

INSIDE

SAORI N. KATADA

Toward A Mature Aid Donor: Fifty Years of Japanese ODA and the Challenges Ahead (page 6)

JUICHI INADA

Japan's Emerging Role in Peace-Building and Post-Conflict Reconstruction: Have Traditional Norms Changed? (page 13)

DAVID LEHENY

Terrorism, Law Enforcement, and Foreign Policy: Evaluating Japan's Counterterrorism Assistance Initiatives (page 17)

YOSHIO OKUBO

Japan's Contribution to Development through the World Bank (page 22)



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Japanese ODA at 50: An Assessment

ABSTRACT: Official development assistance (ODA) has been the cornerstone of Japanese foreign policy since Japan began allocating aid to Southeast Asian nations in 1954. In this Special Report, four experts assess the successes and failures of Japanese ODA as it enters its sixth decade. According to **Saori Katada**, Japan has matured as a donor, but its foreign policy aspirations will be hindered by declining public support for ODA. **Juichi Inada** argues that Japanese ODA is increasingly politicized in that Tokyo is gradually shedding its post-World War II reluctance to intervene in recipient countries' internal affairs. **David Leheny** examines Japan's counterterrorism ODA efforts and the difficulty of assessing their effectiveness. **Yoshio Okubo** discusses Japan's 52-year relationship with the World Bank as recipient and donor, expressing hope that Japan will deepen its commitment to multilateral financial institutions.

Introduction

Amy Thernstrom

As Japan's aid program enters its sixth decade, many Japanese are expressing doubts about their country's overseas role. Official development assistance (ODA) remains the cornerstone of Japanese foreign policy, and Japan has helped lift countless people out of poverty by providing some \$221 billion since it joined the club of donors in 1954. Yet a series of scandals has prompted demands for "smarter" aid, and many feel that Japan has not captured returns commensurate with costs.¹ Last year, further controversy over aid's efficacy was ignited by the Center for Global Development's last-place ranking of Japan in assisting social and economic development in poor countries.² To look at both successes and failures of Japan's ODA, the Asia Program joined with the World Bank to host a seminar on November 4, 2004. The Asia Program follows up with this Report of essays by three of the participants (plus one additional paper by David Leheny) to contribute further to a richer understanding of the past, present and future of Japanese aid.

Saori Katada of the University of Southern California begins the Report with a sweeping description of Japan's history as an aid

donor since it began providing war reparations to Southeast Asian countries in the context of the San Francisco Peace Treaty. Katada emphasizes the extent to which Japan, constrained by its pacifist constitution, exerted influence through ODA in the years after 1954. Subject to "peer pressure" from Washington during the cold war, Japan allocated aid to U.S. allies such as Pakistan and Egypt, as well as to Latin America, where Japan did not necessarily have its own strong interests. Thus, Japan financed part of the U.S. security burden. After the cold war, the United States lost its urgent rationale to provide aid. Helped by a strong yen, Japan became the world's largest aid donor for ten years beginning in 1989.

Katada maintains that Japan has been steadily "maturing" as a donor—becoming more engaged in the "battle of ideas" over development strategies, and turning from mercantilism to a more cosmopolitan understanding of "soft power" and the importance of global trends to Japan's own security. In spite of this maturation, public opinion about the ODA establishment has become increasingly negative, Katada asserts. The portion of Japanese people that wants to "positively promote" ODA fell from 39 percent in 1989 to 19 percent in 2003. Meanwhile, the portion that wants to "reduce it as much as possible" increased 14 percentage

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points to more than a quarter of the population. Whether the earthquake and tsunami disaster of December 26, 2004, will permanently, or even temporarily, boost ODA popularity remains to be seen. Though Katada's essay was written before the disaster, her analysis suggests that the effect may be only temporary—as after the Asian financial crisis of 1997–98. According to Katada, support for ODA has declined partly because of years of overall belt-tightening and partly because “special business interests have reduced their support to ODA after losing many aid projects—mostly untied by the mid-1990s.” Perhaps even more significant is the series of discrediting scandals that has tarnished the image of the Ministry of Foreign Affairs (MOFA) during the past several years. Katada does not fully address the extent to which critics, by decrying waste and corruption, are themselves helping to “mature” the ODA establishment.

Juichi Inada of Senshu University also examines Japanese aid over the course of five decades. While Katada writes of Japan's “maturation” as a donor, Inada describes Japan's progression more neutrally, as a shift toward “politicization” of aid. Inada would probably not disagree with Katada that Japanese aid has always been political to *some* degree, as in atoning for World War II and supporting U.S. cold war allies. Even so, he maintains that postwar Japan has generally been cautious about political involvement in foreign countries' internal affairs. A defeated and distrusted Japan had no other option. Only now are

norms changing—or at least showing signs of changing, Inada argues. Japan is moving toward support of “universal values and goals” (a minimum standard of living and guarantee of basic human rights) and the idea that such values should take precedence over national sovereignty. He writes, “Japanese ODA has become increasingly involved with aid programs of an unmistakably political hue, related to security situations and regional stability, in the form of conflict prevention and aid for post-conflict reconstruction.”

Japan's leading role in the disarmament, demobilization and reintegration (DDR) of Afghan warlords constituted “a remarkable change in Japanese diplomacy,” Inada writes. He also points to the emphasis on policy dialogue and policy-based lending in the ODA Charter of August 2003 as evidence of a more “politicized” Japanese approach. These new concepts show Japan is starting to move away from the request-based (*yōsei shugi*) system, by which Japan grants aid in response to official requests. In general, the request-based system has served to “tone down” Japan's involvement in recipient countries' internal affairs.

Inada maintains that “the Japanese public seems to favor these peace-building efforts,” though he describes the support as fragile. (He does not cite surveys or address the overall fall in public support for ODA.) While many complain of Japan's new active posture, it is important to remember that Japan's “traditional” approach of noninterference drew criticism too, as when Japan allocated aid to South Korea under Park Chung Hee in the 1970s and to the Philippines under Ferdinand Marcos in the 1980s. Inada points out that even as late as 1999, Japan did not suspend aid to Indonesia when the Indonesian military killed hundreds of demonstrators in East Timor (though Japan later shifted to offer full support to East Timor when its independence was officially acknowledged by the international community).

David Leheny's essay is less sweeping in scope than the previous two; he focuses on one element of Japanese ODA policy—counterterrorism efforts, particularly in Indonesia. Leheny sheds further light on how Japan's ODA policy is changing and moving beyond a focus on Asian economic growth. He also shows how Japanese ODA is permeated not just by the “universal values and goals” that Inada describes, but also by its powerful ally's strategic priorities. The U.S. focus on counterterrorism has prompted MOFA to declare a dramatic amplification of efforts in such

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areas as immigration, aviation security, customs cooperation, export control, law-enforcement cooperation, and the curtailment of terrorist financing.

What are the results of this amplification? Evaluating ODA's effectiveness is a contentious issue in Japan. As mentioned above, the fall in public support for ODA is partly due to governmental scandals and an outcry for "accountability." Leheny maintains that in the area of counterterrorism, success is almost impossible to measure: "Like religious faith, beliefs about counterterrorism often reflect hope and desire rather than empirically grounded observation." Japan created a unit within the powerful Foreign Policy Bureau to deal with counterterrorism (previously, the Consular Affairs Bureau simply tracked individual incidents involving Japanese overseas). Japan has also established semi-regular meetings among intelligence officials from Asia-Pacific nations, Leheny points out, thereby reinforcing security ties and enhancing information, as well as establishing "bonds of trust and communication" that can facilitate cooperation in a terrorist crisis. But the long-term effects are more difficult to measure than the impact of the dams and roads Japanese ODA is known for. If terrorist activity occurs, does that suggest that Japan's programs are useless? Some may argue so, especially when critics are demanding "smart aid" and better ODA assessment.

Japan's law-enforcement program in Indonesia is a case in point. Leheny describes how Japan's National Police Agency is involved in efforts to train the Indonesian police in crime control techniques and to establish "community policing" models based on the Japanese *kōban* (police box) system. While the program predates 9/11 and has only since been rechristened a counterterrorism program, the Japanese government holds that professionalization and training of the police is relevant to improving Indonesia's security situation. But, according to Leheny, the program's effectiveness and its relation to the overall counterterrorism effort are at "too early a stage for even the government to evaluate."

The final essay in this Report, by **Yoshio Okubo**, underlines the importance of multilateral institutions to Japan, and Japan to multilateral institutions. Writing from his position as executive director for Japan at the World Bank, Okubo points out that the Bank can offer the advantage of a high-quality 10,000-member staff and the ability to coordinate the efforts of many donors and recipients. Japan, in

turn, is a rich contributor to the World Bank and other multilateral institutions. Although Japan allocates most of its aid bilaterally, it is the World Bank's second largest shareholder and also plays a leading role at the Asian Development Bank (ADB).

Okubo points out that Japan was itself a World Bank borrower when it initiated its ODA program in 1954. Its rags-to-riches experiences are valuable to other countries hoping to achieve prosperity, as are its know-how in infrastructure financing and private sector development. Infrastructure—Japan's main focus in aid allocation over five decades—has received renewed attention in the development field, Okubo writes. Okubo maintains that although the Bank's resources include 150 Japanese staff and 90 Japanese consultants, the percentage (1.9 percent of headquarters appointments for internationally recruited staff) should be higher given Japan's strengths and large financial contribution. Japan's significance as a donor is reflected in the stunning economic progress of Asia, where Japanese aid efforts have been concentrated. Between 1981 and 2001, the number of East Asians living in extreme poverty fell from 55.6 percent to 15.6 percent.

Although he did not author an essay for this Report, **Shiro Sadoshima**, deputy director-general of MOFA's Economic Cooperation Bureau and Multilateral Cooperation Department, contributed a presentation to the November 4 event, and his comments are worth summarizing here as describing some of Japanese ODA's achievements. In his presentation, Sadoshima (like Okubo) emphasized Japan's consistent contribution to Asia, which still accounts for about half of Japanese ODA, and argued that Japan has facilitated the region's tremendous rise. Since many Asian countries are now prosperous enough to become donors themselves, Sadoshima expressed hope that Japan can become a more important contributor to African development in coming years. Africa—which receives most of its aid from Europe and the United States—remains tragically mired in extreme-poverty levels of 46.5 percent.

Although other panelists emphasized transformation of Japanese ODA (as reflected in this Special Report), Sadoshima's presentation stressed continuity. He did not discuss the "politicization" of aid but maintained that, at least in Africa, Japanese "ODA style will not change much." Japan's overwhelming focus on infrastructure ("almost paranoid," he joked) has proved successful. In the case of Indonesia,



Japanese ODA has provided 20 percent of national power generation, 30 percent of dams, 20 percent of Jakarta's highway network, and two out of four top-ranking hospitals. In the Philippines, Japan has contributed water supply for 13 million people, among many other projects. In Thailand, Japan built 14 of 17 bridges over the Chaopraya River.

In addition to infrastructure, Sadoshima described human resource development as a pillar of Japanese ODA. Japan has sent overseas about 70,000 senior experts and 25,000 junior experts in the past five decades, and has hosted many foreign trainees. He maintained that Japan helped facilitate Asia's high levels of foreign direct investment (positively correlated with exports) and intra-regional trade, contributing to the reduction of poverty. Some analysts have argued that Japan *must* alter its ODA style in Africa (and that the request-based system is especially problematic for Africa's weak institutional capacity).³ Sadoshima asserted that although Japanese ODA must evolve to meet changing needs, the basic pillars are sound.

What of the future of Japanese ODA, according to the experts in this Report? The most fundamental change facing Japan is that many Asian countries are growing prosperous enough to "graduate" soon from Japanese aid. Most notably, the Japanese government is currently considering when and how quickly to scale down ODA to China, to which it has allocated \$24 billion dollars since 1979. Although China's GDP per capita is only \$1,090 (the World Bank's benchmark for discontinuing grant aid is \$1,400), many Japanese feel that an increasingly competitive China no longer needs Japanese help. After all, China is rapidly militarizing and has even launched a manned space flight. Katada points out that aid to China has served as a substitute for war reparations, but a recent backlash against China in Japan has led to annual cuts of 25 percent to the country since 2002.

The trend of overt "politicization" of ODA that Inada describes will likely continue; Japanese leaders and civil society groups are increasingly influenced by global norms and worldwide development trends. Okubo, on the other hand, puts the future in "politically neutral" and "objective" multilateral financial organizations. None of the essays discusses at length the link between ODA and the increasingly active role of the Japanese self-defense forces under the Koizumi government. The link is

more apparent than ever in the response to the earthquake and tsunami disaster (which, as mentioned previously, occurred after these essays were written). The present deployment of more than 1500 self-defense troops, about 1000 for tsunami relief efforts, is the largest Japanese overseas deployment in postwar history. Japan has achieved high visibility in Asia, with every branch of service involved (ground, air and maritime), even as the cabinet outlines a bill for permanent legislation on dispatching troops for international peace-building missions and relaxing rules on use of weapons. As Japan moves toward a "normal" military, ODA missions will become more confident. As can be seen by the tsunami disaster, the ability to raise funds is not enough to save lives—the ability to quickly get boots on the ground and aircraft in the air is also crucial. In the coming years, not only "politicized" missions but humanitarian relief will be bound up with military capabilities.

As Leheny points out, counterterrorism, governance and other topics of "human security" will probably continue to receive attention. The rather vague term "human security," as emphasized in the 2003 revised ODA Charter, refers mainly to transnational issues such as poverty, refugee problems, and HIV/AIDs. Leheny writes, "this is a sea change for the Japanese government, which had long viewed its ODA policies as efforts to replicate some version of Japan's 'miracle economy' in developing nations." In the Charter, Japanese ODA is explicitly linked to Japan's own national interest in terms of global peace and security.

In spite of these signs of burgeoning transformation, the link between "human security" rhetoric and real diplomatic focus should not be overstated. Aid projects are still implemented by individual agencies and ministries, which in the end rarely coordinate to integrate ODA into a broader national strategy.⁴ Moreover, a renaissance of Japanese ODA is hardly likely given consistent budget cuts (six years in a row) and declining public support. Yet, as argued by Sadoshima and Okubo, Japan remains proud of its concrete (including literally concrete) contributions to East Asia's infrastructure throughout the past five decades. If a "smarter" ODA establishment can, despite budget cuts, expand in scope while preserving methods that have proved valuable, it will continue to increase its influence and effectiveness in Asia and beyond.



ENDNOTES

1. Masahiro Kawai and Shinji Takagi, "Japan's Official Development Assistance: Recent Issues and Future Directions," *Journal of International Development* 16 (2004), 255–280. For an earlier version of this paper published by the Wilson Center, see <http://wwics.si.edu/topics/pubs/oda.pdf>.
2. Japan scores low in quality of official assistance mainly because it exacts heavy interest payments on old loans. "Ranking the Rich 2004," *Foreign Policy*, May/June 2004, 46–56.
3. See, for example, Taichi Sakano and Motoki Takahashi, "Can the Miracle be Replicated? Official Development Assistance and Technological Transfer from Japan to East Asia and Southern Africa," *Journal of Developing Studies* 15, no. 1 (1999) 61–94.
4. Keizo Takemi, "A New Direction for Japan's Aid Program," *Japan Echo*, June 2003, 21.

Toward A Mature Aid Donor: Fifty Years of Japanese ODA and the Challenges Ahead

SAORI N. KATADA

In 50 years of providing foreign aid, Japan has come a long way. When the Japanese government first joined the club of foreign aid donors by participating in the British-led Colombo Plan in 1954, Japan was recovering from the devastation of World War II and was itself borrowing from the World Bank. War reparations, in the context of the San Francisco Peace Treaty, became the first phase of Japan's aid to Southeast Asian countries. Fifty years later, after dramatic economic growth and transformation, Japan is the world's second largest aid donor after the United States, contributing about one-fifth of total official development assistance (ODA) by Development Assistance Committee (DAC) countries.

Throughout the past half-century, Japan's foreign aid has remained consistent in many respects, focusing on Asia and emphasizing "self-help" in development. However, Japan's ODA policy has undergone a transformation, particularly since the early 1990s, following its maturation through decades of involvement in East Asia's striking economic success. By examining the transformation and its causes, this essay sheds light on Japan's foreign policy decision-making, before turning to a discussion of future challenges.

JAPAN'S ODA DURING ITS FORMATIVE YEARS

At the risk of generalizing, I venture to characterize Japan until the late 1980s as a "nurturing mercantilist" and "insecure financier." As a "nurturing mercantilist," the Japanese government advanced its own interests in terms of contracts for Japanese companies and Japanese access to export markets and natural resources. Japanese business special interests clearly dominated Japanese foreign aid from the start. According to early DAC statistics, 65.7 percent



(double the DAC average of 34.8 percent) of Japanese ODA in 1972 was "tied" to the procurement of Japanese goods or services.

During 1973–74, 59.1 percent of Japanese ODA was allocated to the economic-infrastructure sector and the production sector (see Chart 2). Foreign aid in the form of war reparations allowed Japanese business to re-enter

Southeast Asian markets, as the Japanese government "lost" access to China in the 1950s. Moreover, the well-known "request-based" ODA policy increased the involvement of Japanese businesses behind the scenes, since they helped guide recipient governments through the ODA process.¹

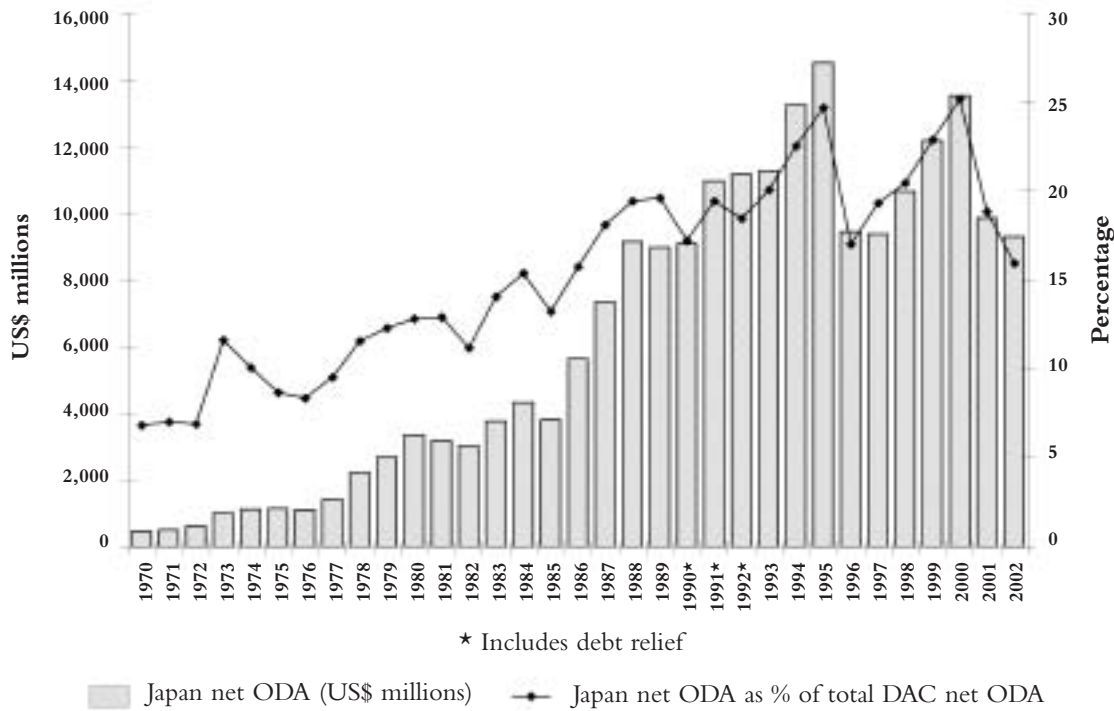
Meanwhile, Japan is "nurturing" because, by concentrating on physical infrastructure, its foreign aid has managed to provide a solid economic base for many developing countries, particularly in Southeast Asia, to attract private direct investment from Japan and elsewhere for industrializing and increasing exports. Such positive synergies contributed to dramatic economic growth and poverty reduction in those countries in the 1980 and 1990s, and Asian countries managed to achieve rapid capital accumulation.

In the early 1990s, the tied status of Japanese foreign aid dropped significantly,² and aid that contributed to sectors other than physical infrastructure—such as the social sector and NGOs—increased.

Besides a "nurturing mercantilist," Japan can be characterized as having been an "insecure financier" during its formative years as an ODA provider. The term "insecure" can mean either lacking in confidence or lacking in security, in a diplomatic or military sense. Even during the first several years of Japan's foreign aid, Japan assisted Southeast Asian countries because it needed to reestablish diplomatic and economic relations with them after World



Chart 1: Amount of Japanese foreign aid and Japan’s contribution among OECD/DAC



Source: OECD/DAC data

War II. The Japanese government has treated the potentially powerful China in a special way, in part to smooth out relations after Japan’s decade-long invasion and war in the 1930s and 1940s. Japan’s “insecure” relationships with its neighbors led Tokyo to actively finance their development.

In security policy, too, foreign aid was important from the late 1970s to the end of the cold war. As defined by Prime Minister Ohira in 1979, “comprehensive security” includes such issues as resource security, economic security and environmental security. Meanwhile, Japan was constrained by its pacifist constitution against pursuing an active foreign security policy in any traditional sense. Thus, foreign aid helped Japan maintain stability and security in the region.

On the global scale, the Japanese government used foreign aid to finance part of the U.S. security burden. For example, “strategic aid” during the first half of the 1980s involved assisting Pakistan and Egypt, which were cold war allies of the United States.³ In this way, Tokyo managed to contribute, at least financially, to Pax Americana. Moreover, the Japanese government has often responded to demands by the United States and other donors to allocate aid to regions, such as Latin America in the

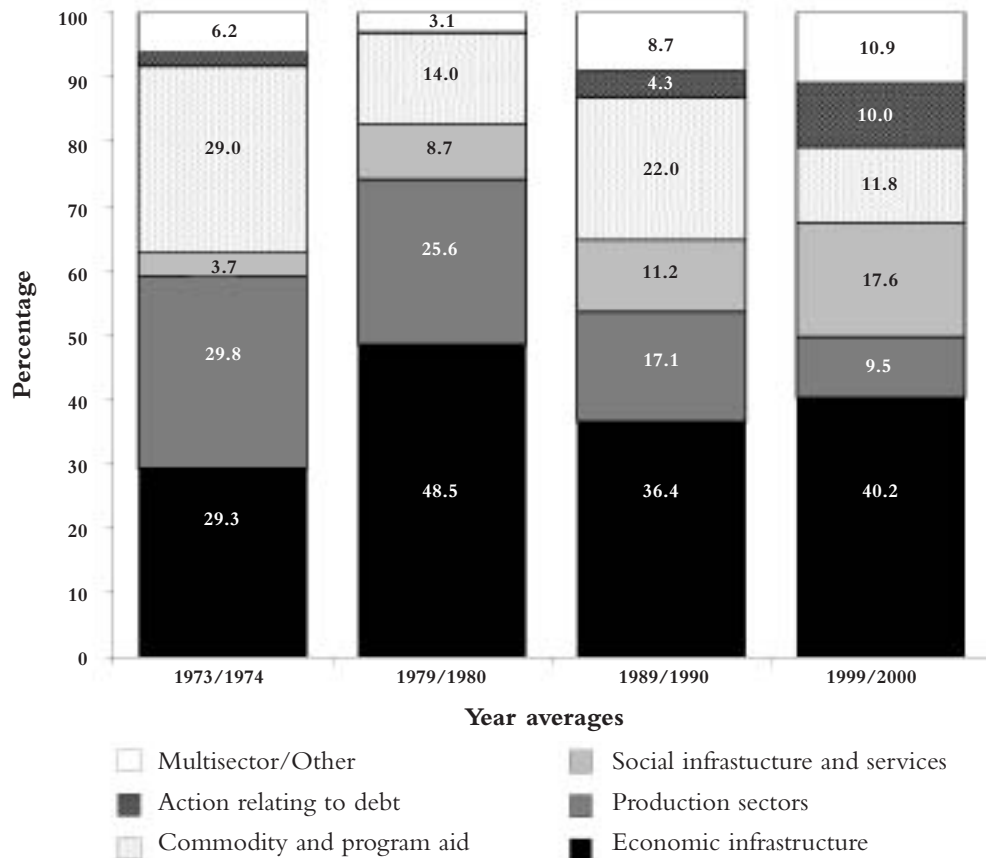
1980s, in which Japan did not necessarily have strong interests of its own. Sometimes Japan had reservations, as when extending assistance to Russia after 1991 (although the assistance was in the form of official aid, rather than foreign aid). Overall, “peer pressure” from the donor community seemed to work effectively in expanding Japanese foreign aid in the 1980s—contributing to the unflattering image of Japanese foreign policy as “checkbook diplomacy.”

TRANSFORMING EXPERIENCES (LATE 1980s – MID-1990s)

The decade from the late 1980s through the Asian financial crisis in 1997 involved experiences that transformed Japanese perspectives toward ODA, thereby influencing Japan’s policies and furthering its transformation into a mature foreign aid donor. The experiences can be summarized as coming in three clusters.

The first cluster involved dramatic changes in the international political and economic environments, as the world became more uncertain—but less constraining—for Japan. As the end of the cold war drew nearer, Japan’s need to support the United States against communism (both in security and

Chart 2: Sector allocation of Japan's ODA



Source: OECD/DAC data

economic spheres) began to take a back seat. Meanwhile, the United States' most urgent rationale to provide aid weakened. In 1989, Japan became the world's largest ODA donor, partly because of the U.S. decline and partly because of the yen's strengthening after the 1985 Plaza Accord.⁴ Japan's ever-increasing trade surplus (particularly against the United States), along with active efforts to increase foreign aid, also caused this shift. Japan maintained its top-donor status for over a decade in the 1990s when many other donor countries, particularly the United States, suffered "aid fatigue" and foreign policy rethinking. Tokyo not only maintained the highest ODA contribution, but also improved quality by untying aid and allocating to poor regions such as Africa.

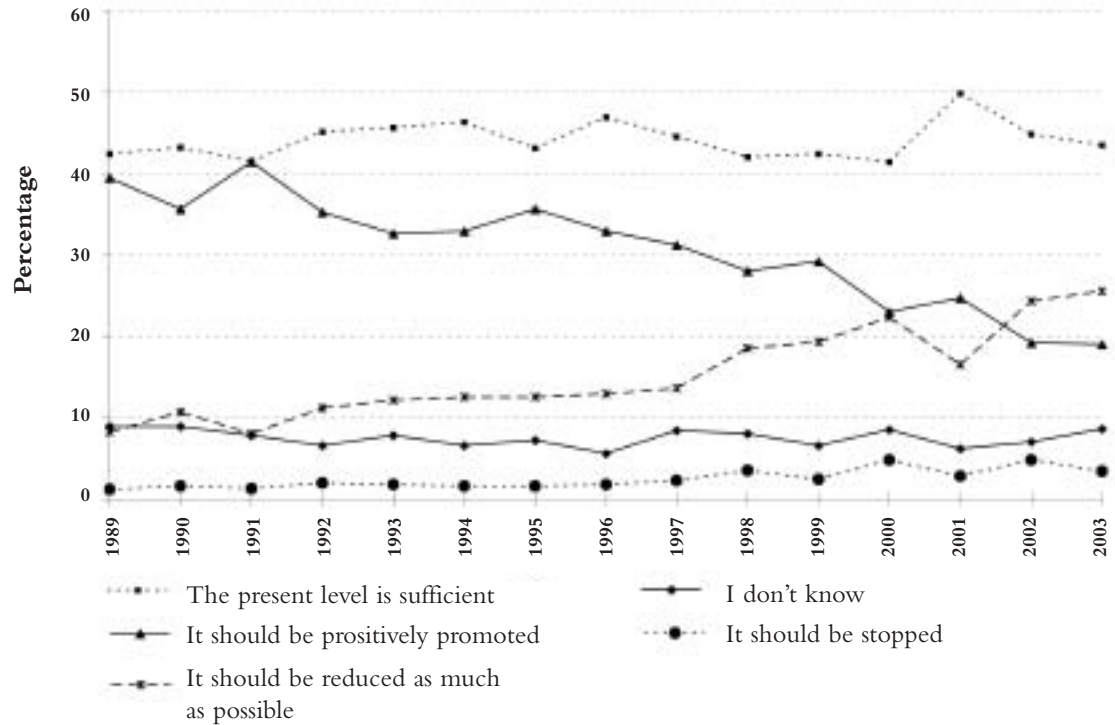
Nevertheless, while the Japanese government enjoyed its decade-long status as the largest aid donor, the domestic environment for foreign aid in Japan deteriorated. The second cluster of experiences that transformed Japan's aid policies consisted of the "lost decade" of the 1990s and waning general sup-

port for ODA as the country's fiscal position became difficult. After Japan's economic bubble burst in the early 1990s and the domestic financial crisis set in, the government used fiscal policy and public expenditure projects to boost the country's economy. Japan's massive fiscal deficit grew. Meanwhile, the population continued to age rapidly, putting pressures on the health system and social security. The public, which had approved foreign aid as a means to contribute to the international community, began to criticize it as wasteful and ineffective.

Aid-implementing ministries were increasingly under pressure to be leaner, more transparent and more effective. The Ministry of Foreign Affairs (MOFA), the main foreign-aid ministry, was exposed to a series of discrediting scandals in the late 1990s, leading to outcries from politicians and the public to enhance accountability. Furthermore, pressure has mounted to improve the Fiscal Investment and Loan Program (FILP), mainly in the context of reforming the Postal Savings system—the source for about 60 percent of Japan's ODA funds. If the postal



Chart 3: Japanese public opinion on Japan's ODA



Source: Japan's Cabinet Office, October 2004 (<http://www8.cao.go.jp/survey/h14/idx/-h14.html>)

savings system is fully privatized, the Japan Bank for International Cooperation (JBIC) must find alternatives to FILP funding.

The final component of Japan's ODA policy transformation is the relative success of Asian economies during the 1980s and 1990s, while other middle-income countries, particularly in Latin America, suffered tremendous economic setbacks from the 1980s debt crisis. The "East Asian miracle" gave Japanese businesses and policy-makers pride in Japan's own economic development experience, as well as assurance that its model could be applied successfully in Asia through ODA and foreign direct investment (FDI). In 1991, the Overseas Economic Cooperation Fund (OECF; it merged with Export-Import Bank of Japan to become JBIC in 1999) published its first research note criticizing the World Bank's structural adjustment approach and arguing that purely market-oriented liberalization and privatization would do more harm than good to recipient economies.⁵ The research note was based on empirical evidence as to the effectiveness of foreign-aid loans in Asia and the importance of the state's role in infrastructure building and human resource development.

Following the same line of argument, the Japanese government proposed that the World Bank conduct research and publish a report compiling the successful economic growth experiences of East and Southeast Asia. The Japanese government hoped the World Bank would acknowledge an alternative path to development following the Japanese case, which emphasizes the state's role and the importance of public policy, rather than just market forces. The disagreement between Tokyo's position and the World Bank's mainline neoclassical argument became known as the "East Asian miracle" debate. The World Bank's 1993 publication was the product of a compromise, concluding that the state's "market-friendly" intervention worked in favor of economic growth among those Asian countries.⁶

A few years after the Japanese government gained this partial victory, the Asian financial crisis shook the region and dismantled any "East Asian miracle" claims. Many on the "Washington consensus" side of the debate used this crisis to criticize "crony capitalism" and the heavy government involvement in the stricken economies. Throughout this controversy, however, the Japanese government was increasingly convinced that it must



engage in the battle of ideas over development to become a respected leader in developmental financing and foreign aid.

In sum, through the experiences described above, the Japanese government has matured in several ways. Firstly, Japan has gained a higher level of policy autonomy, especially from the United States, as well as general confidence. Second, the difficult domestic environment has increasingly pressured the Japanese government to implement foreign aid more effectively. Finally, the makers of Japanese aid policy have learned that money without ideas will go only so far. Burned by criticisms during the Asian financial crisis in particular, but still having conviction in the success of Japan's foreign aid strategy in Asia, the Japanese government has set its course to become a mature aid donor.

JAPAN MOVES TOWARD MATURITY AS AN AID DONOR

Japan began to transform into a mature aid donor in the second half of the 1990s. First, Japan began to focus on “soft power”—the promotion of Japan's model of economic development as backed by its own development experience. As discussed earlier, the Japanese government realized the important role of ideas in foreign aid politics after the Asian crisis, during its struggles to persuade Washington to acknowledge an alternative course of development. Indeed, the amount of ODA is sometimes secondary to the quality of ideas, as seen in the case

Beyond Asia, Africa is the place where Japan's aspirations of “soft power” are most visible, as Japan has supported several rounds of the Tokyo International Conference on African Development (TICAD). Although the amount of Japanese foreign aid to Africa has declined during the early 2000s, the Japanese government from the prime minister on down seems keen on development in Africa, which is becoming the battleground for development ideas and the focus of foreign aid activities. Furthermore, the connection between IDEA activities and TICAD creates a synergy in the context of Asia-African Cooperation.⁷ In this battle of ideas, the Japanese government and Dr. Ogata Sadako—head of the Japan International Cooperation Agency (JICA), which became an independent agency in October 2003—has emphasized “human security” in development and post-war reconstruction.

Besides focusing on soft power, Japan has shown maturation as an aid donor through self-interested humanitarianism—focus on Japan's national interests and global challenges. Discussions in this area began in 1996. Unlike during the 1980s, the foreign aid budget is no longer the government's “white elephant,” always spared from reduction. The central budget has tightened dramatically, ODA's popularity has waned significantly, and special business interests have reduced their support to ODA after losing many aid projects—mostly untied by the mid-1990s. Anticipating strong pressure to reduce the foreign aid budget, in 1996 Prime Minister Hashimoto began to emphasize foreign aid's role in achieving national interests such as increased market access and regional security. By 2003, the newly-revised ODA charter began with: “The objectives of Japan's ODA are to contribute to the peace and development of the international community, and thereby to help ensure Japan's own security and prosperity.”⁸

Opinion surveys in Japan indicate that public support increases if the government emphasizes ODA's humanitarian aspects.⁹ MOFA, which became the central aid coordination ministry after the 2001 administrative reshuffling, tends to stress such aspects. MOFA is less mercantilistic than the Ministry of Economy, Trade and Industry (METI), partly because it lacks ties to Japanese industry, and partly because its connections with Japanese society are relatively diffuse. Also, MOFA's humanitarian emphasis works well under heavy funding con-

Will the Japanese public be satisfied to receive mostly indirect benefits, such as global stability and prosperity, from its aid contributions, rather than a more direct quid pro quo?

of Sweden's foreign aid for endogenous development. In this context, the Japanese government began to implement foreign aid policy that would establish Japan as a major “soft power.” In 2002, Japan started an initiative called IDEA to accumulate and consolidate development experiences of East Asian countries, and to create a basis for trade and investment promotion.



straints and uncertainty about FILP's future, which make expensive infrastructure projects in Asia difficult to implement.

A final feature of Japan's increasing maturity as a foreign aid donor is its strengthening relationship with Asian countries—its favorite foreign aid recipients. The Japanese government stepped up efforts to support its Asian neighbors by launching the \$30 billion New Miyazawa Initiative in the wake of the Asian financial crisis in 1997–98. The Initiative allowed for a temporary increase in Japanese foreign aid between 1998 and 2000. However, the aid budget is clearly on the decline, as demonstrated by its drop since 2001, and many Asian countries have been “graduating” from Japanese foreign aid, particularly its yen loans. Besides being economically successful, these countries have extensive access to international capital and financial markets and are paying back more yen loans than they are receiving. Furthermore, a backlash in Japan against China, Japan's largest (or second largest) aid recipient, has led to annual cuts of 25 percent to the country since 2002. Thus, Japan's Asia-centered foreign aid policy is unlikely to continue, as the dust from the Asian crisis settles.

Nevertheless, the Japanese government and public continue to have significant interests in the region's development and stability. The Japanese government's commitment to less developed Asian countries, such as Vietnam and Cambodia, will continue. And in regard to more advanced Asian countries, Tokyo has interest in pursuing Economic Partnership Agreements (EPAs), which include technical cooperation and various types of financial assistance. To argue decisively that much foreign aid will be subsumed into EPAs would be premature; so far, Japan has concluded only one EPA, with Singapore, a country with high income per capita. However, EPA negotiations continue with Thailand, Malaysia, the Philippines, Indonesia and South Korea. The Japanese government—again, especially MOFA—likes to emphasize the broader, reciprocal and multi-dimensional nature of EPAs compared to conventional Free Trade Agreements (FTAs).

CONCLUSION: CHALLENGES AHEAD


Throughout the fifty years of its foreign aid history, Japan has matured tremendously from an “insecure mercantilist” to an aspiring soft power. However, funding sources for ODA and public support—the

foundations on which the Japanese government would like to build ambitious policies—are evaporating. Policies cannot meet economic and political challenges without funding. Furthermore, Japan's domestic reality, which makes national self-interest the basis of future foreign aid, needs careful consideration. Whether justified domestically or not, foreign aid should serve the public good. Will the Japanese public be satisfied to receive mostly indirect benefits, such as global stability and prosperity, from its aid contributions, rather than a more direct quid pro quo? Finally, Japan's role in international development continues to be critical for Asia, Africa and other non-Western developing countries. The effectiveness of its contribution depends on its ability to articulate foreign aid policy, as understood by both government and public. Japanese foreign aid policies seem headed in the right direction, but its “growing pains” as a maturing donor are likely to persist for some time.

ACKNOWLEDGEMENT I thank Jason Enia for his excellent research assistance.

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Japan's Emerging Role in Peace-Building and Post-Conflict Reconstruction: Have Traditional Norms Changed?

JUICHI INADA

CHANGING ATTITUDES

Since the inception of Official Development Assistance (ODA) in 1954, Japan has aimed to “depoliticize” aid—to refrain, as much as possible, from intervention and involvement in the domestic politics of aid-receiving countries. More broadly, since World War II, Japan has striven for minimal overlap between political aims and economic activities. This basic idea



remains deeply entrenched among aid implementing agencies and the general public, even as aid volumes have increased and different developmental concepts have come into vogue.¹ Aid's purpose is to foster development, many Japanese continue to believe, and political factors should be kept from the agenda.

This tendency has opened Japan to criticism. For example, NGOs and human rights advocacy groups complained that Japan supported oppressive military regimes when Japan allocated aid to South Korea under Park Chung Hee in the 1970s and to the Philippines under Ferdinand Marcos in the 1980s. However, the Japanese government denied any link between ODA and the recipient countries' domestic politics, claiming that ODA is to help the poor and improve living standards through economic development. In fact, many major ODA recipients such as Indonesia, the Philippines, China, India, and Sri Lanka have internal conflicts and independence movements—a fact increasingly recognized by Japan even while it continues to hold to the “depoliticization” principle.

In other words, de facto policy norms continue to exist and to influence foreign aid policy to this day. Yet, the Japanese position shows signs of changing. In this essay I examine the tension between the concept of depoliticization and new attitudes within international society to which Japan is increasingly responsive—attitudes that support “universal rights” and a certain amount of involvement in recipient countries' internal affairs.

While the idea of depoliticized aid remains entrenched, Japan has taken some steps toward revising its official stance in line with international norms. For example, the ODA Charter of August 2003 puts emphasis on policy dialogue (*seisaku taiwa*) and policy-based lending (*seisaku shien*), a shift away

from the request-based aid system (*yōsei shugi*). Japan's policy of granting aid in response to official requests has served to “tone down” its involvement in recipient countries' internal affairs.

Since the 1980s, there have been a number of shifts in ODA policy, away from the postwar tendency to avoid involvement not only in the receiving country's domestic politics, but also in its military and national security affairs. Since the 1980s, Japanese ODA has become increasingly linked to

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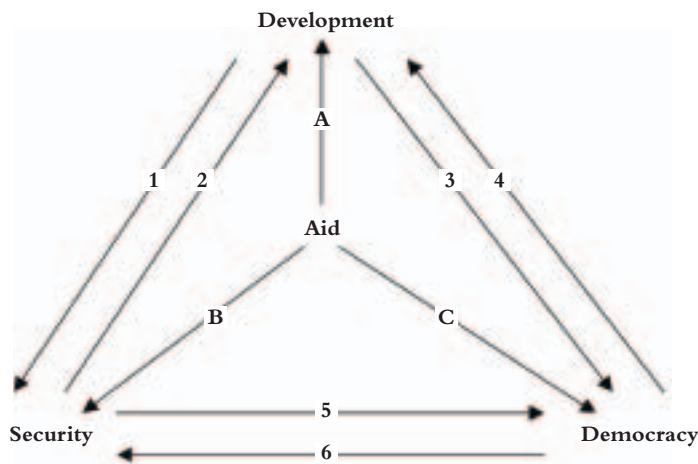
international politics, and the Japanese government has officially redrawn the line between politics and economics as goals of aid under the concept of “comprehensive security” (*sōgō anzen hoshō*). That political considerations might be linked to aid, as included in the four ODA Guidelines of 1991, was an official declaration of no little significance.²

Since the end of the cold war, the view that universal values and goals (such as a minimum standard of living and the guarantee of basic human rights) should take precedence over national sovereignty has been rapidly gaining currency in the interna-

tional community. Japan has been compelled to gradually review and revise the “traditional norms” of its post-war ODA in accordance with the development of these new norms of behavior. In recent years, Japanese ODA has become increasingly involved with aid programs of an unmistakably political hue, related to security situations and regional stability, in the form of conflict prevention and aid for post-conflict reconstruction.³

The prototypes for this kind of aid for post-conflict reconstruction and peace-building were the Indochina reconstruction assistance in the late 1970s after the Vietnam War, and the Cambodia reconstruction assistance following the establishment of the United Nations Transitional Authority in Cambodia (UNTAC) in 1993. In both these cases, the tangible involvement of Japan in economic support with significant political and diplomatic overtones was groundbreaking. Towards the end of the 1990s, the sequential need for post-conflict reconstruction aid in, for example, Kosovo and East Timor, occasioned much debate in Japan.⁴

Chart 1: Interrelationships among development, democracy, security and aid



1. both positive and negative relations exist (Japan emphasizes the positive link)
2. prerequisite condition
3. positive in the long term, neutral in the short term (Japan emphasizes the positive link)
4. positive link is difficult to prove
5. prerequisite condition
6. positive in the long term, neutral in the short term

Examples of ODA tools

- A. development aid, financial assistance
- B. PKO, peace-building, conflict prevention
- C. aid for democracy and governance

Consequently, the ODA medium-term goals of August 1999 emphasized “conflict and development” and the need for Japan to henceforth assume a leading role in conflict prevention and post-conflict reconstruction support. Subsequently, Japan adopted a stance of active involvement in reconstruction and peace-building in Afghanistan since the end of 2001, and also in the international efforts for reconstruction in Iraq since spring 2003.

RELATIONSHIPS AMONG DEVELOPMENT, DEMOCRACY, SECURITY (CONFLICTS) AND AID

Japan has tended to disconnect the three factors of *development*, *democracy*, and *security* (conflict)—which are closely linked to one other in fact. However, these three factors are complex, and debates on how they relate to one another are still open. In Chart 1, I outline the arguments in this debate.

Since the cold war ended, the international community has begun to take a comprehensive approach to tackling aspects of development, security and democracy in the developing world. As already mentioned, Japan’s ODA program has traditionally focused on economic development, and, in response to international trends, began to rethink links between a) development and security, and b) development and democracy. Clearly, however, Japan’s aid program still prioritizes development, and the Japanese government justifies this policy by emphasizing the positive impact of development on the other two factors, security and democracy.

Arguably, security is a prerequisite for development (2) and democracy (5), but does not always lead to enhancement of the two. Democracy may have a positive effect on development (4), although this has yet to be proven academically. Conversely, development may have a positive effect on democracy in the long term—as in the argument of “democratic peace”—although development does not always lead to a democratic system in the short term (3).⁵ Besides, development may help to advance regional security, but uneven development often leads to conflicts (1).

Therefore, development aid does not always contribute to the security and democracy of the recipients, and we need direct methods to promote security and democracy. Although Japan has gradually increased such efforts, aid for security is still



second priority, and aid for democracy is still generally unpopular among Japanese. Japan's history of "over-intervention" in Asian countries before World War II still seems to constrain public mentality and ODA policies.

CONSTRAINTS OF JAPANESE INVOLVEMENT INTO SECURITY AND DEMOCRACY: THE CASES OF EAST TIMOR AND AFGHANISTAN

Typical cases of Japanese involvement in peace-building activities in recent years are East Timor and Afghanistan, both of which were sources of debate in Japan.

In 1991, the Indonesian military crushed independence demonstrations in East Timor, killing hundreds. Major donors—including the Netherlands, the leading donor of Consultative Group in Indonesia (CGI)—suspended aid to Indonesia. However, Japan continued to provide aid, although it criticized the incident and asked the Indonesian government to improve the situation.

In 1999, the East Timor independent movements heated up, and the United Nations intensified its involvement in the issue. Japan still refrained from intervening directly. Japan asked the Indonesian government to take an appropriate role for security in East Timor, and assisted Indonesia in recovering from the Asian financial crisis. After establishment of the UN Transitional Administration in East Timor (UNTAET) in October 1999, Japan changed its stance to full support of East Timor, whose independence was officially acknowledged in international society. In December 1999, Japan hosted the East Timor Donors Meeting in Tokyo, and announced US\$130 million aid—the largest amount among donors.

Japan showed a more active stance when it supported Afghanistan reconstruction after the Bonn Agreement in December 2001. Japan hosted the International Conference on Reconstruction for Afghanistan in January 2002, and also declared that it would take a leading role in Disarmament, Demobilization and Reintegration (DDR) for security sector reforms in Afghanistan. This active and direct involvement into security issues was a remarkable change in Japanese diplomacy. In reality, however, the decision was made hastily and without much thought, since the foreign ministry was in extreme disarray at the time. Ministry officials were

in the last stage in their battle against the bureaucrat-bashing Foreign Minister Tanaka Makiko, amid controversy involving the barring of two nongovernmental organizations from the conference.

During the three years since then, Japan has made considerable effort toward reconstruction in Afghanistan and to promote DDR. The DDR process is slow, however, and the outlook seems bleak. Warlords retain power and guns, and guns are still easily acquired in Afghanistan and surrounding countries. Although international society shares the goals of strengthening the Afghan National Army and demilitarizing warlords and commanders, the security situation in Afghanistan has worsened rather than improved even as elections take place (the presidential election was held in October 2004 and the parliamentary election will be in spring 2005).

The donors at the Berlin Conference in March 2004 committed to three years of financial assistance, and Japanese aid agencies began to focus on vocational training for ex-combatants. Pessimism prevails, however. Merely avoiding a civil war will be considered "success." Though vocational training is considered the most effective tool to promote DDR, peace and stability in Afghanistan is still a long way off.

CONCLUSIONS

Since the 1980s, Japanese ODA has become increasingly linked to international politics as a diplomatic tool, and has affected the political and security situations of aid-receiving countries. In fact, however, Japan remains disinclined to interfere in the countries' internal affairs or political and social systems. The continuing influence of the norm of non-interference would seem, as in past years, to owe much to the bitter experience of the path to defeat in World War II.

However, international society has increased its involvement not only in postconflict reconstruction in the developing world, but also in conflicts themselves.⁶ Donors, through economic assistance, have exerted significant influence on governance. Japan has been compelled to gradually review and revise the "traditional norms" of its postwar ODA in accordance with these new norms evident throughout international society. Japanese government and aid agencies are now facing the difficulties of managing the developing world's internal political and securi-

ty issues, and are learning through trial and error in the struggle of peace-building activities.

The Japanese public seems to favor these peace-building efforts, but the basis of such support is fragile. The Japanese people's "pacifist" sentiments might turn this positive attitude to a negative one. It is too early to say whether Japan has irrevocably broken with the traditional norms of "non-interference" in recipient countries' affairs and the "depoliticization" of aid.

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Terrorism, Law Enforcement, and Foreign Policy: Evaluating Japan's Counterterrorism Assistance Initiatives

DAVID LEHENY

Since the September 11 attacks, the field for international counterterrorism cooperation has shifted dramatically. Once relegated to a minor portion of United Nations activity and security agreements, counterterrorism has become a major focal point of conflict resolution, treaty composition, and debate over the proper use of force between states. In particular, counterterrorism assistance programs, including American initiatives, for developing nations tend to emphasize the law-enforcement aspect of dealing with the problem, even as the United States emphasizes that terrorism must also be confronted by military force. In this complex international security environment, Japan has embarked on a dual strategy, one that has attempted to fuse law-enforcement components into its heavy Official Development Assistance (ODA) outlays to the Asia-Pacific, even as the government has amplified its military cooperation with the United States in its counterterrorism efforts. In this short paper, I discuss the difficulty of assessing the utility of Japanese counterterrorism ODA, arguing that it is nearly impossible to determine the effectiveness of almost any stance on terrorism. There may be mixed motives, however, in Japan's counterterrorism efforts, and perhaps we might better ask what secondary or tertiary goals Japan's terrorism-related ODA might achieve.

Although the government of Japan had engaged in law-enforcement training and limited overseas counterterrorism programs before September 11, 2001, the Ministry of Foreign Affairs (MOFA) emphasizes that it has dramatically amplified its efforts since Al Qaeda's attacks on the United States. Because of constitutional restrictions on the use of military force and political norms that constrain the Japanese police, these initiatives reflect largely technical programs designed to improve the institution-



al capacity of Japan's neighbors to deal with specific issues in terrorism. MOFA, for example, stresses that Japan's efforts focus largely on six areas—immigration, aviation security, customs cooperation, export control, law-enforcement cooperation, and the curtailment of terrorist financing—in which Japanese expertise might be of special value. Beyond training programs in Tokyo and financing

for international conferences, Japan's National Police Agency (NPA) has also been engaged in a multi-year effort to enhance the capacity and legitimacy of Indonesia's police. These programs together indicate a compelling upgrade in Japan's profile in fighting terrorism, but it will be difficult and perhaps impossible to assess their effectiveness.

HUMAN SECURITY AND THE SHIFT TOWARD TRANSNATIONALISM

Alongside other major aid donors and international organizations, Japanese ODA has recently shifted toward an incorporation of "human security" in its overall portfolio. According to MOFA, "human security is a concept that focuses on the viewpoints of individuals to protect them from those threats to human lives, livelihoods, and dignity and to bring out the full potential of each individual."¹ Though difficult to define these threats in any exclusive sense, MOFA identifies challenges that include "poverty, environmental degradation, conflicts, landmines, refugee problems, illicit drugs, and infectious diseases such as HIV/AIDS."² Crucial in this broad understanding of "human security" is the recognition that problems are increasingly transnational in nature: environmental catastrophes that seep across national borders, refugee problems that have wide geographical consequences, and pandemics that travel to all corners of the globe.

This is a sea change for the Japanese government, which had long viewed its ODA policies as efforts to replicate some version of Japan's "miracle economy" in developing nations. Although one might argue convincingly that poverty exacerbates virtually any major transnational problem, it is increasingly clear that global economic development itself will not protect Japan—or any of the other advanced industrial nations—from the types of criminal, medical, environmental, or military challenges currently emanating from different parts of the world. As such, Japan's ODA policy shift needs to be seen from a different context. Where Japan's diplomatic identity had once been bound in the sense that it was a peaceful, non-military power dedicated to the economic development of its aid recipients, Japan now appears to resemble other aid donors: a country with multifaceted instruments for achieving its interests, and with a broad new array of interests requiring action.

It is at least arguable that no transnational problem has had a wider and more notable effect on Japan than has international terrorism. Although Japan itself is no stranger to the phenomenon—after all, the Japanese Red Army itself has carried out major attacks in the Middle East and elsewhere—growing concerns over terrorist organizations' access to and willingness to use weapons of mass destruction have become key elements in the Japanese debate over what kind of power it is supposed to be. The deployment of Japanese troops to the Indian Ocean and to Iraq, both of which were virtually unthinkable ten years ago, are both justified in Japan with reference to global terrorism. Japanese ODA efforts now include substantial and growing efforts to enhance the capacity of recipient states to respond to or deal with terrorist threats, which might, of course, affect Japanese interests as well. As with other aspects of human security, however, this shift in focus greatly complicates our ability to evaluate the effectiveness of policy. After all, one can examine whether national economies of Japan's major aid recipients are growing, and one can even investigate more specifically whether the industrial sectors that are the targets of Japanese aid are especially healthy. But the causal chains grow longer and more complex when dealing with disease, violence, and environmental degradation. One of the consequences of the change in Japanese ODA strategy may be the growing impossibility of determining its consequences.

EVALUATING COUNTERTERRORISM

International terrorism presents a particularly daunting case. The problem, to put it simply, is that we do not know what works against terrorism. More than most problems, terrorism presents the daunting problem of "observational equivalence" in determining whether policies have the desired effects. The concept of observational equivalence is a mainstay in the literature on positive political economy,³ and it reflects one of the many preoccupations of disciplines trying to explain human behavior in scientific terms. Observational equivalence obtains when two theories make different causal claims but rely on nearly identical empirical verification; for these theories, "no observation can decide, because they have exactly the same implications regarding observable phenomena."⁴ This concern, though not usually voiced in the language of observational equivalence, underlay some of the cold war debates on deterrence policy.⁵ After all, under what conditions does the absence of war suggest that a policy of deterrence itself is "working"?

International terrorism poses a special problem for observers. American public debates since the 9/11 attacks have displayed a recognition that small, clandestine movements capable of carrying out devastating violence will likely require countermeasures that differ dramatically from conventional tools of national security. In order to survive over the medium- to long-term, terrorist organizations must be able to gather resources, recruit members, plan attacks, and maintain control over financial flows. Some of the American efforts in late 2001 and early 2002—such as its strong push for a United Nations convention on the financing of terrorism—might be used to encourage a view that a war on terrorism is really a "smart war," based primarily on knowledge and on the ability to take on what is hidden, secretive, and quiet. One concern here is obvious: it may be difficult even for intelligence analysts to assess in rigorous terms whether a given terrorist organization, let alone terrorist groups in general, are finding their financing, recruiting, and planning efforts hampered by counterterrorism policy. Martha Crenshaw argues that the difficulty of assessing policy effectiveness against terrorism poses a considerable problem for security specialists.⁶

Even so, UN and leading power efforts to promote tighter counterterrorism efforts, centered



around enhanced law enforcement and investigative abilities, clearly involve institutionalized beliefs about what works and what does not against terrorism. Like religious faith, beliefs about counterterrorism often reflect hope and desire rather than empirically grounded observation. For example, the “no concessions” pledge that lies at the heart of many G8 counterterrorism agreements exists because of the logically sound assumption that if one make concessions (e.g., paying ransoms for hostages) to terrorists, one will encourage more terrorism. But the evidence on this is murky at best, and the judgment relies in part shaky reasoning regarding the lessons that terrorist organizations draw from their own and one another’s campaigns.⁷ Even so, the “no concessions” pledge now represents such an important part of the counterterrorism canon that advanced industrial states claim to adhere to it even when their actual behavior is suspect. The Japanese press reported that the Japanese government paid a multimillion dollar ransom to free some aid workers kidnapped by a rebel group in Kyrgyzstan in 1999, a charge that the Japanese government has denied without providing any real explanation for achieving their return.⁸ The rescue of over a dozen Europeans held hostage by the Abu Sayyaf Group in the Philippines occurred because of a ransom payment by the government of Libya, reportedly originating from Western European governments but laundered in Tripoli.⁹ The Bush administration has said that its sensible rethinking of its policy on discussions with terrorists does not reflect a shift from a basic stance against concessions.¹⁰

Similarly, the consistent and programmatic initiatives by policymakers, especially after the September 11 attacks, to encourage the alignment of transnational practices indicates a level of belief and faith that terrorism is not a series of basically unconnected attacks, or an indication of social unrest, or the predictable consequence of the dispersion of weaponry around the globe, or of a nearly understandable desire to be noticed, to make a point in a mass-media-saturated world.¹¹ It is instead the work of roughly similar quasi-criminal organizations that can best be handled through coordinated surveillance, investigation, extradition, and punishment.

Besides diplomatic pressure for the convergence of international legal standards, the best institutionalized efforts to spread counterterrorism practices lie in the field of development assistance and training.

Since the mid-1980s, the U.S. State Department’s Bureau of Diplomatic Security (formerly Diplomatic Security Service) has operated the Anti-Terrorism Assistance (ATA) Program, training hundreds of counterterrorism personnel from other nations each year primarily in law-enforcement techniques.¹² The FBI has also developed several counterterrorism courses, run under the auspices of the ATA program, as part of its overall international police assistance efforts.¹³ And after the 2001 attacks, federal support for ATA courses jumped dramatically, with the number of trainees rising from nearly 1000 per year in the late 1990s to nearly 5000 in 2002.¹⁴ These programs—as do a limited number sponsored by other governments, including Israel¹⁵ and the UK,¹⁶—aim at spreading a repertoire of tools designed to enhance law enforcement capabilities and, over the long term, limit the ability of terrorist groups to act.

JAPAN’S COUNTERTERRORISM ASSISTANCE

MOFA has also upgraded its counterterrorism stance in subtle but possibly consequential ways. In late 2001, it established a special office within the powerful Foreign Policy Bureau to deal with counterterrorism, thereby creating a unit specifically designed to engage in large-scale counterterrorism policy rather than simply to track individual incidents involving Japanese overseas. Before this time, the *Hōjin tokubetsu taisakushitsu* (translated officially as Anti-Terrorism Office, but better understood as

The Japanese government appears to be doing what others have in dealing with terrorism: trying to replicate abroad institutions that appear to have succeeded at home.

“Office of Special Measures for Our Citizens Overseas”) had been in the Consular Affairs Bureau, charged primarily with ensuring the safety of Japanese rather than engineering a strategy against terrorism.¹⁷ MOFA also overcame domestic resistance (specifically from the Ministry of Finance (MOF), which had not wanted to add new restrictions on banks) to Japan’s signing the international convention on counterterrorism. It has also made

special counterterrorism programs run by the Japan International Cooperation Agency, with the cooperation of the NPA, more frequent.¹⁸

MOFA has also cooperated with the NPA in a special police development program in Indonesia, where NPA officials have been trying to train the Indonesian police in crime control techniques. The program actually began as a component of a multinational governance reform aid effort on governance reform¹⁹ before the 9/11 attacks, but afterward, it has been rechristened a counterterrorism program aimed at limiting varied threats of political violence. In contrast to, for example, the ATA (Anti-Terrorism Assistance) program run by the U.S. State Department, which uses discrete courses on counterterrorism tactics, this ambitious program has essentially established “community policing” models based on the *kōban* (police box) system that served Japan so well in its own struggles with the NPA. Because Japanese aid is disbursed on a request basis, the NPA representatives in Indonesia have worked to get beyond the merely fiscal requests and to try to establish a trusted police force that can rely, as have the Japanese police at home, on dense social networks for information. An English-language report illustrates wide-ranging proposals by the Japanese government to improve the security situation in Indonesia, though these are tied much more closely to professionalization and training of the police rather than to specific interests against terrorism.²⁰ Now described as part of Japan’s overall counterterrorism strategy, the program is at too early a stage for even the government to evaluate.²¹

ASSESSING PROGRAM EFFECTIVENESS

None of this is to suggest that the Japanese government’s approach to counterterrorism is in any way insincere. To the contrary, the Japanese government appears to be doing what others have in promoting specific ways of dealing with terrorism: trying to replicate abroad institutions that appear to have succeeded at home while promoting greater cross-national cooperation. In fact, Japan’s counterterrorism ODA initiatives might have important side effects, quite apart from whether they actually reduce the threat of terrorism in the short- or medium-term. First, by establishing semi-regular meetings among intelligence officials from Asia-Pacific nations, Japan might well be contributing to the

development of multilateral security ties that can enhance information-sharing and informal transparency along the lines of such associations as the ASEAN Regional Forum. Secondly, Japan’s promotion of a model of community policing in Indonesia may fall far short of establishing a genuinely effective counterterrorism program for the government. But assistance in the development of a more competent, credible, and professional police force for Indonesia may lend itself to greater stability and legitimacy for Indonesia’s fledgling democracy.

Will Japan’s current activities reduce the risk of terrorism in the future? It seems unlikely, though almost certainly will never know. Peaks and valleys in terrorist activity would be exceptionally difficult to map against Japanese aid efforts in the Asia-Pacific, and a causal relationship would be even trickier to establish. At a time, however, that the NPA and MOFA are seeking to establish new capabilities for their own counterterrorism arms, institutionalized cooperation in Asia may yet yield crucial organizational benefits. The NPA’s new TRT2 (Terrorism Response Team – Tactical Wing for Overseas) system allows for the rapid overseas deployment of a government team to deal with hostage or other situations.²² Even if Japan’s capacity-building efforts have only limited effectiveness, they may establish bonds of trust and communication that can facilitate the government’s on-the-ground capabilities in the event of a terrorist crisis.

Japan’s ODA is at an early stage in dealing with transnational issues and problems that go beyond the developmental emphasis in the country’s stance on overseas aid. Particularly at a time that budgetary constraints and increasing public suspicion together conspire to limit the government’s outlays, it may make sense to connect Japan’s efforts to the solution of such recognized global problems as terrorism. Lest future terrorist attacks in Asia be used (probably inappropriately) as evidence that Japan’s aid does not work, it may be worthwhile to remember these other potential outcomes generated by Japan’s current activities.

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Japan's Contribution to Development through the World Bank

YOSHIO OKUBO

Japan's contribution to international financial institutions, including the World Bank, constitutes a very important element in its official development assistance. Economic assistance through multilateral financial institutions accounts for roughly a quarter to a third of its financial contributions to development assistance in recent fiscal years.



While bilateral assistance is the main vehicle of development assistance by Japan, assistance through multilateral financial institutions has certain unique advantages to Japan and its partners. First of all, these institutions have high-quality and dedicated professionals with diverse cultural backgrounds, human networks and a vast range of experiences and expertise in many areas. These features add significant value to financial contributions that Japan and others are making in fostering sound and sustainable development. Secondly, they are politically neutral, making it possible to facilitate candid and effective policy dialogues based on objective analyses and assessment. Thirdly, they can coordinate the efforts of many donors and recipients in a way that is not bound by national limitations. For example, a project involving regional cooperation beyond individual countries' borders can be formulated and implemented by multilateral institutions in a much more efficient and effective way than through bilateral assistance. Multilateral institutions also provide opportunities for co-financing projects to public and private financial institutions of Japan and elsewhere. Japan has recognized these advantages, and has supported multilateral development banks through many channels over many years.

The multilateral financial institutions include not only the World Bank, but other multilateral development banks (MDBs) as well, such as the Asian Development Bank (ADB), African Development Bank (AfDB), Inter-American Development Bank (IDB), and European Bank for Reconstruction and

Development (EBRD). In addition, the International Monetary Fund (IMF) carries out important work for developing countries in finance, surveillance on macro-economic policies and technical assistance. Japan is a member of all of these organizations, contributing to their activities in various ways. At the Asian Development Bank, in particular, Japan is playing a leading role alongside the United States in financing development projects in Asia. Other regional development banks are playing important roles in enhancing economic and financial relations between Japan and Africa, Latin America, Eastern Europe, and Central Asia, adding rich layers of networks to Japan's development assistance efforts. In discussing the role of Japan's development assistance, we should take into account the fact that these multilateral channels are enabling Japan to work with many groups of partners, both in industrialized and developing countries.

IMPORTANCE OF THE WORLD BANK GROUP

The World Bank is no doubt playing the most prominent role in development assistance among these institutions, with 184 member countries. In fact, the World Bank is a nickname for the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA), an institution that can lend to very poor developing countries on much easier terms. The World Bank forms a Group (World Bank Group), together with the International Finance Corporation (IFC), an institution that promotes development through the private sector; the Multilateral Investment Guarantee Agency (MIGA), an institution that encourages foreign investment by providing guarantees to foreign investors against losses caused by noncommercial risks; and the International Center for Settlement of Investment

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Disputes (ICSID). The Group, headed by James D. Wolfensohn, appointed on June 1, 1995, supports a vast range of programs aimed at reducing poverty and improving living standards in developing countries and transition countries through loans, policy advice, technical assistance and other activities, based on its 60-year experience and with its staff of more than 10,000. It is thus a complex organization, reflecting complex development challenges. Its scale of financial assistance accounts for more than 60 percent of all the financial assistance provided by the multilateral development banks combined.

JAPAN'S CONTRIBUTIONS TO THE WORLD BANK

Japan's contributions to the World Bank have three dimensions. They consist of a financial dimension, a knowledge dimension and a human resources dimension.

Financial contributions

Let me start with financial contributions to the World Bank Group. Japan is the second largest shareholder of IBRD, IDA, IFC and MIGA after the United States. At the IBRD, its share of capital contribution is 8.1 percent; the United States' share is 16.9 percent. IBRD diversifies its funding sources by borrowing actively from capital markets in a wide range of maturities and currencies, including the Japanese yen. In fact, its capital subscription is not the main source of funding. Nevertheless, the IBRD's high standing in the world's capital markets is supported by member governments' commitment of capital, both in the form of subscription and in the form of callable capital. The Japanese government, along with other member governments, supports this cooperative arrangement, making it possible to lend its borrowed resources to developing member countries on favorable terms for as long as 20 years with a grace period of 3–5 years.

Japan's share of cumulative subscriptions and contributions to IDA is much higher at about 22 percent, close to the share of the United States of about 23 percent, reflecting the cumulative contributions of more than \$24 billion over many years. IDA lends its resources to the poorest countries with zero interest with a 10-year grace period and maturities of 35–40 years. IDA loans help build human capital,

upgrade infrastructure, increase access to primary education, basic health, water supply and sanitation, and achieve other development goals. IDA is funded largely by contributions from governments. Additional funding of IDA comes from repayments and from IBRD's net income. Currently, discussions are going on to replenish IDA funds among donor representatives and others, who meet every three years to discuss funding and operational issues. This three-year cycle of IDA funding is labeled by number; the current cycle of discussions, called the fourteenth replenishment, is expected to cover IDA funding for the 2006–2009 period. Japan's large fiscal deficits, as well as competing demands for public expenditures arising from demographic and other domestic social changes, are increasingly challenging Japan's efforts to ensure a large contribution to IDA. However, preserving and enhancing the effectiveness of IDA and the timely replenishment of its resources are crucial, particularly in achieving the Millennium Development Goals. The Japanese government is working hard with other partners towards making IDA more results-oriented and effective, and completing negotiations by the end of 2004.

In addition to capital subscriptions and IDA replenishments, Japan's financial contributions to the World Bank Group through its trust fund activities are also important. Trust funds help the World Bank Group enhance the effectiveness of its poverty

While bilateral assistance is the main vehicle of Japanese ODA, assistance through multilateral financial institutions has certain unique advantages.

reduction and development programs by funding key activities supporting development operations, promoting innovation, and strengthening the capacity of borrower countries. Most important among such funds is the Policy and Human Resources Development Fund (PHRD), which was created in 1990 through a joint agreement between the World Bank and the government of Japan. The PHRD Fund has also made special allocations to global and regional initiatives that could help build the necessary foundation for sustainable development and create a close development partnership. Part of the

PHRD Fund is used for the Joint Japan/World Bank Graduate Scholarship Program. The program, in its eighteenth year, has awarded more than 3,000 scholarships to mid-career professionals from developing countries to pursue graduate studies in an effort to create a community of highly qualified professionals working in economic and social development in developing countries. The information on the PHRD and the joint scholarship program, along with other valuable information, is being made available on the World Bank's website.

An important aspect of trust fund activities of the World Bank Group includes its assistance to post-conflict countries. Timely and well structured assistance is essential to prepare post-conflict countries to initiate reconstruction efforts, and trust fund activities can provide indispensable support for preparation of project loans, which would normally take more time. Assistance through trust funds, utilizing the experiences and expertise of the World Bank Group, is particularly effective in many situations. Such trust funds include the Gaza and West Bank Trust Fund and International Reconstruction Fund Facility for Iraq (IRFFI), among others. The latter fund for assisting reconstruction efforts in Iraq is managed by the World Bank and the United Nations. Japan's contributions to the World Bank Iraq Trust Fund amount to \$130 million, or about 33 percent of total amounts pledged so far by major donors to the Fund. The report of the operation of this Fund has been published on the occasion of the IRFFI Donor Committee meeting held in Tokyo on October 13–14 this year, and is available on the IRFFI website.

Contributions of Knowledge and Experiences

The second dimension of Japan's contribution to the World Bank Group is the knowledge and experience that Japan has gained in its own development. Japan became a member of the World Bank in 1952, starting out with its share of 2.8 percent (ninth largest shareholder), and was a borrower from the World Bank, receiving financing on 31 projects in the amount of \$863 million in its post-war reconstruction efforts. Famously, the projects financed by World Bank loans included the Kansai Electric Power station project (1953), the Shinkansen (Bullet Train) project, the Kuroyon

Dam project, and the Tomei Highway project (1966), among others. The contributions that these loans have made to the spectacular growth of the Japanese economy are obvious. Japan completed its repayment on all of these loans in 1990.

More importantly, the usefulness of Japan's own experiences is not limited to its experiences as a borrower from the World Bank. Japan's post-war economic history itself, from a resource-poor, war-devastated economy to the second largest market economy in the world with a vibrant and innovative private sector and sophisticated and deep capital markets, should provide a rich source of experiences and knowledge relevant to the work of the World Bank in assisting developing countries. What it has done well and what it has not can provide important insight into what works well and what does not in development, both in terms of policies and institutions.

Its experience can also be looked at from a broader East Asian context. The miraculous growth of the East Asian countries, coupled with vigorous trade and investment, stimulated a study at the World Bank in the mid-1990s, and the result was published as "The East Asian Miracle." The financial crises in East Asia and elsewhere in the late 1990s posed great challenges to many countries and a variety of issues are still being addressed. But these experiences can also provide a vast range of lessons to be studied and shared by the broad membership of the World Bank, as many of the affected countries are now overcoming the aftermath of the crises.

More broadly, Japan's experience in development assistance, particularly in the Asian region, could also be a valuable source of knowledge and experience and could provide important conceptual input to the mission of the World Bank. The proportion of people living in extreme poverty (subsisting on less than \$1 in consumption per day) in developing countries in the world dropped between 1981 and 2001 from 39.5 percent of global population to 21.3 percent. Much of this progress was concentrated in East Asia and South Asia, where Japan has been most active in official development assistance, along with the World Bank, Asian Development Bank and other partners. The same proportions in the same period came down from 55.6 percent to 15.6 percent in East Asia, and from 51.5 percent to 31.3 percent in South Asia. While about 712 million people live on less than \$1 per day in Asia, out



of about 1.1 billion people globally, the progress being made can provide many lessons and insight into economic development dynamics.

Development is now recognized as a complex challenge, not simply a result of macroeconomic policies alone. The approach to development has been broadened from a narrow focus on the macroeconomics of income and consumption to a complex interplay of various factors of microeconomic and institutional foundations, including human security, education, health, gender, social and political institutions, and environmental sustainability. Policy makers are now paying much more attention to the role of credit markets, informal networks and other institutions in dealing with market failures as important elements underpinning the generation of growth and employment. Japan, having worked closely, particularly in Asia, with many partners, seems to possess an inherent advantage in the role of interlocutor among the World Bank and others in the international community interested in development issues.

Contributions of human resources

The third dimension of Japan's contribution is its human resources to the work of the World Bank. The appointment of World Bank officials should be based on professional and technical expertise, and the Bank should also pay due regard to recruiting personnel on as wide a geographical basis as possible. On this score, I am pleased to see that there are a few prominent Japanese nationals in senior management positions, including Yukiko Omura, executive vice president for MIGA; Shigeo Katsu, vice president for Europe and Central Asia, and Yukio Yoshimura, vice president and special representative in Japan. There are also about 150 staff members and about 90 consultants who are Japanese nationals working at the headquarters and local offices.

Nevertheless, the number of Japanese staff members is low (only about 1.9 percent in total headquarter appointments for internationally recruited staff), given the important role that Japan can play in development, Japan's rich human resources, and the large financial contribution that Japan has been making to the World Bank Group. It is not only in the interest of Japan to have sufficient representation of Japanese nationals on the staff, but also in the interest of the whole membership, including the


United States. It will strengthen the multilateral character of the institution, enabling it to tap a diversified potential source of knowledge, cultural literacy and useful perspectives. The increase in the number of Japanese nationals on the staff at all levels is a big challenge. Many efforts are underway through various channels, but efforts will have to be strengthened and sustained.

MOVING FORWARD

As Japan marks its 50-year history of official development assistance, it can certainly celebrate its relationship with the World Bank. This relationship, which spans 52 years out of the 60-year history of the World Bank, is now a mature and trusting relationship. This also means that Japan and the World Bank together have great opportunities to bring about effective development assistance and meet diverse challenges in many parts of the world. In particular, in light of the increasing fiscal constraints faced by donor governments and the increasing role of private capital flows, Japan and the World Bank can further strengthen their cooperation in sharpening the focus of development assistance in the following areas.

First is a focus on results. Developing countries' efforts at poverty reduction, environmentally sustainable growth and better social development can be supported by improved effectiveness of aid. Supporting coherent policies based on country-owned strategies is a key to achieving good results. Japan and the World Bank can together work to achieve such goals by intensifying dialogue with developing countries and involving other donors as well. Country-specific works are underway in many countries, and they should be pursued more vigorously in the future.

Second is a renewed focus on infrastructure. Strengthening the foundations for growth will depend on addressing large infrastructure needs in many countries. Japan's economic assistance has traditionally placed importance on infrastructure. The World Bank has recently formulated the Infrastructure Action Plan; formulating and scaling up activities to implement the Plan is a welcome development. The World Bank's staff working on the East Asia and Pacific region is now conducting regional infrastructure studies together with the Asian Development Bank and the Japan Bank for



International Cooperation. I believe that the studies underway can shed light on the role played by infrastructure in the development of East Asian and Pacific countries and provide important lessons for other regions.

Third is the increasing focus on private sector development, improving the investment climate, and strengthening the financial sector. It is ultimately the private sector that can create and expand employment, bring about economic growth, and sustain vitality and innovation in the economy. Encouraging the private sector, both domestic and foreign, to invest (particularly through direct investment) can encourage development considerably. The *World Development Report of 2005*, a publication of the World Bank, rightly points out that private sector decisions on where to invest will depend

largely on how government policies and behaviors shape the investment climate. Another publication, *Doing Business in 2005*, presents a powerful case to remove obstacles to growth by focusing on regulation over activities such as starting up businesses, hiring and firing, enforcing contracts, getting credit, and closing businesses. Japan's private sector can benefit from such work being carried out at the World Bank, while contributing to development through sheer market force—if credible reforms are undertaken by developing countries to improve the investment climate.

In these and other areas, there are opportunities for Japan and the World Bank to work closely to reduce poverty, preserve the sustainable environment and contribute to prosperity, peace and stability throughout the globe.



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