

Japan's Development Aid to China

The long-running foreign policy
of engagement

Tsukasa Takamine

Routledge Studies in the Growth Economies of Asia

Japan's Development Aid to China

Paradoxically, Japan provides massive amounts of development aid to China, despite Japan's clear perception of China as a prime competitor in the Asia-Pacific region.

This book provides an overview of the way Japan's aid to China has developed since 1979, explains the shifts that have taken place in Japan's China policy in the 1990s against the background of international changes and domestic changes in both countries, and offers new insights into the way Japanese aid policy-making functions, thereby providing an alternative view of Japanese policy-making that might be applied to other areas. Through a series of case studies, it shows Japan's increasing willingness to use development aid to China for strategic goals and explains a significant shift of priority project areas of Japan's China aid in the 1990s, from industrial infrastructure to socio-environmental infrastructure.

The book argues that, contrary to the widely held view that Japan's aid to China is given for reasons of commercial self-interest, the objectives are much more complex and dynamic. It shows especially how policy-making power within the Japanese government has shifted in recent years away from officials in the Ministry of Foreign Affairs to politicians in the Liberal Democratic Party.

Tsukasa Takamine is Postdoctoral Research Fellow in the School of Asian Studies, the University of Auckland and Research Associate of the Asia Research Centre, Murdoch University. His areas of research interest include Japanese foreign policy and policy-making, Japanese and Okinawan politics, political economy of the Asia Pacific and Sino-Japanese relations. He has published most recently in the *Pacific Review* and *Japanese Studies*. From April 2006 he will be Assistant Professor in the Department of Integrated Arts and Science, Okinawa National College of Technology, Japan.

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Note on names

Japanese words have been romanised using the Hepburn system. Macrons have been used to denote long vowel sounds in Japanese words (e.g. Gaimushō, Chūō kōron). Chinese personal names have been given in Pinyin, rather than Wade–Giles (e.g. Zhou Enlai, instead of Chou En-Lai). Both Japanese and Chinese personal names are given in the conventional way, with surnames first followed by given name (e.g. Ōhira Masayoshi; Deng Xiaoping), except for Japanese and Chinese authors writing in English who have chosen to use the reverse order. With Japanese place names that are widely used in English, macrons have been omitted (e.g. Tokyo, Osaka), where they appear in the text, in translations of titles and organisations and as place of publication.

Abbreviations

ASEAN	Association of South-East Asian Nations
ASEM	Asia and Europe Meeting
BMD	ballistic missile defence
CCP	Chinese Communist Party
CHINCOM	China Committee of the COCOM
COCOM	Coordinating Committee for Multilateral Export Controls
CTBT	Comprehensive Test Ban Treaty
EEZ	exclusive economic zone
EPA	Economic Planning Agency (Japan)
ExIm Bank	Export and Import Bank
FDI	Foreign direct investment
FY	Fiscal Year
G7	Group of Seven (Canada, France, Germany, Italy, Japan, UK and US)
GDP	Gross Domestic Product
GNI	Gross National Income
IDA	International Development Association
IMF	International Monetary Fund
JBIC	Japan Bank for International Cooperation
JCP	Japan Communist Party
JETRO	Japan External Trade Organization
JICA	Japan International Cooperation Agency
JSP	Japan Socialist Party
Keidanren	Federation of Economic Organizations (Japan)
LDP	Liberal Democratic Party (Japan)
LTTA	Long-Term Trade Agreement
MITI	Ministry of International Trade and Industry (Japan)
MOF	Ministry of Finance (Japan)
MOFA	Ministry of Foreign Affairs (Japan)
MOFTEC	Ministry of Foreign Trade and Economic Cooperation (China)
MT Trade	Memorandum Trade
NATO	North Atlantic Treaty Organisation
NGO	Non Governmental Organization

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NIEs	newly industrialised economies
NPT	Nuclear Non-Proliferation Treaty
ODA	official development assistance
OECD	Organisation for Economic Cooperation and Development
OECF	Overseas Economic Cooperation Fund (Japan)
OOF	other official flow
PF	private flow
PLA	People's Liberation Army (China)
PPP	purchasing power parity
PRC	People's Republic of China
SCAP	Supreme Commander for the Allied Powers
SDF	Self Defence Forces (Japan)
SDPJ	Social Democratic Party of Japan
SPC	State Planning Commission (China)
TMD	Theatre missile defence
UNCLOS	UN Convention of the Law of the Sea
UNDP	United Nations Development Programme
WFP	World Food Programme
WTO	World Trade Organization

1 Introduction

This book examines Japan's development aid policy to China since 1979. In December 1979, the Japanese Prime Minister, Ōhira Masayoshi, pledged ¥330 billion as development aid to China over the period 1979–83.¹ This was the beginning of official Japanese aid to China. Since then, successive Japanese governments have consistently provided China with official development assistance (ODA), in the form of government loans, grant aid and technical cooperation. The cumulative total of Japanese ODA to China from 1979 to 2002 reached ¥32,254 billion.² Among China's aid donors, Japan is easily the largest; since 1979 it has consistently provided more than half of China's total bilateral aid. Japan provided 56 per cent of China's bilateral ODA between 1979 and 1998 while Germany and France – the next most important ODA donors for China – provided 15 per cent and 5 per cent, respectively.³ As a result, in financial and technological terms, the contribution of Japanese ODA to Chinese economic development over the last quarter of a century has been substantial.

In simple terms, ODA (or development aid) is a transfer of resources and knowledge from industrialised to developing countries. Japan has been, overall, the world's largest provider of development aid throughout the 1990s, and China has received the largest proportion of Japan's development aid during this period. The question arises as to why Japan provides so much development aid to China, despite Japan's clear perception of China as a strategic competitor in the East Asian region. This study seeks to answer that fundamental question. More particularly, the study examines the actual policy objectives of Japanese ODA to China and the broader interests behind it, together with the process of determining these objectives and interests.

Japanese aid to developing countries has often been regarded simply as an extension of Japan's national commercial interests, masquerading as humanitarianism. Many general analyses of Japanese aid, however, overlook or deal only briefly with the case of China as a recipient of Japanese aid. This study will show that a detailed examination of the China case suggests a much more complex range of policy goals on Japan's part than has commonly been recognised. Moreover, the objectives of and interests behind Japan's ODA to China have not remained static; rather, since 1979, they have evolved in response to critical changes in the domestic and international environments. The objectives of

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Japanese development aid to China and the interests behind it, furthermore, stem at least as much from politico-strategic as from economic considerations.

The study situates itself broadly within studies of Japanese foreign policy, with an emphasis on the literature of Japanese foreign aid. Because the analytical emphasis is on ODA policy and policy-making, the study addresses Japan's ODA to China not from a recipient's perspective, but chiefly from a donor's, that is, from Japan's point of view. Moreover, though the study necessarily engages with economic aspects, it mainly concentrates on the politics behind Japan's ODA policy to China, and on broad perceptions of the economic, political and other effects of Japanese aid.

It is necessary to define ODA in order to clarify the analytical standpoint of the book. The strictest definition of ODA, which is provided by the Development Assistance Committee of the Organisation for Economic Cooperation and Development (OECD) – the international governing body of foreign aid – is based on three criteria. First, ODA is provided by official agencies; second, it is administered with promotion of economic development and the welfare of developing countries as its main objective; and third, it is concessional in character, that is, recipient-friendly, to avoid severe burdens on developing countries, and conveys a grant element of at least 25 per cent.⁴ Therefore, ODA differs from the two other types of international development funding: the 'other official flow' (OOF), consisting of government loans with a grant element of less than 25 per cent, such as international loans from export and import banks of developed countries, and 'private flow' (PF), including commercial loans provided by private banks.

The normative expectation behind ODA, which is also emphasised by the OECD's Development Assistance Committee, is that 'rich governments should provide economic resources to poor ones while leaving aside any commercial, political, and strategic considerations in order to maximise their developmental impact.'⁵ Despite this expectation, however, donor countries are in practice strongly interested in how and for what purpose their money and other resources are used in recipient countries. In fact, ODA is not 'an end in itself' but is 'an integral component' of the foreign policy of donor countries.⁶ Unlike trade and foreign direct investment (FDI), which are primarily transactions by private businesses, ODA, whose source of funds is mostly taxpayers' money from donor countries, can hardly be separated from the foreign policy of the donor countries. ODA policies of major industrialised countries are largely 'influenced by different combinations of foreign policy interests'.⁷

Some analysts emphasise the importance of cultural influences on Japanese and Western aid activity, particularly in terms of motivation. With reference to the different socio-cultural contexts in Japan and Western countries, for example, 'the sense of *noblesse oblige* which forms an important part of the rationale of the aid programs of the West is said [by some observers] to be absent from that of Japan'.⁸ This distinction between Japanese foreign aid, which is supposedly self-serving, and that of the West, which is said to be based on *noblesse oblige*, is, however, easily challenged by many empirical cases of Western foreign aid activity. France has used a significant amount of its ODA for the purpose of

French-language education in its former colonies in Africa to maintain its cultural influence over these countries.⁹ From the late 1970s to the late 1990s, the US directed between 33 and 43 per cent of its total foreign aid to only two countries – Israel and Egypt – each of which is a very important country for US Middle East strategy.¹⁰ One Australian official admitted that Australia's aid to China is a very useful tool to promote Australian firms' commercial interests in China.¹¹ The concept of *noblesse oblige* cannot explain the political, strategic and commercial interests clearly visible behind these Western countries' foreign aid activities.

Humanitarianism – surely – is one of the philosophical motivations of donor nations in giving foreign aid, and every year a considerable amount of Western and Japanese ODA funds is used for the purpose of emergency and poverty relief, food production, education and medical help in many developing countries.¹² However, while humanitarianism may not be the least important objective of Western and Japanese ODA policies, it is almost certainly not the prime motivation. On the basis of their comparative analysis of American, Japanese, French and Swedish aid flows, Schrader, Hook and Taylor conclude that 'our findings discounted the role of humanitarian need in the aid policies of these industrialised democracies'.¹³ In reality, it is very difficult for donor governments to implement aid policies on a humanitarian basis when those governments are operating in the competitive global sphere. In actual practice, ODA can serve a variety of foreign policy objectives. In short, it is a 'flexible but widely misunderstood policy instrument'. Further, as David Arase observes, 'because it is so flexible, it is impossible to determine without reference to a donor's broader interests which purpose, or priority of purposes, will likely motivate that donor's interests'.¹⁴

Japan's ODA to China

There are three reasons why this book addresses Japan's ODA to 'China', rather than to other recipients of Japanese aid. The first, and most important, is that little, if any, detailed research has been undertaken into the actual goals of and broad interests behind Japan's ODA policy to that country, even though it has received the largest portion of Japanese ODA since 1979.¹⁵ Japan's China ODA policy is only very briefly addressed in the existing literature on Japanese foreign aid and foreign economic policy, which will be reviewed below, either as an example of or an exception to the broad conclusions of those studies. While some official Japanese reports assess the impact of ODA to China at project level,¹⁶ scholarly analysis of the context in which China ODA is provided, and the processes by which Japan's broad national interests are determined and policy goals are set, has not yet been undertaken. The second reason is that analysis of Japan's ODA policy to China clearly reveals the highly complex and dynamic nature of Japan's foreign aid policies. Japan's ODA to China constitutes a transfer of resources and knowledge, not between countries having common political and economic systems or values, but between countries that regard each other as important strategic competitors. This fact suggests the highly complex and

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strategic characteristics of Japan's aid policy towards China. Analysis of the aims of Japan's China ODA and interests behind it is made more challenging because of the highly complex and flexible nature of ODA as a foreign policy instrument. The third reason is that the case of Japanese ODA to China most fully reveals the intense bargaining between Ministry of Foreign Affairs (MOFA) bureaucrats and Liberal Democratic Party (LDP) parliamentarians at the policy level, a theme which has not yet been addressed in the broader literature on Japanese foreign aid.

Despite the lack of detailed scholarly analysis of Japan's development aid to China, various observations have been made, especially about the reasons for the initial decision to begin the aid programme. According to one Japanese China analyst, Japan started to direct ODA to China in 1979 'because of Beijing's request to Tokyo for financial assistance' to carry out its economic development policy.¹⁷ An American specialist on China claims, on the other hand, that the Japanese decision was less altruistic: in this view, Japan first provided ODA to China because it had no option but to give financial help 'in order to salvage Japanese plant projects' in China,¹⁸ most of which were under threat of suspension or cancellation at that time. One LDP official I interviewed links the China ODA programme directly with Japan's huge trade surplus in relation to its Western trading partners in the late 1970s. According to this argument, the Japanese government needed to recycle the surplus in the form of ODA, in the face of strong international criticism of Japan's trade surplus.¹⁹ Given the extremely concessional characteristic of yen loans, which do not make sense commercially, one experienced banker in Hong Kong views Japanese development assistance to China as 'disguised war reparations'.²⁰ Robert M. Orr, Jr, in turn, points out the implicit strategic purpose behind Japan's China ODA provision, that is, during the 1980s, Japan wished to support China's effort to counter the increased Soviet military threat in the East Asian region, by means of ODA.²¹ On the other hand, given Japan's suspension of ODA to China, India and Pakistan in protest against the nuclear tests conducted by those nations in the second half of the 1990s, William J. Long emphasises the use of Japanese ODA policy to support nuclear non-proliferation.²² Some of these views remain as speculations rather than sound arguments supported by valid evidence, while others address only a few of the many aspects of Japanese aid to China. Obviously, any single line of interpretation is insufficient to explain the aims of Japan's China ODA and the motivation behind it in a comprehensive manner.

In order to carefully examine the objectives of Japan's China ODA and the interests behind it, it is very important to acknowledge three critical background factors unique to Japan. The first is China's geographical proximity, which is the fundamental source of Japan's security concerns in terms not only of military threat, but also of potential inflow of refugees, environmental destruction, and, recently, organised crime. The second is the history of wartime atrocities perpetrated by Japan in China, which has greatly affected Japan's moral and political stance in its relations with China. The third is the complementary nature of the economies of the two countries – in short, Japan is rich in capital and technology

and China is rich in raw materials and labour – which determines Japan's economic interests in China. The significance of this last factor in particular will be illustrated in Chapter 5.

Quantitative overview

Before proceeding to a review of existing analytical approaches to Japanese foreign aid, I will provide a brief overview of Japan's development aid to China in order to assess its quantitative significance. Table 1.1 shows that during the period from 1992 to 2000, Japan was the biggest development aid donor to China, giving more than the total amount contributed by the top four Western aid donors. In 1998 alone, China received the equivalent of US\$1,158 million, or 13.5 per cent of total Japanese ODA, making it the largest recipient of Japanese ODA, followed by Indonesia (US\$828 million or 9.6 per cent) and Thailand (US\$558 million or 6.5 per cent).²³

Table 1.2 shows Japan's ODA provision to China by types – grant aid, technical cooperation and yen loans – between 1979 and 2001.²⁴ Japan's grant aid has mostly contributed to the development of basic social infrastructure and to the improvement of education and health care.²⁵ For example, since 1980, Japan has given ¥36 billion for the construction of the Japan–China Friendly Hospital, the Youth Exchange Centre and the Environmental Conservation Centre, all of which were built in Beijing city. Technical cooperation funds, on the other hand, have assisted the development of human resources in China. Throughout the period from 1979 to 1999, Japanese governments dispatched 4,158 technicians to China. In the same period, 9,712 Chinese technicians and officials were invited to Japan to take part in government-sponsored workshops and seminars to learn about Japanese technology and management.²⁶ Thus, technical cooperation funds have promoted the development of human resource in China, while grant aid has

Table 1.1 Amount of top five donors' ODA to China, 1992–2000 (net disbursement, US\$ million)

<i>Year</i>	<i>1</i>		<i>2</i>		<i>3</i>		<i>4</i>		<i>5</i>	
1992	Japan	1,051	Italy	202	Germany	193	Spain	192	France	153
1993	Japan	1,351	Germany	248	Spain	140	Italy	136	France	103
1994	Japan	1,480	Germany	300	Spain	153	France	98	Australia	46
1995	Japan	1,380	Germany	684	France	91	Austria	66	Spain	56
1996	Japan	862	Germany	461	France	97	UK	57	Canada	38
1997	Japan	577	Germany	382	France	50	UK	46	Australia	36
1998	Japan	1,158	Germany	321	UK	55	Canada	52	France	30
1999	Japan	1,226	Germany	305	UK	59	France	46	USA	38
2000	Japan	769	Germany	213	UK	83	France	46	Spain	32

Source: Adapted from Economic Cooperation Bureau, Ministry of Foreign Affairs, *Japan's Official Development Assistance: White Paper 2002*, Tokyo, 2003; 'Taichū keizai kyōryoku (Japan's Economic Cooperation with China)', Tokyo, 2000.

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Table 1.2 Japan's ODA to China by types, 1979–2001 (net disbursement base, US\$ million)

<i>Year</i>	<i>Grant aid</i>	<i>Technical cooperation</i>	<i>Yen loans</i>	<i>ODA total</i>
1979	0	2.6	0	2.6
1980	0	3.4	0.9	4.3
1981	2.5	9.6	15.6	27.7
1982	25.1	13.5	33.02	368.8
1983	30.6	20.5	299.1	350.2
1984	14.3	27.2	347.9	389.4
1985	11.6	31.2	345.2	387.9
1986	25.7	61.2	410.1	497.0
1987	54.3	76.0	422.8	553.1
1988	52.0	102.7	519.0	673.7
1989	58.0	106.1	668.1	832.2
1990	37.8	163.5	521.7	723.0
1991	56.6	137.5	391.2	585.3
1992	72.1	187.5	791.2	1,050.8
1993	54.4	245.5	1,051.2	1,350.7
1994	99.4	246.9	1,133.1	1,479.4
1995	83.1	304.8	992.3	1,380.2
1996	25.0	303.7	533.0	861.7
1997	15.4	251.8	309.7	576.9
1998	38.2	301.6	818.3	1,158.2
1999	65.7	348.8	811.5	1,226.0
2000	53.1	319.0	397.2	769.2
2001	23.0	276.5	386.6	686.1
Total	897.9	3,540.4	11,495.7	15,934.0

Source: Compiled from Economic Cooperation Bureau, Ministry of Foreign Affairs, *Japan's Official Development Assistance: White Paper* (two issues), Tokyo, 2002–2003; *Wagakuni no seifu kaihatsu enjo* (Japan's ODA) (various issues), Tokyo, 1984–1999.

contributed more directly to improvements in the living conditions of the Chinese people.

Amongst the three types of Japanese ODA funds to China, the yen loans have most significantly assisted China's economic growth by supporting the country's industrial infrastructure development. For example, during the period from 1979 to 1998, yen loans contributed to the construction of 38 per cent (or 3,842 km) of China's total electric rail network, 25 per cent of its total chemical fertiliser production, 13 per cent of its total port facilities and 3 per cent of its total power-generating capability. During this period, yen loans also contributed to the building of 35 per cent of China's sewage control facilities (which can deal with 4 million tons of sewage per day).²⁷ It must be acknowledged, however, that during that period, the Chinese government limited foreign financing to less than a half of the total cost of each plant project.²⁸ Thus, at this time, Japanese ODA contributed at the most, half of the cost of the separate projects relating to railways, ports, fertiliser plants and so on. In financial, technological and knowledge terms,

the contribution of Japanese ODA to Chinese industrial and social infrastructure development since 1979 has been extraordinary.

Analytical approaches to Japanese ODA policy

In addressing Japan's ODA policy to China, this study is informed by existing analytical approaches which have been developed for the analysis of Japanese foreign aid and foreign economic policy. I categorise these analytical approaches into five different groups: the *commercial instrument* approach, the *mercantile realism (or strategic pragmatism)* approach, the *reactive state* approach, the *proactive state* approach, and the *institutional analysis* approach.

It must be acknowledged that these five analytical approaches do not have exactly the same aims, but rather address three different questions concerning Japanese foreign aid policy and policy-making. First, the *commercial instrument* approach and the *mercantile realism* approach address the question of what policy objectives Japan pursues through its foreign aid and foreign economic policy. Second, the *reactive state* and the *proactive state* approaches ask whether it is foreign or domestic interests which primarily motivate Japan's foreign aid activities. Third, the *institutional analysis* approach investigates the question of what process (or institutional structure) actually makes Japan's foreign aid policy. I will now review these analytical approaches in turn, in order to clarify their value and limitations for the study. Then, I will select several key propositions which are useful to this research from these existing approaches.

Commercial instrument approach

The *commercial instrument* approach emphasises the commercial aspects of Japanese ODA activity. For the proponents of this approach, Japanese ODA is an instrument for advancing Japanese economic interests in developing countries.²⁹ According to David W. Neville, Japanese foreign aid programmes to many recipient countries during the 1970s were based on the desire to maximise Japan's commercial benefits in the international system. This is because:

By supplying selected developing countries with aid, Japan expected reciprocal action from these countries.... The recipients of Japanese aid were expected to reciprocate by purchasing Japanese exports or by opening up their economies to Japanese corporate investment and by providing relatively unfettered access to raw materials.³⁰

This view is derived largely from an emphasis on two historical facts relating to Japanese ODA practices. First, compared to ODA provided by Western countries, Japanese ODA, in terms of the percentage that is officially tied,³¹ has largely been linked with the commercial interests of private Japanese companies; and second, Japanese governments have used ODA to Southeast Asian nations in order to increase Japan's access to mineral resources and develop markets for Japanese

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exports in the countries of the region.³² In this paradigm, Japanese ODA as a whole is purely or very substantially a commercially motivated policy, and Japan's China ODA can also be explained as a policy aimed at increasing access to Chinese raw materials and markets.

However, this *commercial instrument* approach, focusing on aid-tying as the measure of economic and commercial interests in ODA, is insufficient to explain the complex aims of Japanese ODA activity and the multiple interests behind it. For example, this approach cannot explain Japanese governments' efforts to reduce the percentage of tied ODA since the 1970s. As a result of such efforts, the number of ODA projects carried out by private Japanese companies decreased consistently and dramatically in the 1970s and 1980s, a trend which contradicts the explanation of Japanese ODA policy that centres on commercial interest. In fact, by the mid-1980s some scholars had already pointed out that the commercial aspect seen in some of Japan's ODA programmes is 'the exception rather than the rule'.³³

Besides commercial interests, it is quite clear that there are also certain political and strategic considerations behind Japan's ODA activities in Southeast Asian countries. In the 1950s and 1960s, for instance, Japan 'played a key role in supporting Southeast Asian economies [first through war reparations and then through ODA], thereby neutralising the appeal of China in that region'.³⁴ One example is provided by Japanese non-project ODA loans to Indonesia in this period in order to support the anti-Communist regime in that country.³⁵ The appropriate inference may be that commercial and resource interests are not the only purpose of Japanese ODA, but rather are included among the multiple motivations behind it.

In short, the proponents of the *commercial instrument* approach emphasise the primacy of economic advantage for Japan in providing foreign aid, but fail to recognise that the economic interests which are promoted by Japan's ODA often also have politico-strategic implications. In relation to China, for example, increased Japanese FDI also works to stabilise Sino-Japanese relations. ODA policy is undeniably 'a hybrid policy area, the axis of which runs between economic policy and foreign policy'.³⁶

Whether it is commercial interests or strategic interests that most strongly motivate Japan's ODA activity has long been a subject of controversy. As discussed in the next section, the proponents of the *mercantile realism* approach recognise the political and strategic interests that are closely connected with economic-centred foreign policy actions of the Japanese state.

Mercantile realism/strategic pragmatism approach

The *mercantile realism* approach is essentially a modification of the *structural realist* theory, which contends that states' foreign policies are motivated primarily by the fundamental necessity of military security and that states frequently subordinate other objectives to that purpose.³⁷ Actual postwar Japanese foreign policy behaviour, however, is incompatible with the behaviour predicted by structural realism. In particular, Japan's support of Chinese modernisation by

means of ODA, trade and other economic investment is difficult for structural realists to explain. In the paradigm of structural realism, 'concerns over relative gains and dependence on goods vital to national defence will convince most leaders to limit the scope of their state's economic engagement with those states deemed to represent the most imminent military threats'.³⁸ However, even though 'China is Japan's most important potential military challenger', Japan has not limited the scope of its economic engagement with the People's Republic of China (PRC), and rather has assisted China's industrialisation by means of ODA, direct investments and trade. Indeed, Japan has become the PRC's largest trading partner and, as we have seen, has long been the PRC's largest supplier of development aid.³⁹

Thus, from a structural realism perspective, postwar Japanese foreign and foreign economic policies are *unorthodox*. It is true that in terms of defensive combat, the Japanese military force, with its technologically advanced conventional weapons, enjoys an advantage over all potential aggressors in the East Asian region. However, Japan's continued reluctance to increase the size and the power-projection capabilities of its military force indicates that 'Japan is not preparing to balance against Chinese military power comprehensively'.⁴⁰ Surprisingly, Japan is far more sensitive to competition with its Western allies such as the United States, Germany, France and the UK in the areas of trade, investment and technological innovation than it is to competition with China in the field of defence.⁴¹

In an attempt to explain Japanese policy and yet to remain within the *realist* framework, Eric Heginbotham and Richard J. Samuels developed the concept of *mercantile realism*, which reintegrates the economic and military security imperatives of state behaviour in a more comprehensive realist theory. The concept of mercantile realism describes the complexity of a state policy in which 'various economic and security interests have been balanced in the short and long term to maintain or advance the position of the state in the international system'.⁴² On the basis of their *mercantile realism* approach, Heginbotham and Samuels argue that Japan's foreign and foreign economic policy is organised around the objective of advancing its technological and economic position, rather than its military position, in the global hierarchy.

In their account, Japan does not totally disregard its military security interests, but technological and economic security interests are the more important determinants of foreign policy behaviour. In other words, Japan's postwar foreign and foreign economic policy constantly show

a more complex calculus, under which the maximization of military security frequently is subordinated in the pursuit of technoeconomic security interests. Military security is not ignored, but neither is it the predominant focus of a grand strategy designed to enhance comprehensive state power in the long run.⁴³

In the paradigm of mercantile realism, economic security is very important because 'once economic security is gone, it is difficult to recover'.⁴⁴ The case of

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the US before the Second World War demonstrated that a state with a powerful technological and industrial base is able to transform its techno-economic capability into military power in a short period.⁴⁵ On the other hand, as the recent history of the former Soviet Union and more obviously the present situation of North Korea exemplify, a militarily overstretched state without an advanced industrial and technological base is unable to sustain its security and other interests for a long period.

Before and during the Second World War, Japan 'pursued policies designed to strengthen its economic base for the purposes of enhancing its military power'. However, given the disastrous consequences of these prewar and wartime policies, postwar Japanese governments have defined the concepts of security and power not in military terms but in relation to industry, technology and the economy.⁴⁶ Japanese mercantile realism, in the view of Heginbotham and Samuels, is intended 'to strengthen the technological, industrial and financial underpinning of power and measures crafted to insulate Japanese society from forces that might ultimately jeopardize the state's ability to pursue a mercantile policy in the long run'.⁴⁷

Instead of mercantile realism, some scholars use the term *strategic pragmatism* to describe Japan's techno-economic-centred model of foreign and foreign economic policy action. Henrik Schmiegelow and Michèle Schmiegelow maintain that, in the 1980s, this Japanese model of action was so well established that it influenced the modernisation strategies of many developing countries in East Asia and Latin America as well as socialist countries, including China and the then Soviet Union, arguing that these countries took Japan's policy-making model as an inspiration in their effort to develop and modernise their own economies.⁴⁸ Both the mercantile realism and the *strategic pragmatism* approach emphasise the skill of the Japanese state in using its huge economic and technological capability, including its capability to provide ODA to many developing countries, as an important foreign policy instrument in order to advance Japan's political, economic and security interests in the world.

Reactive state approach

Given the crucial role of US governments in shaping postwar Japanese foreign and foreign economic policy, some analysts emphasise that Japanese foreign aid policy behaviour is mostly the product of US pressure.⁴⁹ This approach, most clearly articulated by Kent E. Calder, explains the formation of postwar Japanese foreign economic policy through the concept of the *reactive state*, and is particularly helpful in interpreting Japanese governments' foreign economic policy in the Cold War international system. Proponents of the *reactive state* approach claim that 'the impetus to policy change is typically supported by outside pressure, and... reaction prevails over strategy in the relatively narrow range of cases where the two come into conflict'. The two essential characteristics of the reactive state are: first, that it 'fails to undertake major independent foreign economic policy initiatives when it has the power and national incentives to do so'; and second,