 1981-1982, along with some interviews, Arase argues that BAAC loan recipients (in this case they were mostly creditworthy, small holding, relatively well-off farmers) used a portion of their loans to purchase consumer goods (e.g. electronics, motorcycles) as well as farm machinery that were mostly produced by the Japanese companies as well as Japanese-Thai joint ventures. Thus, according to Arase (1995:101-102), disbursement of two-step loans in Thailand in the early 1980s, also benefitted the Japanese private sectors' economic interests. Similarly, one could argue that two-step loans programs that focused on small and medium enterprises as well as export promotion industries in Asia were an essential tool for Japanese parent companies

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<sup>41</sup> The aid particularly promoted economic development of ASEAN 4 countries specifically Malaysia, Indonesia, the Philippines and Thailand.

<sup>42</sup> See MOFA website ([http://www.mofa.go.jp/mofaj/area/asean/j\\_asean/ja\\_skj\\_04.html](http://www.mofa.go.jp/mofaj/area/asean/j_asean/ja_skj_04.html)).

to establish reliable subcontracting firms (*“shitauke” firms*) in Southeast Asia, which could benefit the parent companies in the long run.

Table 1 demonstrates the percentage of projects receiving two-step loans among all projects funded by yen loans between 1966 and 1990. Japan’s total disbursement of yen loans shows a steady increase between 1985 and 1988. It drops slightly in 1989 but resumes its increase in 1990. Two-step loans follow a similar pattern up to 1989; however, their disbursement significantly drops in 1990. The percent of projects funded by two-step loans in the overall body of projects funded by yen loans is the highest between 1987 and 1989, when two-step loan projects comprised more than 6 % of overall yen loan projects. This makes sense considering the establishment of the ASEAN-Japan Development Fund (AJDF) in 1987. In 1990, disbursement of two-step loans dropped to 3% of the overall number of yen loan projects.

**Table 1: Percentage of Two-Step Loans to Overall Yen Loans**

	1966 -1984	1985	1986	1987	1988	1989	1990
Disbursement of Overall Yen Loans *	49,200	5,568	5,423	7,193	10,917	8,460	10,068
Number of Projects	997	85	67	97	133	105	100
Disbursement of Two-Step Loans as a Part of Yen Loans *	545	51	118	303	1,338	708	445
Number of Projects	13	2	1	6	8	7	3
Percentage of Two-Step Loans Per Overall Yen Loans **	1.3	2.3	1.5	6.1	6	6.6	3

\* Denomination is in 100 million Japanese yen.

\*\* Percentage of two-step loans per yen loans is calculated based on the number of projects.

Source: Table adapted from (OECD 1992/74:110). Translation and percentage calculation by the author.

**Table 2: Distribution of Yen Loans by Types (In Percentages)**

	1971-1975	1976-1980	1981-1985	1986-1990
Commodity Loans	22.6	17.2	15.1	23.4
Two-Step Loans	0.7	1	0.6	6.6
Social Services	1.1	5.4	6.7	7.2
Mining and Manufacturing Industries	22.5	9.7	10.2	6.9
Agriculture and Fisheries	2.9	3.7	2.2	1.1
Irrigation	2.5	4.4	7.4	3.6
Communication	5.7	5.9	7	6.8
Transportation	23.8	27.1	25.8	23
Electricity and Gas	17.6	22.5	24.4	17.3
Others	0.7	0.2	0.5	4

Source: Content in the table is selectively adapted from (MITI 1993:85) based on OECF data. Translated by the author.

Table 2 shows various types of yen loans and their percentages of the total between 1971 and 1990. The top three sectors that constitute the largest portion of yen loans between 1981 and 1990 are commodity loans, transportation related loans, and electricity and gas related loans. Together, they represent more than 60 % of the overall yen loan disbursement between 1986 and 1990. Based on the above figures, it is safe to argue that Japanese commercial interests continued to be presented in Japan's overall foreign aid disbursement. However, it is hard to argue that two-step loans represent Japan's business interests. For example, two-step loans account for only 6.6 % of the overall number of yen loans during the same period. Table 1 and 2 both show a solid increase in the amount of two-step loans during the late 1980s, however, Table 2 clearly demonstrates how small the two-step loan initiative was in comparison to other major loan initiatives. Findings from the above Tables also make us wonder why the disbursement of two- step loans decreased in 1990, despite the fact that the government's efforts to shift foreign aid strategy continued in the early 1990s.

In the following section, I will shift my attention to an alternative view focusing on the institutional and political circumstances of the Japanese state and its foreign aid bureaucracy in the late 1980s and early 1990s.

#### INSTITUTIONAL/STATE-CENTERED EXPLANATION

According to Theda Skocpol (1985), state autonomy is defined as its capacity to formulate and pursue policy goals that are independent of the demands of dominant groups in the society. Contrary to the materialist perspective that largely focuses on the dominant class's material interests in driving states' policy making, state autonomy theorists highlight state's sovereign capacity to act regardless of the influences of dominant social groups. State autonomy theorists demonstrate how states' distinct organizational structures (e.g. various institutional arrangements of government ministries) and their current and pre-existing policy legacies contribute to make states' distinct policy choices. According to Weir and Skocpol (1985:118),

[T]he administrative, fiscal, coercive, and judicial arrangements of given states, as well as the policies that states are already pursuing, influence the conceptions that groups or their representatives are likely to develop about what is desirable, or possible at all, in the realm of governmental action.

Guided by the above theoretical perspective, I hypothesize that an important institutional factor of the Japanese state in the late 1980s and early 1990s, namely the shift in decision-making power configuration within the four main aid bureaucracies, helped to transform Japan's foreign aid strategy. Before making detailed arguments, I will first provide some important background context of Japanese foreign aid in which this bureaucratic power shift took place.

## *I. The Background Contexts of Japanese Foreign Aid*

### *A. The untying of Japanese foreign aid*

As Japan became one of the largest aid providers in the world, external political pressure from the international aid community, the U.S. in particular, climaxed, which accelerated the “untying<sup>43</sup>” of Japanese foreign aid in the 1980s and early 1990s. Mounting international criticism of Japan’s business-like aid (focused on the benefit of its contractors), as well as international demands for Japan’s greater aid leadership, matched with its growing financial contribution, led the Japanese state to move away from its traditionally private sector-driven structure of foreign aid, which was always supported by the provision of a high proportion of yen loans that were “tied” to Japanese businesses. In particular, Japanese aid’s heavy reliance on yen loans rather than “grants” had been repeatedly criticized by the Development Assistance Committee (DAC) of the OECD as commercially-driven. The Japanese government’s initial announcement in 1978 that it would “untie” its yen loan portion of aid, along with reinforced commitments to “untie” repeated in government’s official midterm foreign aid goals published in 1985 and 1988, represented direct reactions to these shifting circumstances of the Japanese government in the global political economy. Government data shows a gradual untying of Japanese Official Development Assistance (ODA) between the mid-1970s and the early 1990s<sup>44</sup>

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<sup>43</sup> Any foreign aid is generally categorized into three patterns of procurement: untied, partially tied, and tied. “Untied aid” allows any other country’s suppliers (companies) to enter bidding for implementation of projects and programs that will be financed by the ODA of the donor country. For example, if Japanese ODA is used to build a dam in Asia, untied ODA allows any other country’s companies to enter the bidding process to win the contract. “Partially tied aid” also called LDC untied aid, only allows suppliers from the donor country and developing countries to enter the bidding. Under “tied aid,” only the suppliers from the donor country can enter the bidding.

<sup>44</sup> See Appendix A.

*B. Political scandal and domestic consensus toward an increased role of state in the foreign aid sphere*

In addition to external pressures from international aid communities, the state's internal factors, particularly the shaking domestic political circumstances surrounding foreign aid in the late 1980s, pushed forward the untying of Japanese foreign aid. It consequently contributed to the shift in decision-making power from businesses to the government. Specifically, the 1986 foreign aid corruption scandal (the so-called "Marcos" scandal) made it challenging for the ruling Liberal Democratic Party (LDP) government to justify the commercially-driven nature of Japan's foreign aid in front of an increasingly critical domestic constituency.

After the end of autocratic rule by Ferdinand Marcos and the installation of Corazon Aquino as the newly elected president of the Philippines in 1986, suspicion arose that Marcos had been receiving "kick-backs" from a number of Japanese private contractors involved in yen loan financed projects. Marcos' accumulated wealth and its relation to Japanese foreign aid became heated topic in the Japanese Diet. Opposition parties denounced the LDP government for allowing such fraud and highlighted ties between the recipient government and the Japanese private sector. Repeated inquiries at the Diet, as well as the mass media's enthusiastic reporting on the issue, made Japanese tax-payers highly suspicious of the government's foreign aid operations as a whole. The Japanese government refused to reveal the names of the companies that were involved in foreign aid bidding in the Philippines, which made the Japanese populace further question the close relationship between the government and the private sector<sup>45</sup> (Arase

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<sup>45</sup> Mal-behavior of Japanese businesses and the lack of government leadership in foreign aid operations had been problematized since the early 1970s. However, in the aftermath of the Marcos scandal, public scrutiny surged, which led to the state-wide open debate over the issue.

1995:114-116; Yasutomo 1995; Araki 1997b; Shimomura et al. 1999:Ch 2).

The Marcos scandal and its aftermath also instigated a number of heated discussions about the future shape of Japanese foreign aid. The Japanese populace not only criticized the commercial nature of Japanese aid, but also the lack of clear principles and philosophy of aid on the part of the Japanese government. The critics argued that such a lack of principles often led the government to accommodate its foreign aid strategy to be in line with the overall American strategy. Domestic campaigns to reform Japanese aid policy-making structure emerged not only from oppositional parties in the Diet, but also from NGOs, grassroots groups and even business-interests groups. Overall, all these groups, to one degree or another, criticized the power struggles among the four ministries of foreign aid<sup>46</sup> as an obstacle to smooth and transparent aid policy making and promoted the idea of establishing a centralized aid agency with a single set of objectives and procedures (Arase 1995:Ch 6; Shimomura et al. 1999:Ch 2). By the end of the 1980s, domestic consensus demanded that the Japanese government to promote stronger leadership and a more unified foreign aid strategy. Next I will discuss the institutional and political explanations for the shift in Japan's foreign aid strategy by highlighting the power configurations of distinct ministries in the 1980s.

## *II. The Shifting Power of Aid Bureaucracies*

Several interdisciplinary studies point to the declining influence of the Ministry of International Trade and Industry (MITI) over the government's foreign aid decision-

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<sup>46</sup> Struggles among the four ministry system of foreign aid referred to not-unified and competitive decision-makings that occurred among the four ministries, MITI, MOF, MOFA and EPA. In many other developed nations, aid policy is often determined by a single agency (e.g. USAID in the U.S.) During the period I examined, EPA's influence within the foreign aid policy making was very limited.

making in the 1980s (Potter 1994:208; Hirata 1998:320; Kim 2004; Lancaster 2007; Lancaster 2010). Prior to the 1980s, MITI maintained a dominating influence in the foreign aid sphere due to the fact that Japan's aid project contractors' economic needs were primarily communicated through MITI, which drove the overall foreign aid policy making<sup>47</sup>. Thus, the government's reduced emphasis since the late 1970s, on accommodating Japanese business interests, primarily those of foreign aid contractors, seemed to have led to MITI's gradual decline in institutional power in foreign aid policy making. As mentioned above, the untying of foreign aid created tension in the long-established relationship between the Japanese government and foreign aid contractors. As a result, it weakened the previously closely-dependent relationship between the two in the sphere of foreign aid. For example, Araki (2005:185-186 and 286-288) documents how the government's tough promotion of untying foreign aid, accompanied by the appreciation of Japanese yen in the late 1980s, made it far more difficult for Japanese companies to win ODA bidding, which accelerated the private sector's detachment from projects financed by yen loans. Previously, the Japanese private sector was highly involved in picking out new projects and shaping such projects at a local level before the yen loans' approval by the government; however, the unpredictability of getting the projects (through the bidding) made it unattractive for the private sector to enter into and invest in yen loan financed projects in developing countries (Yasutomo 1986:71; Araki 2005:185-186 and 286-288; Lancaster 2007:120 and 139). MITI's institutional decline can be understood as an unintended consequence of the above processes.

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<sup>47</sup> MITI had been the bureaucracy which held the primary liaison/communication channel with the Japanese private sector and it had long promoted the interests of private sectors reflected in Japan's foreign aid decision-making.

Meanwhile, various observers of Japanese foreign aid reported on the increased influence/power of the other two bureaucracies within the four ministry system—the Ministry of Foreign Affairs (MOFA) and the Ministry of Finance (MOF) —in Japan’s overall foreign aid decision-making during the period (Hirata 1998; Kim 2004; Lancaster 2007; Lancaster 2010). Regarding the MOFA, its institutional goal had always been the promotion of the diplomatic interests of the Japanese government by managing relations with other governments as well as international organizations. The MOFA demonstrated a growing emphasis in strategically shaping Japan’s relationship with Southeast Asia and the U.S. through the use of foreign aid in the 1980s and 1990s. Meanwhile, as the principle and most influential bureaucracy holding full control over Japan’s internal and external financial matters, the MOF became a powerful voice in Japan’s foreign aid sphere as the sum and strategic importance of foreign aid increased tremendously during the period. For instance, the signing of the Plaza Accord and the subsequent appreciation of the yen, along with growing international criticism of Japan’s business-like foreign aid, raised the strategic importance of foreign aid for the Japanese government. In addition to providing direct loans (e.g. yen loans) to developing countries, the government began to utilize the channel of multilateral aid for the further disbursement of surplus cash that needed to be recycled as foreign aid. Thus, MOF’s tasks related to international finance, including negotiations with International Financial Institutions (IFIs) such as the World Bank and the IMF, increased tremendously during the 1980s and 1990s.

Overall, I argue that the weakening of the business-driven structure of Japanese foreign aid along with a political change—namely the intensified government involvement in multilateral development organizations since the late 1980s—represent

the key factors that led to the reduction of the overriding power of the MITI and increased importance of the MOF (and the MOFA) in the foreign aid sphere. This seemed to have leveled decision-making power among the four bureaucracies and contributed to the construction of a relatively more unified foreign aid strategy under the flag of the Japanese government<sup>48</sup>. At the same time, the promotion of Japan's development model accommodated the mixture of interests of these distinct bureaucracies. For example, as the MOF gained greater voice in foreign aid decision-making, it became a leader in constructing and promoting the Japanese development model. Some scholars argue that the ideology behind the model, particularly the importance of the role of the state in economic development (especially financial management) truly resonated with the long-lived institutional norm within the MOF. This idea also supported the more protectionist tendency of the state (Hartcher 1998; Lee 2008)<sup>49</sup>. From MOFA's stance, shifting Japan's international image from economic animals to an international aid leader would have been a great plus for meeting their institutional goal of increasing Japan's influence in the international diplomatic arena<sup>50</sup>. For the MITI, disseminating the Japanese development model could potentially bring more support for Japanese multinationals by creating a positive image of these multinationals as leaders of economic development in the region.

I argue that in this shifting institutional context surrounding Japan's foreign aid, the

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<sup>48</sup> According to Hartcher (1998:3), MOF's bureaucrats had long held an assumption that the MOF was the only bureaucracy which could truly represent the state's national interest due to the fact that "the other ministries, which preside over particular sectors of the society, are tainted by their interest in the health of their constituent industries" (Hartcher 1998:3). Thus MOF considers itself as the "ministry of ministries." This observation may help us to understand why the rise of the MOF in the foreign aid sphere was essential for constructing more unified foreign aid strategy as well as a national model.

<sup>49</sup> For example, Hartcher (1998:189-196) demonstrates how the idea of Japan as an alternative model of capitalism proposed by the influential MOF official, Eisuke Sakakibara resonated within the institutional culture of the MOF. The idea was used to defend MOF's institutional authority and legitimacy in 1990s, particularly its struggle over the deregulation of the Japanese economy. In addition, Lee (2008) shows that the MOF became a leader in promoting the East Asian model because the MOF as an institution embraced a particular normative structure that valued the role of the state in economic development.

<sup>50</sup> See Hirata (1998:314-315).

emergence of the Japanese development model became possible. These findings resonate with Lancaster's observation that "the way governments organize themselves to manage their aid—whether aid programs and policy-making are fragmented or unified and where they are located in the bureaucratic hierarchy—determines the voice and influence of the interests within government on aid's purposes" (Lancaster 2007:7)

### *III. Japan's Quest for International Legitimacy*

The transfer of decision-making power from the private sector to the state also meant that the Japanese government could use foreign aid as a strategic tool to tackle multilayered issues facing the state—from dealing with domestic and international economic issues to responding to external political and diplomatic pressures.

For instance, several scholars, largely in the field of Political Science and International Political Economy (IPE), (Awanohara 1995; Yasutomo 1995; Emig 1999; Terry 2002; Lee 2008) suggest that the Japanese state's quest for international legitimacy—namely its repeated attempts to increase its political power and influence within multilateral development organizations, particularly the World Bank— played a key role in the reshaping of Japanese foreign aid strategy. This resonates with state autonomy theorists' view that highlights the nation-state's relative position in relation to other states in global political economy and how such external factors influence states' decision-making. Both emphasize the Japanese state's independent capacity to produce this shift.

According to this view, the World Bank became strategically important for the Japanese state while it was becoming less and less important for the U.S. after the end of the Cold War. Japan hoped to increase its international status and legitimacy (a symbolic

form of state power) by gaining more influence within multilateral development organizations while the domestic economic recession and the end of the Cold War made it difficult for the U.S. to maintain its monetary contribution to the Bank in the late 1980s. Furthermore, as Japan rose to an economic superpower in the late 1980s, its “self-conscious” feeling toward taking global economic leadership also increased. According to Toyoo Gyoten, one of the most highly ranked and influential officials at the MOF during the time, “Japan’s collective view of its power,” and feeling of leadership toward the management of international finance grew after the Plaza accord, followed by Japan’s economic “bubble” (Tadokoro and Iokibe 1996).

Meanwhile, despite its desire to elevate its position in the global aid sphere, Japan was not successful in augmenting its political power and representation within multilateral aid sphere. For years, even though Japan had become the second largest shareholder at the Bank in 1984, neither its voting shares nor its presence in the management rose relative to its financial contribution to the Bank (Awanohara 1995; Yasutomo 1995:66-67). Japanese nationals represented only 2 % of the staff at multilateral financial institutions including the World Bank, the International Development Association (IDA), the International Finance Corporation (IFC), the ADB and the Inter-American Development Bank (IDB)—a percentage that was dramatically lower than those of the majority of key member states (Hirono 1991:175) (See Table 3).

**Table 3: Number of Senior Officials in the World Bank Group by Country**

Year*	1986		1987		1988		1989		1990		1991	
	Nation	Numbers										
1	USA	1,034	USA	1,004	USA	946	USA	934	USA	974	USA	1,087
2	UK	356	UK	341	UK	305	UK	302	UK	303	UK	350
3	India	258	India	269	India	252	India	255	India	264	India	306
4	France	207	France	220	France	201	France	203	France	209	France	229
5	Germany	128	Germany	124	Philippines	120	Philippines	118	Philippines	125	Philippines	146
6	Philippines	117	Philippines	122	Germany	108	Germany	108	Germany	112	Canada	129
7	Canada	105	Canada	109	Canada	103	Canada	106	Canada	106	Germany	126
8	Neitherland	79	Australia	80	Australia	75	Australia	78	Australia	83	Australia	92
9	Australia	77	Neitherland	79	Neitherland	68	Pakistan	70	Pakistan	71	Pakistan	76
10	Pakistan	70	Chile	67	Pakistan	65	Neitherland	64	Japan	62	Neitherland	72
11	Chile	68	Pakistan	62	Chile	62	Japan	61	Chile	61	Japan	69
12	Iran	62	Iran	58	Japan	61	Iran	61	Neitherland	61	Chile	62
13	Japan	58	Japan	52	Iran	61	Chile	60	Iran	60	Iran	62
14	Belgium	46	Argentina	44	Argentina	48	Argentina	47	Argentina	51	Argentina	57
15	Turkey	43	Turkey	43	Belgium	45	Belgium	43	China	48	Brazil	51
Total**		3,806		3,818		3,614		3,626		3,755		4,241

\* Year represents the end of the World Bank's fiscal year

\*\* Total number of senior officials

Source: data cited from (Shiratori 1993:234). Translated by the author.

As the Japanese government became increasingly aware of this problematic situation in the late 1980s, it began implementing various measures to increase Japanese representation within the multilateral development organizations. However, Japan's representation continued to be unsatisfactory (Shiratori 1993:232-242). Thus, the government's unsuccessful attempt to increase overall Japanese representation raised the importance of international knowledge contribution in the sphere of foreign aid as a more viable, immediately effective, alternative strategy of increasing Japan's influence within the global community<sup>51</sup>. Overall, constructing the Japanese development model (the East Asian model) through the World Bank could be understood as Japan's effort to contribute

<sup>51</sup> As additional attempts to increase its intellectual legitimacy, the Japanese government had been enthusiastically dispatching high ranking officials from the MOF to the World Bank in the late 1980s because the government viewed it as an alternative tool that could immediately increase Japan's intellectual contribution within the World Bank which would in turn increase Japan's status and respect within and beyond the institution (Awanohara 1995:163).

its development knowledge, which was also intended to satisfy Japan's political and diplomatic interests<sup>52</sup>.

Lastly, pressing needs for the Japanese state to communicate effectively with the outside world in the late 20<sup>th</sup> century also contributed to the shift in Japan's foreign aid strategy, particularly the construction and promotion of the Japanese development model. Japanese state needed to address increasing external pressure coming from the Development Assistance Committee (the DAC) as well as IFIs such as the World Bank and the IMF to make Japanese foreign aid principles and practices more aligned with those of Western donors. For example, the central development tool promoted by the Japanese government—yen loans— had long attracted criticism from Western donors due to their unique nature as bilateral loans with interest rather than grants that bore no responsibility for repayment. Japan's great emphasis on yen loans was seen as the result of Japan advancing its own economic interests but not those of developing countries<sup>53</sup>. Meanwhile, Japan was not successful in convincing external critics about the effectiveness of its distinct development practices and its underlying development philosophy<sup>54</sup>. In this context, it was important for the Japanese state to clearly

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<sup>52</sup> In the next chapter, I will discuss with more detail the intensity of the process of negotiation between the Japanese government and the World Bank over deciding the "correct" development model.

<sup>53</sup> According to Yasutomo (1995:13), "The lack of an official 'philosophy,' and the general and vague principles set forth by Foreign Ministry officials in the 1980s, left the ODA vulnerable to the charge that economic objectives constituted Japan's sole reason for aid-giving. Therefore, in the 1990s, Japan unveiled its first official ODA philosophy."

<sup>54</sup> Interestingly, Araki (1997b) reported that since the mid-1980s, there had been a general consensus within the Indonesian policy circle that Japan's "software" aid (e.g. development related intelligence and training of staff, etc.) was one of the worst among the donor governments because Japan was only interested in providing money and "hardware" aid (e.g. infrastructure and machinery) and completely lacked knowledge transfer. Indonesian policy makers agreed that in comparison to the U.S. aid, which focused on disseminating its knowledge to the recipient countries, Japanese aid was "aid without brain" (Araki 1997b:261-266 and 406-410). Such a harsh assessment of Japanese aid by the borrowing countries must have been a huge embarrassment for Japanese development officials, but more importantly, it demonstrated an urgent "need" for Japan to speak out to the outside world. On such occasions, Japanese aid bureaucrats, especially the ones who had an opportunity to interact with local officials of various recipient and donor

demonstrate to the outside world how its economic development tools, such as two-step loans, helped in the long-term economic development of the recipient country<sup>55</sup>. Most importantly, the Japanese state wanted to make a firm point that Japan's development practices were indeed more effective than the ones promoted by Western donors—particularly the U.S. in some circumstances— and that this was exemplified by the successful economic development of East Asia. In this context, the Japanese development model, which intended to help legitimize Japan's distinct development practices globally, emerged

## CONCLUSION

I conclude that material factors initially played an important role in driving Japan's shift in foreign aid strategy. The signing of the Plaza Accord followed by the appreciation of the Japanese yen objectively changed the balance of power between Japanese private sector interests— it seemed to have empowered those interested in engaging in foreign direct investment abroad, particularly in Asia. This led to increased support for a specific kind of foreign aid (e.g. yen loans, including two-step loans by the OECF helped transfer Japanese multilateral businesses to Asia). The above material reality facing the Japanese state and private sectors drove a rapid and dramatic increase in Japanese foreign aid to Asia during the 1980s, which was essential for the development of the shift at an early stage. It also laid the foundation for the state's political interests to emerge.

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governments learned of the importance of disseminating Japan's own economic development knowledge globally.

<sup>55</sup> Enduring themes such as the meaning of Japan's "economic cooperation," its philosophy and how to communicate to the outside began to appear frequently in the publications of development bureaucracies beginning in the mid-1970s (OECF RQ 1974/16; OECF RQ 1975/19; OECF RQ 1975/20; OECF RQ 1976/21).

On the other hand, institutional and political factors were indispensable in explaining the latter shift of Japanese foreign aid strategy to promulgate the national model. Importantly, the gradual weakening of the business-driven structure of Japanese foreign aid, accompanied by key political changes, particularly the government's increased involvement in multilateral development organizations, led to unintended institutional consequences—namely the reduction of the overriding power of the MITI and the increased importance of the MOF and the MOFA in the foreign aid sphere. The above processes helped state's foreign aid discourse and strategy to shift (from MITI discourse/strategy that emphasized the promotion of Japanese business interests to MOF/MOFA discourse/strategy that emphasized state's international legitimacy building through the medium of foreign aid). Lastly, Japan's pressing need to establish legitimacy in the international aid sphere prompted the state to take autonomous action: promulgating the development model through the multilateral channel that would globally valorize and legitimize Japan's distinct development practice.

Overall, I have shown that Japanese foreign aid strategy dramatically shifted in the 1980s due to a mixture of economic, institutional and political factors. In the next chapter, I will draw on constructivist political science theory to explore how the Japanese policy bureaucracy began to promote a particular set of economic ideas as “the East Asian model.”

## CHAPTER 3

### **Japan's Challenge to the Washington Consensus and Making of the "East Asian Model"**

In this chapter, I trace Japan's policy making processes in challenging the Washington Consensus by focusing on the policy discourses during the 1980s and early 1990s. My approach in this chapter is inspired by interdisciplinary literature on policy making, which suggests that ideational variables such as policy discourses and expert ideas "structure" actual material outcomes of state policy making (Hall 1992; King 1992; Weir 1992). I similarly argue that shared ideas among the Japanese developmental bureaucracy contributed to shaping the state's foreign aid decision-making during the period.

I base my argument on a series of research quarterlies produced by the Overseas Economic Cooperation Fund (OECF), one of the key foreign aid bureaucracies that primarily handled overseas development loans including two-step loans (See Appendix B for my rationale for choosing the OECF over other bureaucracies). The OECF housed special expertise in development, particularly development related loans. It had direct ties to the field since many of the staff had been stationed abroad and had worked directly with the recipients and recipient governments. The OECF was under the direct supervision of the EPA and functioned as a subsidiary of the MOF. Officials from all four ministries often relied on OECF's expert knowledge of development<sup>56</sup>.

OECF research quarterlies contain a combination of research papers, opinion pieces, memos, summaries and minutes from the major conferences, roundtable

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<sup>56</sup> See (Söderberg 1996:56)

discussions and statistics on topics related to foreign aid, along with translations of major economic development reports (e.g. World Development Report, “WDR”) and various newspaper as well as short journal articles that could be of interest to bureaucrats (e.g. the Far-Eastern Economic Review). I also rely on the contents of OECF’s discussion papers as well as a 508 page-long historical volume produced by the OECF in 2003 that traces its 50 years of organizational history. Many of the contents from the OECF quarterly were written and prepared by OECF bureaucrats, while others were prepared by selected external researchers from major think tanks and Japanese academia. Such publications, in which bureaucratic development discourse was embedded, highlight the issues, interests and concerns of not only the institution of the OECF, but also of the Japanese development bureaucracy and the state at large. I will also integrate historical information from additional secondary and primary materials to provide more a contextualized background of Japan’s challenge.

Based on this analysis, I argue that not only the economic and political factors surrounding the Japanese state during the late 1980s, but also the state’s ideas about economic development which valued the central role of the state in fostering its economic development, were essential in instigating Japan’s construction and promotion of its own development model. Secondly, the research below suggests that the increasingly transnational nature of states’ policy-making environments as well as the globally available economic knowledge impacted states’ foreign aid decision-making at large. The East Asian model was indeed a product of global construction that drew on internationally available development ideas, constructed in the transnational organizational field (Powell and DiMaggio 1991; Meyer et al. 1997; Slaughter, 2004) and

involved both Japanese and international policy makers and scholars. Overall, I conclude that Japan's challenge to the Washington Consensus was both a local and a global social construct, developed in the processes of interaction with other states and their actors, and drawing on internationally available economic ideas.

## THE RISE OF THE WASHINGTON CONSENSUS AND THE ROLE OF THE WORLD BANK

In the 1980s, the U.S.-led economic "Consensus" emerged which believed in the power of the free-market in optimizing economic growth, and advocated the need for market-liberalizing policies to reform the economies of developing countries. The end of the Cold War, the demise of Keynesianism and the rise of economic conservatism in the U.S. and U.K. (led by Ronald Regan and Margaret Thatcher) backed by an increased popularity of supply-side economics in the West drove the rise of this Consensus<sup>57</sup> (Awanohara 1995:166; Wade 1996:5).

The key policies of the Consensus (here after "the Washington Consensus") included trade and financial liberalization, deregulation and various structural reforms to privatize state-owned industries. These policies were strongly endorsed by Washington-based international financial institutions particularly the World Bank and the International Monetary Fund (Williamson 1990:8-19). The World Bank's rationale for adopting this new approach was that both economic theory and historical evidence demonstrated the failure of statist policies, such as import substitution policies, promoted in parts of Latin America and Africa during the 1970s and early 1980s. At the same time, there was political pressure coming from the Bank's primary donor, the U.S. government,

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<sup>57</sup> Many understood the end of the Cold War as historical evidence that statist policies had failed and liberalizing market forces were the ultimate alternative for the growth of developing economies.

to ally the Bank's policies with those of the U.S. government (Babb 2009). In addition, many note the "Anglo-American" bias in the Bank's approach which was greatly shaped by the ideas of economists with degrees from American and British universities which were increasingly influenced by the neoliberal economic theory (Stern and Ferreira 1997; Stiglitz 2002).

For instance, in the 1980s, the World Bank began promoting newly established Structural Adjustment Loans whose disbursement was based on particular market-liberalizing conditions that recipient countries were required to meet. These conditions conformed to the principal ideas of the Washington Consensus, such as minimizing the role of state, as well as opening developing countries' economies to international markets as quickly and as much as possible.

Interestingly, the World Bank often referred to the positive development outcomes of the East Asian economies from the earlier decades as examples of neoliberal success. The East Asian economies' openness to the international market, exemplified in its promotion of manufactured exports that targeted the international market, was often praised in the Bank's annual reports (WDR 1979:15; WDR 1981:25). Their low levels of international debt, high domestic savings and good social indicators such as reduced rates of population growth, were also highlighted in these reports as positive characteristics of East Asian economies (WDR 1984:176 and 182). Across various reports, East Asia's economic success was often compared to the economies of Latin America, which had been suffering from deepening debt and slow economic growth. By the early 1980s, the World Development Reports were actively reporting that Latin America's failure was

partially due to long years of protectionist policies, such as import substitution policies<sup>58</sup>.

As the 1981 World Development Report puts it:

In the semi-industrial countries of East Asia, successful development has had two hallmarks: a supportive approach to increases in agricultural productivity and growth, along with readiness at an early stage to replace inward-looking import-substitution policies with trade policies favoring the growth of exports in general and of manufactured exports in particular” (WDR 1981:25).

In a similar vein, the 1985 report states,

The difficulties encountered by many Latin American countries in the early 1980s contrast with the success of East Asian countries. Although outward-oriented policies did increase the Asian countries' exposure to external shocks, it also enabled them to capture the greater gains from international trade, so they grew faster (WDR 1985:55).

By the early 1990s, the economic experiences of the East Asia were clearly constructed as evidence of a neoliberal success story by the World Bank. According to this narrative, their developmental success was made possible by East Asian countries' willingness to adopt particular structural reforms in order to open their economies to international market. As the World Development Report of 1990 summarizes,

The successful East Asian countries have acted swiftly to stabilize their economies while pursuing gradual reform programs and maintaining a competitive exchange rate. The Republic of Korea, for example, pursued gradual but comprehensive trade reform during the late 1970s and 1980s. Indonesia supported its careful approach toward stable exchange rate management with reforms of the trade regime, the domestic regulatory framework, and the financial system. By contrast, most Latin American and Sub-Saharan African countries entered the decade with overvalued exchange rates that were sustained by high levels of protection and overborrowing. Direct export taxes, nontariff barriers, and quantitative controls on credit and investment were also common. Adjustments were often delayed and hesitant (WDR 1990:11-12).

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<sup>58</sup> It is important to note that meanwhile a number of studies contradicted such findings (Singh 1985; Hughes and Singh 1988; Amsden 1987). For example, Singh (1985) concludes that the Asian countries, particularly China and India, performed better than Latin American countries (Brazil and Mexico) precisely because that they had long followed the path of “self-reliance” and import-substitution industrialization.

Below, I will show how this narrative of East Asia's economic success constructed by the Bank was drastically different from the one adhered to by the Japanese developmental bureaucracy in the late 1980s and early 1990s. I further argue that the Japanese narrative of East Asian economic success was deliberately formulated in response to the dominant narrative of the Washington-based International Financial Institutions particularly the World Bank. I will begin by showing how differences in these economic narratives became apparent as the two primary institutions of developmental loans (the OECF and the World Bank) began forming a closer relationship in the foreign aid sphere in the late 1980s.

#### THE OECF AND INSTITUTIONAL LEARNING

As Japan's primary institution responsible for coordinating joint loans with multilateral development banks (MDBs), Japan's Overseas Economic Cooperation Fund (OECF) began forming a closer working relationship with the World Bank in the 1980s. As discussed in the previous chapter, enhancing financial contribution to the MDBs, especially the World Bank and the Asian Development Bank became a strategic tool for the Japanese government during the 1980s. During this period, Japan's co-financing with the World Bank dramatically increased and accounted for 46.5% of the Bank's total co-financing operations between 1984 and 1993 (Gyoten 1997:296). By 1984, Japan became the second largest shareholder of the Bank after the United States and the largest co-financier of the Bank's projects.

OECF's Washington office was inaugurated in January 1980 and top officials including the vice-president of the World Bank attended the ceremony (OECF RQ 1980/34:94). In 1987, the OECF established a new department dedicated exclusively to

communicating with the MDBs over co-financing (OECD RQ 1987/56:65). In addition to regular consultative meetings between the OECD and the World Bank, which had been taking place once a year in Washington or Tokyo since 1973, an annual mid-term review in Tokyo was added in 1989 (OECD 2003:51–64). These new arrangements provided increased opportunities for OECD bureaucrats to observe and learn about the Bank’s expertise as well as underlying institutional culture and politics.

OECD quarterlies during the period demonstrate the increasing ideological contribution provided by the bureaucrats who were dispatched to the key field offices around the world including Washington DC, Paris and Manila. These dispatched officers became a source of knowledge for the OECD, which was interested in taking an insider look at the organizational structure and policy prescriptions of the MDBs<sup>59</sup>. Not surprisingly, the bureaucrats not only brought back additional insights into the workings of these banks, but also increased an awareness of Japan’s “inferior” and less-respected position within these organizations and the international community at large. As they interacted more with personnel from the MDBs and other donor and recipient governments, they developed a wariness of the West, particularly the United States and its “Anglo-American” approach to development and diplomacy. OECD’s wariness toward the institutional culture of the World Bank, particularly with its domination by Anglo-American political and ideological influence, became increasingly apparent in OECD reports of this period. For example, Kazumi Goto, a OECD bureaucrat temporarily

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<sup>59</sup> The increasing amount of multilateral aid through channels such as the World Bank conveniently satisfied the Japanese government’s need to quickly increase the total amount of aid without enhancing its institutional capacity. That is because Japanese aid bureaucracies, particularly the OECD, had been suffering from limited staff and overseas offices to deal with drastic increase of foreign aid and its operations. In this context, Japan needed to quickly learn “know-how” from the World Bank through participating with the joint projects (Yanagihara and Emig 1991; Araki 1997b:244; Gyoten 1997:296).

dispatched to the Washington office, wrote a page-long, opinion piece in the Research Quarterly of 1984, titled “For Whom the Bell Tolls.” This piece sarcastically challenges the institutional culture of the World Bank by asserting that “The Anglo Saxon majority” in the Bank, made no secret of its low opinion of the “Japanese minority,” which it treated as “a bawdy crowd that disrupts order by splashing around its money” (OECF RQ 1984/47:64, my translation).

At the same time, the OECF was becoming aware of the clear political influence of the largest donor, the U.S. government, over the World Bank’s policy making. In 1984, the OECF organized a special report covering U.S. foreign aid politics (OECF RQ 1984/47). As a part of the report, OECF Washington office staff produced a paper that reviewed the rising influence of the Regan administration over the policies of the MDBs. The paper points particularly to the influence of “Reaganomics” over the World Bank and states that the “current President of the Bank<sup>60</sup> is trying to convert the World Bank into the American bank” (OECF RQ 1984/47:64, my translation). Meanwhile, interestingly the paper also provides a lesson for the Japanese government. The report highlights the need of Japanese government (as the second largest donor) to present clear policies and its own stance against the World Bank (OECF RQ 1984/47:64).

Furthermore, in 1987, five OECF officers along with Goto organized a study titled “The World Bank’s Aid Approach.” This report reveals OECF’s increasingly critical view of the Bank’s policy prescriptions. It states that

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<sup>60</sup> Alden W. Clausen, the former President and CEO of Bank of America served as the President of the World Bank from 1981 to 1986.

Regarding matters with developing countries, [the Bank] not only acts very arrogantly and jumps to pure economic theories for the conclusion, but also often ends up providing unrealistic responses because it makes no effort to understand the underlying socio-political factors in recipient countries (OECF RQ 1987/56:28, my translation).

The following issue features a roundtable discussion between OECF dispatched officers facilitated by OECF staff in Japan's headquarters. In this report, an OECF official in Manila expresses his frustration toward the World Bank staff. He asserts,

When we talk to people from the World Bank, we often feel dissatisfied with their explanations. . . . [At my last encounter with them,] the World Bank staff jokingly stated that "regarding tax reform, liberalization of imports, laws promoting new investments, lending policies toward industrial sector and so on, the Philippines follows 100% of the World Bank's policy prescriptions while countries such as [South] Korea do not yet listen to us. In this sense, the Philippines is a model student." I find some arrogance in this kind of statement (OECE RQ 1987/57:158–159, my translation).

Regular interactions with policy makers from the recipient countries seemed to further confirm these OECF officials' feeling of dissatisfaction with the Bank's policies. It also generated a certain sense of pride and leadership among these professionals. The above comments continue below:

On the other hand, when we talk with foreign bureaucrats such as the Philippines' Vice Minister of Finance, they seem to share the similar [frustrated] feeling toward the Bank . . . . They are very interested in knowing whether Japanese economists with seasoned knowledge of Japan's extraordinary development can provide policy assessments distinct from those offered by the Bank (OECE RQ, 1987/57:158–159, my translation).

Lastly, in order to consolidate knowledge of its own development practice and to evaluate and possibly integrate new ideas and lessons from the outside world, the OECF began serious internal review, self-evaluation, institutional reform and upgrading in mid-1980s. In 1984 and 1986, the president of the OECF, Taku Hosomi, launched private study groups to examine the future role of the OECF, particularly potential measures to build a more solid base and an effective structure for the growing institution. The 1986

study group contained 18 members including five academics and personnel from all four key ministries (the MOF, the MOFA, the MITI and the EPA). After eleven meetings between September 1986 and September 1987, the final report emphasized the importance of two-step loans as well as co-financing/joint loan operations (including SAL) with the World Bank.

Meanwhile, the roundtable discussion minutes attached to the final report demonstrate the much more nuanced opinions given by several key participants. Two participants suggested that it was important for the OECF to start building its own unique knowledge-driven projects instead of just blindly following the World Bank's path by solely engaging with joint projects. They urged the OECF and the Japanese government "not only to provide money but also knowledge" (OECF RQ 1988/58:22-23)<sup>61</sup>.

Above, I have demonstrated that Japanese bureaucrats' growing understanding of the role and economic ideology of the Washington Consensus played an important role in igniting their dissatisfaction with and doubtful sentiments of the World Bank. Moreover, transnational interactions among policy actors seemed to have influenced how Japanese bureaucrats thought of themselves as well as their responsibility as emerging leaders in international development. According to several studies, largely in the field of political

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<sup>61</sup> Anne Emig, an American PhD student, who had closely observed these bureaucrats in the late 1980s, similarly argued that "By 1988-89, Japanese officials started talking about the need to 'give money but also give advice' (Okane o dasu kedo kuchi mo dasu). 'Intellectual contribution' (chiteki koken) became one of the buzzwords of Japanese aid policy. Having decided to speak up, the question for Tokyo became what to say and how to say it" (Emig 1999:47). In addition, Yasutomo (1995:Ch 3) demonstrated how the Japanese government began to focus on the disbursement of "ideas" rather than just money in the late 1980s. Yasutomo noted that during this period, "[Japan] 'developed a sense of its 'mission' as the source of technology and knowledge for Asia, just as the advanced Western nations had served that function for Japan in the past" (1995:94). In accordance with this observation, Masaki Shiratori, one of the key development bureaucrats in Japan's challenge to the Washington Consensus, expressed his view of Japan's duty to the outside world in his 1993 publication, "As Japan has risen in position at the World Bank, Japan's duty is to spread the experiences and development philosophies of Japan as well as the Asian Newly Industrialized Economies (NIEs) to developing countries through the channel of the World Bank" (Shiratori 1993:243).

science (Yasutomo 1995; Wade 1996; Terry 2002; Lee 2008), the Japanese bureaucracy developed an identity of rivalry against their U.S. counterpart in the late 1980s, which was also an important factor in Japan's challenge to the Washington Consensus. Japanese bureaucrats' assertiveness at the World Bank was clearly fueled by such an identity of rivalry along with their newly emerged confidence.

For the OECF, the 1980s was a period of sense-making. OECF officials also learned a great deal about institutional culture, philosophy and the workings of other partner organizations, especially the World Bank. In addition, outside voices such as the recipient countries' and external partners' assessments of Japanese economic aid made the OECF realize the importance of speaking out to the world through active means such as knowledge transfer. The 1980s was marked as a period of awakening for the Japanese development bureaucracy.

#### THE CLASH OF DEVELOPMENT MODELS: STRUCTURAL ADJUSTMENT LOANS VERSUS TWO-STEP LOANS

How did Japan's fully fledged challenge of the World Bank's Structural Adjustment Loans (SALs) come about? Interestingly, until the late 1980s, despite their wariness toward the Bank's policies as discussed above, the OECF did not have official reasons for publically challenging the World Bank's policy prescription including SAL. The Japanese government had continued to support joint projects with the World Bank and to provide co-financing for some of its SAL loans (Ohno 2000:225)<sup>62</sup>. As Yasutomo (1995:70) states, despite the fact that Japan sought to acquire higher global status through

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<sup>62</sup> Ohno (2000:225) also notes that that Japan was using the channel of multilateral development organizations such as the Bank to meet the goal of "capital recycling plan" –further disbursement of Japan's surplus cash that was needed to be recycled as foreign aid. This was one of the important reasons why the Japanese government continued to support the Bank's joint projects.

active involvement with the Bank, challenging the American position was not their goal. Japan considered the World Bank to be the “American bank,” and thus, treated it accordingly. However, this had begun to shift in the late 1980s, particularly following the episode in 1989 when the World Bank openly challenged Japan’s bilateral loan approach.

The real clash between Tokyo and Washington occurred in 1989, when the World Bank demanded the OECF modify its two-step loans. Japan’s long established two-step loans provided financing to recipient government’s local financial institutions which would in turn offer low-interest loans to targeted sectors such as small and medium enterprises and agricultural banks (Terry 1995; EPA 1996; Wade 1996; Terry 2002; OECF 2003; Okuda 2004). The two-step loan was modeled after Japan’s own postwar development experience (as a loan recipient of the World Bank<sup>63</sup>) and was the central lending instrument of the ASEAN-Japan Development Fund, established in 1987. The OECF administered the fund and the Japanese government had pledged to give more than \$2 billion over three years to promote the development of the private sector in ASEAN countries (OECF RQ 1988/61:150-151; EPA 1996:268; Wade 1996:7–8; Gyoten 1997:298; OECF 2003:56).

Ultimately, a senior vice president of the World Bank sent a letter to the president of the OECF urging him to reconsider OECF’s policy on two-step loans in the Philippines. The Bank argued that such loans with subsidized below market-interest rates disrupted financial sector reforms initiated by the World Bank and IMF’s structural adjustment programs in the region. It stated that if Japan (the OECF) did not remove its interest rate subsidies, World Bank support from the Philippines would be withdrawn (Terry 1995; Wade 1996; Terry 2002; Okuda 2004). This event shocked the OECF as

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<sup>63</sup> See Shiratori (1993:225-228).

well as the Japanese government, and they understood the above letter as a direct threat to their institutional authority and national sovereignty. Japanese officials were deeply offended by the lack of respect and insignificant treatment of the Japanese government by the Bank's top official despite Japan's substantial financial contribution to the Bank.

Most importantly, the clash highlighted fundamental ideological differences between Japan's and the U.S.'s approaches to economic development<sup>64</sup>. The Bank believed in a development strategy that embraced principles of free markets exemplified in structural adjustment loans while the Japanese government believed in the strategy of guided markets, including guiding financial markets through the use of two-step loans (Wade 1996:8). More specifically, the World Bank's structural adjustment loans were based on and shaped by the theoretical belief that the market mechanism was the most efficient means of allocating resources. Thus the recipient countries were conditioned on particular market-liberalizing policy reforms. In contrast, OECF's two-step loans were for financing particular industries and development projects with government guidance and support. They were premised on the idea that in developing countries, especially in earlier stages of development, markets alone functioned inefficiently; therefore, government policies were necessary to facilitate better resource allocation—for example, through subsidizing loans to specific industries in targeted sectors (Okuda 1993:67–68). Such subsidized credit schemes, as promoted by Japanese two-step loans, were directly opposing to the kinds of market-liberalizing policy reforms that World Bank was trying

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<sup>64</sup> Many observe that there were rising feelings of discontent and skepticism among Japanese policy makers and their intellectual contributors about the dominance of the theoretically-oriented, market-centered development prescription promoted by a group of neoliberal economists at the Bank (Gyoten 1997; Terry 2002; Akiyama et al. 2003:128; Nishigaki et al. 2003:64; Okuda 2004). Gyoten (1997:301) asserts, “The Japanese, especially government officials, though some what attracted by the (neo-liberal) thesis, in principle, remained under Keynesian influence because the thesis seemed too abstract and incompatible with reality. They also doubted the value of complete *laissez faire*.”

to promote in the recipient countries<sup>65</sup>. In short, the development ideology of the Washington Consensus promoted by the Bank came into direct conflict with the Japanese idea of “guided markets” (Wade 1996:8-9), which focused on the central role of government in early stages of a nation’s economic development.

In October 1991, in response to the above challenge, the OECF published an occasional paper in English titled “Issues Related to the World Bank’s Approach to Structural Adjustment: Proposal from a Major Partner.” Given its institutional history, the OECF housed experts in “guided markets” and two-step loans<sup>66</sup>. This was the first of such papers published by the OECF in its thirty-year history, and the paper clearly stated that “responsibility of its content lies within the OECF” (OECF RQ 1992/73:5). Inserting such a note of ownership of the argument is remarkably rare within the history of OECF publication. Renowned Japanese academics contributed to the preparation of the paper<sup>67</sup>

According to Gyoten (1997:300), the paper offered five principle arguments: (1) the insufficiency of the liberalizing market and the importance of investment promotion through targeting industries, (2) the importance of protecting infant industries and promoting prospective export sectors to reduce the cost of rapid trade liberalization in developing countries, (3) the need to acknowledge the limitation of market mechanisms

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<sup>65</sup> Scholars using political economy perspective would argue that the U.S. government, through pressuring the World Bank to take on SAL, carried out its own economic interests. Indeed, U.S. multinationals were doing poorly compared with Japanese ones, and were pressuring the state to more actively engage in foreign aid to meet their economic interests abroad. I acknowledge such material factors contributed to the development of the conflict. However, my aim here is to highlight the clear ideological differences existing between the two sides which could have further accelerated the conflict and eventually could have given the Japanese government a reason for coming up with its own development “model” to challenge the model of the Washington Consensus.

<sup>66</sup> Ironically, most loans provided by the World Bank to Japan in the postwar era took the shape of two-step loans and were distributed primarily through the OECF (Shiratori 1993:225-228).

<sup>67</sup> Discussions from a study group on the Structural Adjustment Approach founded in June 1991, laid the foundations for the report. The group was comprised of top academic experts in Japan (Shujiro Urata of Waseda University, Hidenobu Okuda of Hitotsubashi University, Akiyoshi Horiuchi of Tokyo University and Toru Yanagihara of Hosei University and OECF officials (Yasutami Shimomura and Keiichi Tango) (See Ohno and Ohno 1998:61).

in providing the optimal allocation of resources (“market failure”) especially in developing countries where the financial market is often incomplete, (4) criticisms of the World Bank’s universal approach and promotion of a more country-specific approach to development, and (5) the significance of the lessons drawn from Japanese postwar experiences especially fiscal and monetary policies such as preferential tax treatment and lending through development finance institutions.

Overall, the report emphasizes the importance of active industrial policy in compensating the private sector. It asserts:

It is too optimistic to expect that industries to sustain the economy of the next generation well come up automatically through the activities of the private sector. Some measures for fostering industry are required. As pointed out from time to time, industrial policy was adopted as a central measure in the economic development strategies in East Asia. On the other hand, while the World Bank is aware of the importance of export industries and supporting outward oriented development strategies, its structural adjustment approach seems to lack the long-term viewpoint of how to develop such industries, perhaps because it assumes that activities of the private sector will attain this goal. This lack is very regrettable (OECD RQ 1992/73:14).

The paper was officially presented at the annual World Bank and Japan meeting in November 1991(OECD RQ 1992/73:5; Terry 2002:301). This was the most direct criticism of the World Bank’s core development approach expressed by the OECD backed by the Japanese government.

Finally, it is important to note that unearthing, gathering and articulating knowledge regarding the uniqueness of Japan’s postwar development experience had been an ongoing effort organized by Japanese development bureaucracies a few years prior to 1991. One of the key initiatives that was held between the late 1980s and the mid-1990s was MOF’s “benkyokai” (study group) on the uniqueness of Japan’s development philosophies. In addition to MOF officials, members included renowned

Japanese economists and researchers. The study group was chaired by Shigeru Ishikawa, an influential Japanese development economist who had held an enduring interest in the topic since the early 1970s. Another key member was Toru Yanagihara, a young leading researcher at an influential Japanese think-tank, the Institute of Developing Economies. He was also a member of the committee that drafted OECF's 1991 occasional paper (OECF RQ, 1992/73:5). According to Terry (2002:303-304), "[a]s time went on, Yanagihara became increasingly obsessed with carrying on Ishikawa's mission, which he saw as establishing a new set of strategic prescriptions for developing countries, based on the Japanese model." For instance, at a 1989 symposium on "Issues of Structural Adjustment in Asian Countries and the Future of Economic Cooperation," Yanagihara made a passionate call for the explicit construction and promotion of such a model, arguing that,

There must have been a "framework" behind Japan's success in economic development. However, until today, [Japan] has not built such a "framework" into a clear concept of a development model. Unless and until we build such a model, the World Bank's central role in economic development thinking will not change (OECF RQ 1989/62:129, my translation).

The ideological contribution of these two figures in the production of OECF's 1991 paper as well as the subsequent construction of the Japanese version of the East Asian Model was significant.

In the continuing efforts to gather concrete evidence of the Japanese model and its applicability toward Asia, a number of international symposiums and workshops were organized by the OECF and its supervising agencies. In March 1992, the OECF sponsored a symposium for its 30th anniversary titled "The Experience of East Asian Economic Development." Vice presidents from the OECF and the World Bank were both

present, and respected researchers from Japan, Korea, Thailand and Taiwan were invited to share their experiences. The symposium was organized around two sessions examining each country's evidence of two main components of the Japanese model: (1) policy-based finance and (2) industrial policy particularly focusing on the country's export promotion policies.

During the first session on policy-based finance, after listening to four case studies from Japan, Korea, Thailand and Taiwan on their distinct experiences, Johannes Linn, Vice president of the World Bank expressed his disagreement, questioning “whether large-scale policy guided finance combined with a considerable amount of subsidies is really an element necessary for the success of developmental strategy” and asked “whether policy guided finance can be harmful in any ways” (OECD RQ 1992/75:13-14, my translation). In response, Sadao Amano, the Board Director of the OECD asserted that,

Despite the generally amicable and cooperative relationship between the OECD and the World Bank up to now, one area of exception is the issue of policy-based finance. The OECD firmly believes in the effectiveness of such policy and our position is to actively promote it to the outside world (OECD RQ 1992/75:15, my translation).

By this point, the OECD was clearly promoting a different version of the East Asian development story, which was completely at odds with the story told at the World Bank. The World Bank's position was that East Asia became economically successful because it followed a neoliberal prescription—private sector growth driven by the free-market. On the other hand, the Japanese side argued that such economic success was possible because of the government's guidance evidenced in policy-based finance and industrial policy.

The January 1993 issue of OECF Research Quarterly contained an important report organized by Kazumi Goto, who had previously criticized the World Bank's Anglo-Saxon bureaucratic culture during the 1980s. This time, he was stationed in OECF's London office, and from there he networked and collected responses from U.K.'s development experts on OECF's 1991 occasional paper criticizing the World Bank's structural adjustment loans. The publication was titled "The Intellectual Awakening of a Sleeping Partner: Some Comments from the U.K. on OECF's View of Structural Adjustment" and contained a critical introductory essay by Goto followed by 6 responses from the following U.K. intellectuals and policy experts: John Toye, Robert Cassen, Paul Mosley, John Howell, David Stanton and John Flemming. Despite some disagreements, the majority of the essays supported the central arguments made by OECF's paper. However, what was most intriguing in this report was Goto's attempt to refine the concept of the Japanese model by adding ideas from other foreign scholars. In addition to citing the work of a variety of Japanese economists, the report thoroughly reviewed Chalmers Johnson's well-known concept of the "developmental state model" and demonstrated its significance in understanding East Asia's development experiences. Goto commented that "An important point provided by [Johnson's] research is that . . . . government-driven policy interventions do not always fail, in contrast to neoclassical economists' tendency to make the role of government as small as possible." (OECF RQ 1993/76:166, my translation). He concluded that such research could provide an empirical ground for OECF's criticisms of structural adjustment loans.

## THE MAKING OF THE EAST ASIAN MIRACLE STUDY

At the same time, OECF's foremost supervising ministry, the Ministry of Finance, particularly its International Finance Bureau<sup>68</sup> had also been putting pressure on the World Bank to take on a large-scale study of East Asian development experiences and the uniqueness of its development model. The MOF was aware of Japan's strategically important position within the Bank (it was the second largest shareholder since 1984) and was not hesitant to use its influence. For instance, in the annual meeting of the board of governors of the World Bank and the IMF in October 1991, just two months before the OECF presented its occasional paper on structural adjustment<sup>69</sup>, Yasushi Mieno, head of the Bank of Japan, announced<sup>70</sup>,

Experiences in Asia have shown that although development strategies require a healthy respect for market mechanisms, the role of the government cannot be forgotten. I would like to see the World Bank and the IMF take the lead in a wider-ranging study that would define the theoretical underpinnings of this approach and clarify the areas in which it can be successfully applied to other parts of the globe (also cited in Wade 1996; Gyoten 1997:301; Terry 2002:263-264).

Perhaps, the Japanese side's understanding was that unless and until such a development approach was officially constructed and legitimated by an influential and "neutral" third party such as the World Bank, its model would not become credible and

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<sup>68</sup> Terry explains that "the OECF was considered an organ of the MOF" (2002:293). The MOF maintained powerful influence over the OECF and its yen loan operations. Moreover, MOF's International Finance Bureau dealt exclusively with issues related to the MDBs. According to Yanagihara and Emig (1991:55), "It (International Finance Bureau) has constant communications and negotiations with its counterparts in other advanced countries and is always cognizant of Japan's responsibilities in international financial affairs. Since 1982, the debt problem of the less-developed countries has been one of the most pressing concerns for the bureau." Institutionally, a president of the OECF was generally recruited from retired high-ranking MOF officials that also reinforced their institutional proximity (Yanagihara and Emig 1991:57).

<sup>69</sup> According to Wade (1996), the Japanese side was aiming to circulate the occasional paper widely at this Annual Meeting; however, the committee could not reach a final consensus before October 1991. Thus it was presented at the November meeting between the Bank and Japan instead.

<sup>70</sup> Yasushi Mieno, "Statement by the Alternate Governor of the Bank and Fund for Japan," *Summary Proceedings*, Forty-Six Annual Meeting of the Board of Governors, 1991 (Washington: International Monetary Fund, 1991), P67.

universally accepted by the international community. It would also help the process of propagating the model globally.

Two high-ranking officials from the Japanese development bureaucracy, Masaki Shiratori and Isao Kubota<sup>71</sup>, played a central role in pressuring the World Bank (Wade 1996; Terry 2002; Okuda 2004) to take on the study. Between 1989 and 1992, Shiratori was an executive director for Japan at the World Bank in Washington, and he played a critical role in the Bank's decision to publish a highly controversial internal study in 1992 on the industrial strategies of several Asian countries<sup>72</sup>. Kubota was the managing director of the OECF dealing with its loan coordination with the Bank and the main organizer of the OECF occasional paper of 1991.

Both Shiratori and Kubota used their key positions to ultimately convince the World Bank to take on the East Asian Miracle study (Wade 1996; Terry 2002:293; Shibata and Ejiri 2008:4). In the fall of 1990, with Shiratori's leadership, Japan created the Policy and Human Resource Development (PHRD) Fund within the Bank with an annual contribution of approximately 20 billion Yen (\$200 million) to finance the study (Shiratori 1993:230-231; Terry 2002:262-263). Previously, other countries had created similar trust funds within the Bank, but none have surpassed the scale of PHRD. Terry states, "The unspoken understanding was that these (PHRD Fund) would go to raise the stature of the Japanese within the institution" (Terry 2002:263). In the subsequent years, the fund also supported the Bank's additional initiatives that aimed to demonstrate the

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<sup>71</sup> Shiratori and Kubota had both had graduated from Tokyo University Law Faculty and had 2 years of overseas economic training (dispatched by the bureaucracy) at Columbia University and Oxford University respectively. They had been pursuing long successful, elite-careers in the MOF, and from there, they navigated back and forth between the MOF and key positions in other agencies such as the OECF (Wade 1996: footnote 7 and 10; Terry 2002).

<sup>72</sup> The study acknowledged the success of government intervention and suggested better integration of these policy lessons to support other countries' development (Awanohara 1995:170).

uniqueness of Japan's and East Asia's development models<sup>73</sup>. In addition to Japan's full provision of the cost of the research, Japan agreed that if the Bank took on the research, Japanese Board members would cease to oppose "Operational Directive on Financial Sector Operations" drafted by the Bank, which urged financial deregulation on a full scale (Wade 1996:17-18).

Lawrence Summers, then the chief economist of the Bank and Nancy Birdsall, the director of the Policy Research Department, supervised the construction of the report. According to Terry (2002:301), despite Summers' skepticism of the quality of Japanese economists and economic thoughts<sup>74</sup>, Summers interestingly demonstrated enthusiasm toward the project from the beginning; he actually visited Japan a few months after the presentation of OECF's 1991 occasional paper on structural adjustment loans and met with several key architects of the paper including Isao Kubota to discuss the possibility of further research. Regarding the Miracle project, Summers and Birdsall appointed John Page, a former associate professor at Princeton, to head the research team which consisted of famous PhD economists largely from American universities including Joseph Stiglitz, W. Max Corden, Robert Z. Lawrence, Richard Sabot, Peter Petri, and

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<sup>73</sup> PHRD Fund also financed "The Brain Trust Program" which was established in 1990 (and lasted until 2007) and entrusted to the World Bank Institute (WBI). The program's "principal objective were first to conduct studies on the management experience of Japan and East Asian development, and second, to share the lessons of that experience with developing and transitional economies" (Shibata and Ejiri 2008:4). The program funded research, workshops and various dissemination activities and published 13 books and 54 working papers which have been translated into multiple languages. Some of the titles of these publications include, but are not limited to "The Japanese Main Bank System: Its Relevance for Developing and Transforming Economies (1995) edited by Masahiko Aoki and Hugh Patrick, "Corporate Governance in Transitional Economies: Insider Control and the Role of Banks" (1995) edited by Masahiko Aoki and Hyung-Ki Kim, "The Japanese Civil Service and Economic Development: Catalyst of Change" (1995) edited by Hyung-Ki Kim, Michio Muramatsu, T. J. Pempel and Kozo Yamamura, "The Role of Government in East Asian Economic Development: Comparative Institutional Analysis" (1997) edited by Masahiko Aoki, Hyung-Ki Kim, and Masahiro Okuno-Fujiwara and "Rethinking the East Asian Miracle" (2001) edited by Joseph Stiglitz and Shahid Yusuf.

<sup>74</sup> According to Wade (1996:10), Summers was known for his tactlessness and openly held the view that Japanese economists were "second rate."

Howard Pack (Wade 1996:17-18; Terry 2002:264-267). Some Japanese intellectuals such as Ishikawa and Yanagihara were asked to provide some input for the study through the means of internally organized seminars and papers; however, the core research team did not include any Japanese scholars or specialists on the Asian economy (Terry 2002:267-268). Despite the lack of representation, the publication of the East Asian Miracle by the Bank's Anglo-Saxon team seemed to have met underlying national interests of the Japanese government to a large degree. As Terry (2002:276) states,

[T]he World Bank had not only endorsed the Japanese model, it invented it, with internal Bank politics serving as midwife. In 1993, except for Ishikawa Shigeru, no Japanese policy makers or academic had successfully delivered a general theory linking Japanese and East Asian patterns of development. Ishikawa's work was mostly conducted in policy seminars and through papers with circulation limited to the MOF and seminar participants. . . . The [East Asian Miracle] report had accepted that the Japanese model was different from the Anglo-American model, and that other developing economies might learn from Japan's experience. For the Japanese, this was a breakthrough.

Despite the fact that the above project met underlying interests of the Japanese government, for many of the Japanese developmental bureaucrats and intellectuals who were heavily and emotionally invested in the process and had high hopes for the above project, the actual content of the final report was a great disappointment. Subject to strong institutional political pressures to align with the Bank's overall "market-friendly" message, the final report was at best "ambiguous" and did not acknowledge the central message of the model that the Japanese side wanted to advocate: the important role of government in East Asian development and the effectiveness of Japanese style industrial policy (Wade 1996; Shiratori 1998; Terry 2002; Okuda 2004;).

## OECD'S RESPONSE

In December 1993, immediately following the release of the Miracle Report, the OECD co-sponsored a symposium with the World Bank to review and express their repudiation of the report. The 195 page-long discussion paper organized by newly established Research Institute of Development Assistance (RIDA)<sup>75</sup> of the OECD demonstrates OECD's pressing efforts to defend its version of the East Asian Miracle story by gathering intellectual contribution from overseas. The study was organized around the "East Asian Miracle follow-up survey" initiated and implemented by the RIDA following the symposium.

The survey collected various opinions of 29 prominent intellectuals and policy experts from the U.K., U.S., and Asia over the contentious issues of the Miracle study which emerged in the symposium. Participants for the survey were asked to respond to OECD's short issue paper, which was prepared after this symposium. Some of these foreign contributors included well-known critics of the Washington Consensus and of neoliberal interpretations of East Asian development such as Ha-Joon Chang, Robert Wade, Paul Mosley, Tony Killick and Yale development economist Gustav Ranis. Asian participants represented a great number of countries including China, Bangladesh, India, Indonesia, Korea, Malaysia, Pakistan, the Philippines, Sri Lanka and Thailand.

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<sup>75</sup> The OECD founded RIDA in 1993 in order to further investigate and strategize Japan's development policies and ideologies—and, more importantly, to propagate them to the outside world (OECD JDA, 1994/1-1; OECD 2003:59). The Institute began publishing its own Journal of Development Assistance (JDA)—an elaborated version of OECD Research Quarterly. Although JDA was in Japanese, RIDA published a number of discussion papers in English, which was an unprecedented initiative. Discussion papers (OECD DP) introduced Asian case studies that demonstrated evidence supporting Japan's version of the East Asian Miracle story. Some of the titles of these reports include "Government Responsibilities in the Telecommunications Sector" (March 1994), "Policy-Based Directed Credit Programs in the Philippines" (January 1995), "The Role of the Government and the Response of the Private Sector: The Pattern of Development in the Republic of Korea and Thailand" (July 1995). Above all, the paper published in August 1995, titled "The World Bank's East Asian Miracle Report: Its Strengths and Limitations," became the ultimate source for OECD's challenge of the Bank's version of the East Asian Miracle story.

The actual report consists of two parts: part 1 containing four essays by OECF's key bureaucrats summarizing and assessing the survey findings, and part 2 consisting of original commentaries from the 29 surveys. The preface expresses deep appreciation to Hans Singer (a prominent British development economist), Alice Amsden (who was known for her work on South Korea's late industrialization) and Shigeru Ishikawa (an influential Japanese development economist, and one of the leading proponents of the Japanese development model and its relevance in Asia as discussed earlier). All three had been invited to give seminars at the OECF in the early 1990s (OECF DP 1995 no.7: ii).

The first chapter by Masaki Shiratori, a key architect of the Miracle Report, and then Vice President of the OECF, discusses the central problems which had emerged from the overall survey of the World Bank's Miracle Report, particularly its shallow and inconclusive exploration of four key areas of the model. The areas listed were: (1) role of the government in economic development, (2) the effectiveness of industrial policy, (3) the institutional dimensions of economic development, and (4) the replicability of East Asian experiences (OECF DP 1995 no.7: 8). Clearly, the collection of surveys was advocating the Japanese story of the East Asian model on behalf of the Japanese themselves. After reviewing each of the above issues in detail, Shiratori asserts,

The forgoing review reveals that the majority of the opinions support the positive role of government not only in getting the fundamentals right, but also in charting a development course, changing policies with pragmatic flexibility when they appear ineffective, and shaping an institutional basis for effective policy implementation (OECF DP 1995 no.7: 13).

Furthermore, he concludes by highlighting the importance of a case-by case approach to development that challenges the "universal" approach promoted by the Washington Consensus model. This was also one of the main criticisms raised in 1991's occasional

paper on structural adjustment loans. Shiratori states, “The replicability of some successful elective intervention in East Asia should be assessed case by case, rather than generally. A country-specific approach is needed to take into account the initial condition, circumstance and history of each developing country” (OECD DP 1995 no.7:13). The second chapter by Kazumi Goto and third chapter by Izumi Ohno from the RIDA summarize and assess the key arguments from the survey from the U.K. and Asia respectively. Goto concludes by pointing out the methodological shortcomings of the Miracle Report such as the study’s theoretical bias due to the dominant ideological influence of neoclassical economists at the Bank. He calls for a more balanced approach beyond the dichotomous policy debates between ‘government or market’ (OECD DP 1995 no.7:33-38). The final chapter by Chikao Tsukuda, a senior vice president of the OECD provides a different essay compared the above three—a piece that analyzes the East Asian Miracle based on historical, political, economic and institutional perspectives which he found missing from the Bank’s Miracle Report. Tsukuda emphasizes the importance of the role of national institutions and active provision of physical infrastructure in guiding East Asian economic development. Both Tsukuda and Shiratori argue that building strong and competent institutions could be an important factor that other developing countries could learn from East Asia. They lamented that the Bank’s report did not adequately cover such an aspect of the East Asian model (OECD DP 1995 no.7).

Thus, the vision of the East Asian model that emerged from OECD reports was one that promoted the active role of government in organizing sector-specific policies (e.g. provision of subsidized loans and assistance in building local financial institutions

and the physical infrastructure of the country). This allowed East Asian countries to respond flexibly to emerging economic opportunities and shifting environments. It was founded on the idea that especially at the early stages of countries' development, when they lack sufficiently-developed markets, the government needed to play a central role in improving the market and institutional frameworks to support the state's industrial development.

An interesting theoretical addition to this model was its emphasis on "multiple recipes/lessons" learned from East Asian development experiences. OECF's publication repeatedly asserted that because of the different stages of development that each country experiences, there is not a single economic recipe that fits all developing countries. In another OECF report, Shiratori eloquently condemns the World Bank and the IMF for their "universal panacea" approach:

We should provide policy advice depending on each country's varying initial condition because I think that Japan and East Asia hold multiple experiences. In contrast, neoclassical academics claim that "such experiences are just an accumulation of anecdotes and are not representative of a universal model." However, I believe that neoclassical theory itself . . . only applies to an extremely exceptional development stage where market mechanisms function completely. A clean mathematical model does not mean universality. Economic development / transition to market economy are lengthy processes that require not only a transformation of the economy but of the entire social structure of the country. In such circumstances, there is no room for applying the "universal panacea approach" which neoclassical theorists preach. Yet, only accumulating the experiences of Japan and East Asia without having universality is problematic as we consider the possibility of transferability. . . . thus "our next step is to organize and systematize such experiences and clearly adopt them as pragmatic principles for Japan's development aid while transmitting them to the outside world in English" (OECF JDA 1995/2-4: 134-136, my translation).

## CONCLUSION

In this chapter, we have seen that not only the economic and political factors surrounding the Japanese state in the 1980s and early 1990s, but also its ideas that valued the central role of the state in fostering national economic and financial development at its early stage: the Japanese ideas of “guided markets,” were essential in instigating Japan’s construction and promotion of its own development model challenging the Washington Consensus. At the same time, the ideas became important for the Japanese state in a particular historical context defined by the rise of Washington Consensus in the late 20th century. In other words, if there had been no Washington Consensus emanating its version of the East Asian economic success story, the Japanese state would never have needed to construct and propagate its own version of the Miracle Story.

Secondly, despite the fact that the challenge appeared to have emerged “locally” based on Japan’s “indigenous” knowledge of economic development, it was indeed an outcome of global construction. Japanese policy makers not only embraced the ideas of Japanese scholars, but also drew on the ideas of prominent scholars from around world in order to justify the Japanese version of the Miracle Story. Importantly, the idea that markets worked imperfectly in developing countries, requiring high levels of state intervention, was a prominent argument of postwar development economics in the U.S. and U.K. It is not coincidental that leading British development economist, Hans Singer was invited to give seminars at the OECF in the early 1990s and prominently appeared in OECF’s 1995 publication. Moreover, although the East Asian model also drew on the ideas of Japanese development experts, these “indigenous positions” were themselves heavily influenced by traffic with foreign ideas. For instance, two key Japanese

economists who provided the foundational ideas for the East Asian model— Shigeru Ishikawa and his successor, Toru Yanagihara—both held PhDs from U.S. universities (Cornell and Princeton, respectively). Ishikawa had taught at Harvard and written extensively in English while Yanagihara was a polyglot who spoke five languages (Terry 2002:98 and 303). Both Yanagihara and Ishikawa were also heavily influenced by Marxist ideas at the early stages of their careers. Similarly, the development bureaucrats who played the central role in the challenge, Masaki Shiratori from the MOF and Isao Kubota from the OECF received a few years of economics training abroad (sent and financed by the Japanese government), attending Columbia and Oxford, respectively. I argue that all of them uniquely represented “hybrid economic knowledge embracers/producers” in the Japanese developmental policy making sphere.

There are two major lessons we can draw from this. First, it is clear that “ideas” are important factors in economic aid policy making because powerful states and institutional actors can construct their own interpretations/versions of economic narratives drawing from the same facts. These narratives may be used to promote states’ own material (economic and political) interests in the field of foreign aid, but more importantly these ideas could uniquely structure foreign aid policy making of the donor countries. Secondly, economic aid policy making does not only happen within the boundary of the nation-state. Increasingly, the transnational characteristics of states’ policy making environments, globally available economic knowledge as well as the active involvement of policy actors who can embrace/produce hybrid economic knowledge together impact states’ aid decision-making at large. As shown in the case of the Japanese development bureaucracy, interactions between transnational networks of

policy makers/bureaucrats, and scholarly experts shaped the actual challenge—from the early phases of OECF’s institutional learning to the construction of the East Asian model. The East Asian model was indeed a product of global construction that drew on internationally available development ideas, constructed in the transnational organizational field (Powell and DiMaggio 1991; Meyer et al. 1997; Slaughter 2004) involving both Japanese and international policy makers and scholars. Overall, I conclude that Japan’s challenge to the Washington Consensus was both a local and a global social construct, developed in the processes of interaction with other states and their actors, and drawing on internationally available economic ideas.

## CHAPTER 4

### Conclusion

Since Japan's challenge to the Washington Consensus in the early 1990s, a number of factors underlying Japanese economy and foreign aid have changed. After becoming a top donor in 1989, Japan maintained its position between 1991 and 2000. However, the deepening economic recession at home led to gradual decline in the total amount of Japanese foreign aid since the late 1990s (Ohno 2005:168; Lancaster 2007:129). These studies also reveal Japan's lack of assertiveness in the international aid sphere beginning in the same period. According to Ohno (2005:168-170), various domestic institutional factors contributed to Japan's "silence." These include namely the government's increasingly inward-oriented thinking accompanied by its administrative and financial reforms and its continuing aid management problems, which were largely caused by the decentralized system of Japanese foreign aid (particularly the separation between planning, budgeting and implementation of aid).

In contrast, Japan's effort to disseminate its development model/knowledge globally through the medium of the World Bank continued into the 21<sup>st</sup> century. The Japanese government founded and financed research initiatives such as "The Brain Trust Program"<sup>76</sup> through the World Bank Institute (WBI) and extended its networking among the senior levels within the Bank (Terry 2002:Ch 6). According to Terry (2002:238), since the Japanese challenge in the early 1990s, "The World Bank had not only endorsed the East Asian and Japanese models but had also become Japan's strongest ally against the U.S.-inspired policies of the International Monetary Fund (IMF)." For instance, the

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<sup>76</sup> See footnote 74 of Chapter 3 for details.

Asian financial crisis of 1997 demonstrated this transformed relationship between the Bank and the Japanese government. In the aftermath of the crisis, two key figures from each institution, Eisuke Sakakibara from Japan's Ministry of Finance and Joseph Stiglitz, the then chief economist at the Bank, launched a campaign against the IMF. They argued that the neoliberal prescriptions imposed by the IMF on a number of Asian countries in the earlier decades ultimately drove these countries into the massive financial crisis of 1997. Sakakibara and Stiglitz warned of the danger of market-fundamentalism within the IMF and advocated for its reform. They also suggested that the government could play an important role in effectively facilitating country's early development processes (Sakakibara 2000; Stiglitz 2002; Terry 2002:Ch 6).

Overall, I conclude that Japan's challenge to the institutional legitimacy and development ideology of the Washington Consensus in the late 20th century was a historically significant event, because it was the first time that the prescription and legitimacy of the Washington Consensus was explicitly contested by an advanced industrialized country. It opened up a discussion within and beyond the World Bank over the efficacy of multiple "recipes" of economic development (Rodrik 2007) —contrary to adhering to the only model, backed by a set of binding principles of neoliberal economic development. The event also marked a critical juncture for the Japanese state: it was a clear demarcation from its old path driven by the short-term domestic economic interests into a new one that manifested Japan's assertiveness in the multilateral aid sphere.

Below, I will revisit the questions posed by this dissertation in the introductory chapter, namely (1) why did the Japanese state choose to oppose American ideological hegemony

in the 1990s? (2) how did the ideas involved in this challenge develop within and beyond the institution of Japanese policy bureaucracy?

## DISCUSSION OF THE FINDINGS

Why did the Japanese state choose to oppose American ideological hegemony in the 1990s? I have concluded that there were two principal causes for Japan's challenge to American ideological hegemony in the late 20th century. The first was the shift of Japan's foreign aid strategy in the late 1980s, namely Japan's decision to transform its foreign aid into a vehicle for promoting a particular "model" of export-oriented industrialization based on Japan's development experience. The second one was the escalating influence of the Washington Consensus and its interference with Japanese aid policy.

In Chapter Two, I analyzed the first causal factor—the shift of Japan's foreign aid strategy— and its underlying historical contexts. I investigated what possible domestic and international developments (economic, political and institutional) drove Japan's shift in foreign aid strategy in the late 1980s from one led by the short-term interests of Japanese businesses into one that had more strategic and policy-oriented goals. More specifically, I identified three factors that motivated this shift. The First was the rapidly shifting domestic and global economic realities facing Japan and its industries in the 1980s which forced the government to invest more economic resources into Asia in the form of foreign aid. This resulted in a dramatic increase of yen loans to the region. This was significant at an early stage of the shift due to the fact that it laid the foundation for the state's political interests to emerge. Second, the gradual shift of institutional power dynamics within domestic bureaucracies of foreign aid, particularly the decline of the

MITI and rise of the MOF and MOFA drove the state's foreign aid discourse and strategy to shift from one dominated by business interests into one that encouraged the state's international legitimacy building through the medium of foreign aid. Thirdly, Japan's increasing political interests in elevating its influence and status within the multilateral development organizations prompted the state to take its autonomous action. It constructed and disseminated a Japanese version of the East Asian development model that would globally valorize and legitimize Japan's development experience, which was directly at odds with one promoted by the Washington Consensus. Overall, I concluded that a mixture of economic, political and institutional factors together drove the Japanese government to shift its aid strategy.

Meanwhile, the Japanese government's decision to shift foreign aid strategy alone could not have triggered the challenge; without the rise of the Washington Consensus, the Japanese state most likely, would never have had to construct an alternative model of development. The vigorous promotion of the neoliberal model of development by Washington-based international financial institutions and the U.S.'s active involvement in them, made it clear to the Japanese state that constructing its own model of development and promoting it through multilateral development organizations, particularly the World Bank, was the most effective means of state legitimacy building. A turning point for the Japanese state came when a senior official in the World Bank began directly criticizing the efficacy of Japan's development policy (namely the two-step loan program implemented by the OECF in the Philippines) and suggested it to be terminated. In this context, Japan had to strike back by molding its own version of the East Asian model in order to disseminate it to the outside world. Japan's challenge to American

ideological hegemony occurred in an environment in which the neoliberal developmental ideology of the World Bank clashed with Japanese ideas of “guided markets,” which emphasized the role of the state in facilitating a nation’s economic development at an early stage. The clash of economic ideologies was the key element in the challenge.

The Second question of how the ideas involved in this challenge developed within and beyond the institution of Japanese policy bureaucracy was primarily addressed in Chapter Three. This chapter highlighted transnational institutional processes in which the ideas of the East Asian model were constructed. Despite the fact that many of the ideas involved in the challenge were often interpreted by the Japanese policy bureaucracy to have unique domestic roots—which were often represented as culturally distinctive and incompatible with Western culture—they were, in reality, an outcome of global construction. For example, in order to justify their version of the miracle story, key Japanese scholars and policy bureaucrats who had played an essential role in the construction of the Japanese version of the East Asian model, drew not only on the ideas of Japanese economists, but also on the ideas of foreign economists, particularly postwar development economists from the West. These key players also shared extensive economic training abroad, largely in several influential economic departments in the U.S. and the U.K. These findings also point to the important roles that “hybrid economic knowledge embracers/producers” (see Chapter 3) play in the state’s construction of development policy models.

## IMPLICATIONS OF THIS STUDY

What broader implications could we draw from this study? First, development policy models are not just rational instruments to achieve economic means, but they can serve as statements of national identity and foreign policy. The East Asian model represented Japan's national identity and was constructed through Japanese interpretation of its postwar economic history<sup>77</sup> and the East Asian economic miracle. In addition, the model was a clear manifestation of Japan's foreign policy stance toward Asia and developing countries. It also demonstrated Japan's particular economic and political positions and social values that were antagonistic to the ones promoted by Washington. Secondly, this study confirms that development policy models are social constructions created in transnational conversations with other development models. Japan's construction of the East Asian model took place in response to the distinct interpretation of the East Asia's development history constructed and promoted by the World Bank. As demonstrated in Chapter Three, had the World Bank and the OECF not exchanged various interpretations of the economic history of East Asia, the final version of the East Asian model would not have emerged. The East Asian model was the outcome of transnational exchanges of development ideas that took place in transnational organizational spaces of multilateral aid policy making. Thirdly, the study highlights how the rise of the Washington Consensus and its explicit menu of policy prescriptions diffused by international financial institutions created fertile ground for contending development models. For example, for most of Japan's history, its foreign aid program was largely used to promote the pragmatic interests of Japanese businesses. However,

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<sup>77</sup> EPA's 50<sup>th</sup> year anniversary publication (EPA 1996:24) clearly states that one of the primary impacts of Japan's history of high economic growth was that it provided an alternative development model for nations around the world especially for Asian countries.

with the rise of the Washington Consensus, Japanese policy bureaucrats began to contemplate the possibility of producing a particular development model in order to promote a distinct interpretation of East Asia's economic history that also accommodated Japan's economic, political and institutional interests. Furthermore, the Washington Consensus not only affected development countries' choices of development prescriptions, but also donors' choices. For the first time in history, donor states had to choose between endorsing the policy prescriptions of the Washington Consensus and creating ones of their own.

The story of Japan's challenge to the Washington Consensus in the late 20th century has important implications for more recent developments, such as the rise of the so-called "Beijing Consensus" (Ramo 2004). The Beijing Consensus, also, often called as "China Model" can be broadly characterized as an alternative approach to development that questions the key principles of the Washington Consensus such as privatization and free-trade. The China model demonstrates flexible and pragmatic orientations for tackling the country's long-term economic development and thus rejects uniform solutions. It strongly posits the role of government to bring about socio-economic change (Ramo 2004; Osnos 2010). Despite the fact that there is much debate over the definition and utility of the China model, observers of the Beijing Consensus agree that its rising ideological, economic and geopolitical influence outside of China, particularly in other developing countries demonstrates its significance (Ramo 2004:3; Ferchen 2013:411; Beeson and Li 2015:105-108). There are a number of similarities between the Chinese model and the East Asian model of development (Ferchen 2013:399-400; Shimomura and Ping 2013).

What can the Japanese story tell us about the Beijing Consensus? The Japanese story suggests that Beijing's model likely represents not only a set of economic policy prescriptions, but also Chinese national identity and its foreign policy—a social construction that demonstrates the Chinese state's own reading of its economic miracle story. Second, it suggests that for researchers to understand the Chinese model more comprehensively, it is essential to examine its context, particularly the international and domestic environments that have been driving the construction of the model. It is likely that multiple factors such as economic and political motives along with particular institutional developments within the Chinese state, could be promoting the state's construction of its development model. Researchers also might explore the extent to which China's construction of its alternative development model could signal a turning point for the Chinese state. It could be an indication that the Chinese state has begun to construct its international legitimacy at a new level by going beyond its old practice of foreign aid—for example, by playing a leading role in the recent launching of the Asian Infrastructure Investment Bank (AIIB). Researchers should also examine how much the prescriptions and economic ideology of the Chinese model will accommodate a mixture of economic ideas generated in transnational conversations of development models in the global aid sphere.

A great example of this is the influential role played by Justin Yifu Lin, a Chicago-trained, mainland Chinese economist who had served as the Chief Economist and Senior Vice President of the World Bank from 2008 to 2012. Lin is an expert on the Chinese Miracle and the author of 18 books and more than 100 articles. Interestingly, Lin openly expresses his critical views toward the prescriptions of the Washington Consensus

and is a strong advocate of East-Asian style, state-driven industrialization. He questions cookie cutter approaches to development and thus rejects the use of terms such as the “China model” or “Beijing Consensus” (Osno 2010; IMF 2012; Beeson and Li 2015:107; World Bank “Justin Yifu Lin”). Importantly, Lin’s publications, presentations and interviews clearly reveal that his thinking has been greatly influenced by exchanges of international economic ideas such as neoclassical economics, structural economics, development economics and theories of East Asian late industrialization<sup>78</sup>. Lin represents one of the most influential academics in China, and his ideological influence over the Chinese state’s economic policy making, as well as the development of the China model is unquestionable<sup>79</sup>. He is a clear example of a “hybrid economic knowledge producer.”

Finally, the Chinese example also seems to suggest that although the legitimacy of the neoliberal prescriptions of the Washington Consensus have visibly declined within the multilateral aid sphere since the late 1990s, it continues to exert control by stimulating emerging powers to articulate and elaborate their own development models. In this sense, it is likely that the ideology of neoliberal economic development has continued to prevail in transnational conversations of economic development and probably will do for decades to come.

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<sup>78</sup> See (Lin 2012). Key commentators/contributors to this book include renowned experts in the East Asian style of industrialization such as Joseph E. Stiglitz and Alice Amsden.

<sup>79</sup> See (Wang 2014).

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## APPENDIX A

Table 4 demonstrates the tying status of Japanese official development assistance (ODA) between 1974 and 1991. It shows Japanese aid's gradual shift toward untying since the mid-1970s. Table 5 shows that by the early 1990s, Japan had one of the highest percentages of untying, even in comparison to other major DAC countries. According to the information derived from the MITI (1991:35; 1994:30), by the year 1989, 80.5 % of yen loans were untied and the rest of the yen loans was LDC (Less Developed Countries) -untied. By 1992, 95.8% of yen loans were untied. Additionally, all the funds in the Japanese government's "recycling package" between the late 1980s and early 1990s were also untied (Yanagihara and Emig 1991:64). Regarding Japan's multilateral aid (i.e., Japan's aid disbursed through multilateral development organizations such as the World Bank and the ADB), they are generally untied. Table 6 demonstrates what proportion of projects financed by yen loans were won by Japanese companies between 1986 and 1992. It shows the gradual decline in procurement by Japanese companies.

**Table 4: Untying of Japanese ODA, 1974-1991 (In Percent)**

	1974	1977	1980	1981	1982	1983	1984	1985	1987	1988	1989	1991
Condition of Procurement												
Untied	34	44	52	53	64	70	75	66	72	73	78	80
Partially-Tied (LDC-Untied)	6	20	18	16	15	16	12	16	17	14	4	7
Tied	60	36	30	31	21	14	13	18	11	13	18	13

Source: The author combined several sources, Yanagihara and Emig (1991) and MITI's "Keizaikyoryoku no Genjo to Mondaiten" from various years in order to make this table. These publications cited DAC Annual Reports as their source.

**Table 5: Tying Status of Bilateral ODA by DAC countries in 1991(In Percentage)**

	Japan	U.S.	France	Germany	U.K.	Canada	DAC average
Tied	13	19	52	54	72	36	34
Partially-Tied	7	12	4	0	0	23	8
Untied	80	69	45	46	28	42	59

Source: Table I-1-3-9① from (MITI 1994:30). Translated and reformatted by the author

**Table 6: Procurement Source for Yen Loans (In Percentage)**

	1986	1987	1988	1989	1990	1991	1992
Japan	67	55	43	38	27	31	35
OECD Countries Excluding Japan	9	10	16	21	21	21	13
Developing Countries	24	35	40	41	52	48	52

Source: Table I-1-3-9② from (MITI 1994:31). Translated and reformatted by the author

## APPENDIX B

I chose the OECF over other bureaucracies because a number of publications suggest that the OECF played a critical role in constructing the ideological challenge of the Washington Consensus being Japan's main liaison to the World Bank's loan operations (Wade 1996; Gyoten 1997; Terry 2002; Akiyama et al. 2003:129). I understand that focusing primarily on the OECF does not exclude important ideas and policy discourses from other key foreign aid bureaucracies. It is because the Japanese state's institutional practices, such as the constant meetings between the OECF and its four supervising bureaucracies (the MOF, the MITI, the EPA and the MOFA) accompanied by a wide-spread system of temporary dispatching and exchanging personnel from bureaucracy to bureaucracy, seem to have helped ensure that each associated bureaucracy's interests were reflected in OECF's policy making in some ways<sup>80</sup>. Moreover, I felt that focusing on OECF's publications have given me a particular research advantage. After reviewing documents published by other key bureaucracies such as the MOF, the MITI and the MOFA, I came to a conclusion that compared with these main bureaucracies, the OECF seemed to have enjoyed a certain freedom in expressing bureaucrats' honest opinions regarding various development-related issues because of its "semi-government" (*tokushu ho-jin*) status. I believe that OECF's unique status, despite being under the direct umbrella of these four ministries, gave the

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<sup>80</sup> Generally a large number of dispatched personnel from other bureaucracies worked within the OECF. One OECF official reported at a Diet meeting in 1991 that approximately 70-80 personnel (out of approximately 300 OECF staff) were temporarily dispatched personnel from other bureaucracies and the private sector  
(See <http://kokkai.ndl.go.jp/SENTAKU/sangiin/123/1110/12304211110006a.html>).

institution a greater room for self-expression without worrying about the Japanese state's "*tatemae*<sup>81</sup>" toward the outside world.

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<sup>81</sup> *Honne* and *Tatemae* are Japanese phrases that contrast one's true feelings (*Honne*) and what one expresses in public because of the public's expectations of oneself (*Tatemae*). For example, here the Japanese state's *Tatemae* is how the state is expected by society (and the international community) to act or express according to its position and circumstances. Most of the time, *Honne* to *Tatemae* are different; thus, the Japanese state most probably hides what it really believes or desires (which is *Honne*) in public.