

The Bureaucratic Process for Introduction of Japanese Official Development Assistance (ODA) to the Republic of Korea

Hosup Kim*

This paper examines the following questions: how the ROK government formulates its request for Japanese Official Development Assistance (ODA), and how the Japanese government makes ODA decisions with respect to the ROK. It will focus mainly on the bureaucratic decision-making process of the two governments: the process by which a project is selected, and the criteria employed in that process. The unit of analysis of this paper is a project which is funded by Japanese ODA, as an output of organizations.

The basic scheme of decision-making in the introduction of Japanese ODA to developing countries consists of three stages. First, the would-be recipient country prepares its annual plan for using Japanese ODA, and presents it to the Japanese government. Next, the Japanese government reviews the request and decides whether or not to provide its ODA to the projects. Third, after the Japanese government informs the recipient government that it has decided to fund a project, the recipient government selects a supplier of goods and necessary services to begin implementation of the project. This paper concerns mainly with the first and the second stage.

This paper concludes that the Japanese government always tries to apply the formal pattern of (1) recipient's request → (2) Japanese decision → (3) implementation, to all recipient countries regardless of the time frame and of the nature of the projects.

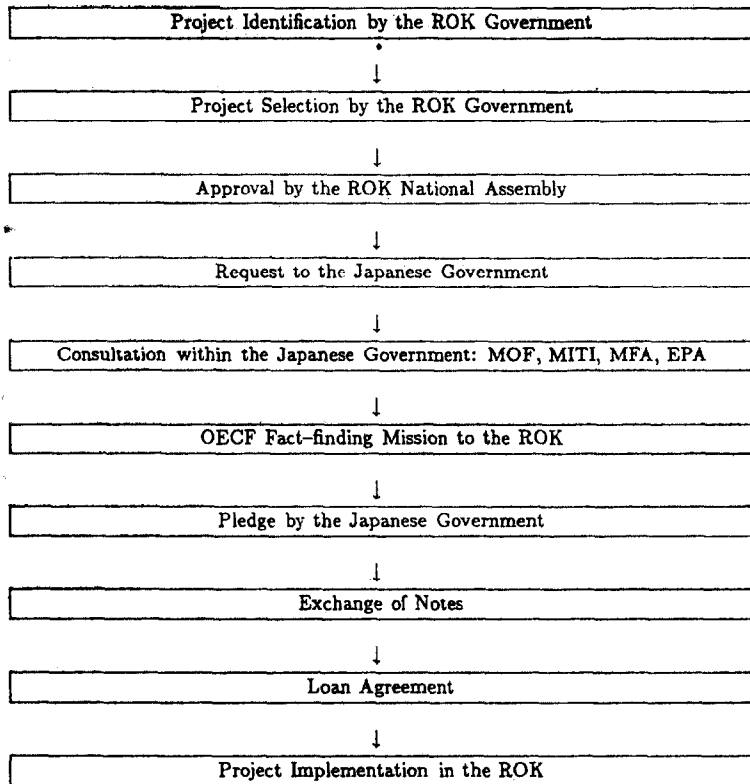
1. Introduction

This paper will examine the following questions: how the ROK government formulates its request for Japanese ODA, and how the Japanese government makes ODA decisions with respect to the ROK.¹⁾ It will focus mainly on the bureaucratic decision-making process of the two governments. We study the process by which a project is selected, and the

* Part-time Lecturer, Department of Political Science, Seoul National University.

1) ODA is an economic cooperation, of which the grant element is 25 per cent or more. The Organization for Economic Cooperation and Development (OECD) contends that ODA is the only economic cooperation which deserves to be called 'aid' or 'assistance'. See, Development Assistance Committee (DAC), OECD, *Development Cooperation* (Paris: 1972), p.11. For how to calculate the grant element, see Goran Ohlin, *Foreign Aid Policies Reconsidered* (Paris: OECD Development Center, 1966), pp.101-105.

〈Fig.〉 Steps of Loan Decision



criteria employed in that process. Necessarily, given the kinds of information available, most of this account pertains to the formal process.²⁾

The basic scheme of decision-making in the introduction of Japanese ODA to developing countries consists of three stages (See Figure). First, the would-be recipient country—in this case, the ROK government—prepares its annual plan for using Japanese grants and loans, and presents it to the Japanese government. Next, the Japanese government reviews the request and decides whether or not to provide its ODA to the projects. After the Japanese government informs the Korean government that it has decided to fund a project, the Korean government selects a supplier of goods and necessary services to begin implementation of the project.³⁾ This paper concerns mainly with the first and the second stage.

2) There is no comprehensive description of the ROK project selection process available in the literature. This paper is based on government documents of the two countries, and journalistic accounts, supplemented by interviews.

3) The following analysis is mainly concerned with the introduction of governmental loans. However, it is basically applicable to the process used to determine recipients of Japanese grants.

2. Approach

The unit of analysis of this paper is a project which is funded by the Japanese ODA, as an output of organizations.⁴⁾ The organizational process mode of decision-making emphasizes the processes and procedures of the large organizations that constitutes a government,⁵⁾ and sees individual decisions and changes in foreign policy as outputs of organizational process. Actions are determined more by the institutionalized missions, standard operating procedures, programs, and repertoires of organizations, not by government leaders' decision.⁶⁾ This mode implies that if an organization produced a given output today, that behavior can be best explained in terms of what that organization was doing yesterday.⁷⁾ The organizational decision-making mode clearly explains routine ODA decisions of the two governments, but it is less clear that it has as much explanatory power in the overall Japan-ROK ODA relationship as has been alleged by other scholars for Japanese aid relationships in general.

Japanese governmental loans have been introduced to the ROK based on two different kinds of decisions: one is a comprehensive decision; the other is a project-based decision. The comprehensive decision only specifies the amount and the time frame of Japanese loans provided to the ROK. There have been two occasions of the comprehensive decision. The first was made in 1965, a property and claims fund decision, and the second was made in 1983, when the Japanese government pledged a \$4 billion package of development assistance. They were made on political considerations of the two governments. The project-based decision is routinely made on working-level consultations. Most projects funded by Japanese ODA to the ROK are based on routine requests made by the Korean government. Usually in routine cases, the requested loan amount is not big enough and the project is not controversial enough to require the involvement of politicians in the two countries. In these cases, bureaucrats of the two countries are the main decision-makers. Bureaucratic

4) The ODA relationship between the two countries should be understood through examining all three modes—national, bureaucratic, and political. The relative importance of these three modes varies over time and varies from issue to issue. However, this paper only concerns with the organizational process of the two governments in giving and receiving the Japanese ODA.

5) Graham Allison, *Essence of Decision: Explaining the Cuban Missile Crisis* (Boston: Little, Brown, 1971), p. 6.

6) *Ibid.*, pp. 78-89.

7) *Ibid.*

standard procedures and inter-ministerial consultations for ODA within the two countries are the main factors involved in decisions.

This paper considers the ROK's bureaucratic process of receiving Japanese ODA. The ROK's policy on receiving Japanese ODA basically falls under its economic development policy, and foreign capital inducement policy. ROK government decision making is, in general, highly centralized. The president, along with economic bureaucrats, dominates Korean decision-making. Institutions such as political parties, and interest groups do not play an important role in policy planning stage of receiving Japanese ODA.

In terms of domestic Japanese decision-making, four ministries mainly administer the ODA decisions. Those are the Ministry of Finance, the Ministry of Foreign Affairs, the Ministry of International Trade and Industry, and the Economic Planning Agency. Japan also has three implementing agencies of governmental economic cooperation: the Overseas Economic Cooperation Fund; the Japan International Cooperation Agency; and the Export-Import Bank. Each of these agencies has its own routines, and they must also deal with each other, sometimes cooperatively and sometimes conflictively. Conflicts result from the fact that organizational missions differ—in the old bureaucratic motto, “Where you stand depends on where you sit.” Occasionally, inter-organizational conflicts over governmental loans erupt into real power struggles, in which case decisions can be seen as resulting from the political mode. However, more often, even the conflicts become predictable and routinized; they are settled less by the direct application of power than by invoking well understood precedents.⁸⁾

When the Japanese government pledges its governmental loans, a project-based decision specifies an individual project, an amount of governmental loan to finance it, and the terms and conditions thereof. After the two governments decide a total amount to be provided to the ROK for a certain period of time, working-level officials of the two governments consult on specific projects to be financed and specific amount of the loans to be used. These officials make routine decisions within the comprehensive framework previously made by the two governments. But in some cases politicians and interest groups play a major role in a decision, such as the case of the Seoul Subway project, and the Pohang Iron and Steel Mill project.

8) Allison, *Essence*, pp. 67-100; Graham T. Allison and Morton H. Halperin, “Bureaucratic Politics: A Paradigm and Some Policy Implication,” in Raymond Tanter and Richard H. Ullman, eds., *Theory and Policy in International Relations* (Princeton: Princeton University Press, 1972), p. 43.

3. The Preparation of the ROK's Request

The Economic Planning Board (EPB) and the Ministry of Finance (MOF) are the two most important ministries in the ROK government when it comes to selecting projects for Japanese ODA. The EPB, which is the main office of economic planning, identifies projects for the Japanese loans. It selects various projects for economic development plans, such as five-year economic development plans, and the overall resource budget plan, without particular consideration of the possibility of their being financed by the Japanese ODA. The Ministry of Finance reviews the projects included in the development plans, considers the priority of projects for foreign capital distribution, and selects candidates for Japanese funding. Since the organizational change in the ROK government concerning the function of economic cooperation in 1982, the MOF has the greatest jurisdiction over the introduction of Japanese ODA. The Division of Economic Cooperation of the Bureau of Economic Cooperation is the Korean counterpart of the Loan Aid Division of the Bureau of Economic Cooperation of the Japanese Foreign Affairs Ministry⁹⁾.

A. Economic Development Policy

In the process of preparing the five-year economic development plans, and annual overall resource budget plans, the ROK government selects various projects and decides on their priority for completion, in order to attain the plans' targets. The five-year plans serve as long-range governmental directives regarding the industrialization of the ROK¹⁰⁾. The overall resource budget plan is an annual plan, which often includes policy modifications to reflect the domestic and foreign environmental changes, not foreseen by the five-year plan. Once included in the development plan, these projects become candidate projects for Japanese governmental loans.

9) Prior to 1982, foreign capital introduction was under the authority of the Bureau of Economic Cooperation of the EPB, except for tariff and customs policy, which was handled by the MOF. The change in 1982 transferred the Bureau of Economic Cooperation's function of foreign capital inducement to the Ministry of Finance. The Council of Overseas Cooperation Planning has been installed under the EPB to replace the Bureau of Economic Cooperation. The Council takes charge of the planning of international economic policy, such as ROK-initiated economic cooperation with foreign countries, especially with developing countries. The Council is also the main office in charge of issues of trade friction and the opening of the market to foreign goods.

10) The Korean government has launched five-year economic development plans since 1962, and it has carried out five such plans until 1986.

Although various organizations have participated in the planning process¹¹⁾, it has usually taken three basic steps: aggregate, sectoral, and project program¹²⁾. Through these three planning stages, the Korean government decides on the priority of the projects within each plan period.

During the aggregate planning process, the Korean government sets marco-economic targets for the plan on the basis of the economic structure as seen from the national income accounts and the results of the previous plan's implementation¹³⁾. These targets which include GNP, exports, imports, investments, consumption, and savings are established as basic guidelines of the plan. The Korean government then constructs an over-all model, taking the above-listed factors into account¹⁴⁾. Two macro targets publicly emphasized by the ROK government are the annual growth rate and the annual amount of exports¹⁵⁾. Export targets were emphasized when investment financing became more dependent on domestic resources.

The main purpose of the sectoral plan is to outline the sectoral investment requirements necessary in order to attain the aggregate targets. Sectoral planning focuses on the industrial sectors—their investment planning and their targeted production capability. To set feasible sectoral targets, the ROK government tabulates detailed schedules of output, consumption, and investment for the various economic units¹⁶⁾. As the ROK government decides on the sectoral planning, it selects various projects to attain the goals of each industrial sector. This process is called project planning.

In project planning, individual projects are selected to attain targeted development goals set by the aggregate and sectoral planning. In the case of routine projects, project proposals submitted by concerned ministries and private organizations are reviewed initially by the Economic Planning Board and are further reviewed by the industrial subcommittees for economic and technical feasibility¹⁷⁾. Subcommittees of technical experts in each industry meet to discuss the economic and technical problems of the projects within each sector,

11) Leroy Jones and Il Sakong, *Government, Business, and Entrepreneurship in Economic Development: The Korean Case* (Cambridge: Harvard University Press, 1980), pp. 49-53.

12) Government of the ROK, *The Summary of the First Five-Year Economic Development Plan, 1962~1966* (Seoul: 1962), pp. 26-29; ROK Government, *Second Five-Year Plan*, pp. 177-181; An interview in October, 1985, with former Minister of Finance of the ROK.

13) ROK Government, *Second Five-Year Plan*, pp. 177-178.

14) ROK Government, *First Five-Year Plan*, p. 28.

15) Jones and Sakong, *Government, Business, and Entrepreneurship*, pp. 78-140.

16) Government of ROK, *The Second Five-Year Plan*, pp. 178-179.

17) *Ibid.*, p. 179.

along with the general conditions of the sectors themselves. They review individual projects, taking into account such factors as the project's utility for the whole economy, utility for the public welfare, contribution to achieving projected production capacity of an industrial sector, balance of payments effects, and the project's technical feasibility. National projects, in which the top leadership has a strong interest, are always included in the plan. The examination of these projects by the Economic Planning Board and the subcommittees focuses on completing the projects, rather than on reviewing their technical and economic feasibility.

The ROK government then sets priorities among the selected projects. These priorities become the criteria for distributing scarce resources. Projects with a higher priority are included in an earlier annual plan, and are financed by capital more favorable on terms. The priority of the projects and of industrial sectors is subject to change, depending on the five-year development plan. Several factors may contribute to an ROK government decision to change the priority of the plans. If the ROK government has already constructed a project under the auspices of an earlier plan, that industrial sector, or project, is no longer deemed to be in need of assistance. In succeeding plans, the ROK government will push for the completion of other projects over those previously funded. For example, after the Pohang Iron and Steel Mill was constructed during the second and the third plans, the mill project no longer held top priority. Also, when growth in industrial sectors appears to be unbalanced, the government pays attention to the sector which lags behind. In later plans, the Korean government has favored the funding of the agricultural and fishery sectors. Projects in the so-called "New Community Movement (Saemaul Undong)" hold a high priority in the plans. In addition, as the private sector economy grew, the government plans came to include only social overhead projects, in which private business cannot easily invest. And enhanced expectations of a standard of living in terms of sanitation and health may change the priority of projects. Projects left out of earlier plans, such as sewage system management and hospital projects, are included in the later plans. In 1985 and 86, the construction of sewage systems in Seoul is being financed by Japanese governmental loans. Finally, external changes in the world economy and politics have the potential to influence the priority of projects. After the sudden increase in the price of oil and other raw materials in the early 1970s, the plan emphasized high technology and energy saving industries such as nuclear plants. Since the appearance of new trade barriers imposed by the developed countries in the 1980s, high value-added industry has been

emphasized.

B. Foreign Capital Inducement Policy

Once it is decided which projects best fit the needs of the economic development plans, certain projects are selected for Japanese governmental loans. The selection process is mainly carried out under the auspices of the ROK government's foreign capital inducement policy. The foreign capital inducement policy has two goals. One is the introduction of a targeted amount of foreign capital for the purpose of financing investments in projects suited to the economic development plan. The second goal is the appropriate distribution of the induced foreign capital to individual projects. In the early period of the ROK development plan, the policy goal of capital introduction was emphasized because the ROK itself lacked foreign capital. When the ROK began to feel the burden of the repayment of foreign loans, the goal of selective introduction and efficient distribution was emphasized.

In planning for the introduction of foreign capital, the Korean government estimated its total financial requirements to meet the investment need. Added to its calculations were such available domestic investment resources as tax revenues and national savings. The difference between the total investment requirement and domestic resources became the targeted amount of foreign capital. As the ROK government introduced this capital, it applied rigid standards to its apportionment, according to the characteristics and their priority in the economic development plan. Thus, when planning a particular project, the ROK government thinks first about domestic capital availability and then considers the possibility of foreign financing. Since foreign capital has different sources with different terms, the distributional goal is to decide which kind of foreign capital should be used for which project.

The Korean government classifies foreign capital as belonging to one of three categories: (1) public loans; (2) commercial loans; and (3) direct foreign investment. In order to meet its dual goals of supplying necessary foreign capital, and alleviating the burden of foreign debt, the ROK government has several policy directions. First, long-term and low-interest public loans are preferred. Foreign direct investments is the next in line of preference, because the ROK government is responsible for neither its management nor reimbursement. The introduction of commercial loans is restrained by setting up an annual quantitative ceiling. It is also believed that the origins of foreign capital should be diversified with foreign capital from international financial institutions receiving priority such as the International Bank for Reconstruction and Development and the Asian Development Bank as

well as that from European countries. Finally, foreign capital that brings high technology with it is preferred.¹⁸⁾

Public loans are defined by the characteristics of the borrower or lender, according to Korean law. A public loan is a foreign means of payment which the government of the ROK borrows from a foreign government, economic cooperation organization, or private individuals. Also a foreign means of payment which a private individual of the ROK borrows from a foreign government or economic cooperation organization is defined as a public loan by Korean law.¹⁹⁾ According to the above definition, a foreign loan, regardless of its origin and terms, may be considered a public loan, if the government is the borrower. For example, if the Korean government borrows foreign capital from a commercial bank on commercial terms, that capital is also regarded as a public loan of the Korean government. Therefore, there is wide difference among public loans with respect to their terms. Japanese governmental loans, and loans from the IBRD and the Asian Development Bank (ADB), are the most favorable public loans available to the Korean government.

Because Japanese governmental loans have a low interest rate and a longer repayment schedule, they are allocated to projects which have higher priority in the five-year plans. Several bureaucratic standards are used to evaluate projects:²⁰⁾

- (1) The project which contributes most to economic development.
- (2) The project which produces more public welfare.
- (3) The project whose period of capital reproduction is longer.
- (4) The project for which it is difficult to find domestic commercial investment.
- (5) The project which requires domestically unavailable technology.
- (6) The project for which it is difficult to find foreign direct investment or foreign commercial loans.

There are also legal restrictions to regulate the public loans distribution. The ROK government has an act, a presidential decree, and an enforcement ordinance concerning the administration of foreign capital. Japanese loans were regulated by the Public Loan

18) EPB, *Economic Survey of the 1971 Korean Economy*, p.125; ROK Government, *Third Five-Year Plan*, p.104.

19) Article 2(11), the Act Concerning Foreign Capital Inducement, Law No. 3691 of the ROK, amended and promulgated in 1983. Reprinted in Hong-Dae Kim, *Oeja Toipbup Kaeron (Introduction to the Foreign Capital Inducement Act)* (Seoul: Bupryung Pyunchan Bokuphoe, 1984), pp. 362.

20) An interview on July 13, 1984 with the section chief of the Division of Economic Cooperation, Ministry of Finance, ROK.

Inducement and Management Act until July, 1984. Since July 1984, they have been regulated by the Foreign Capital Inducement Act. As of 1984, the Korean government uses seven legal criteria for deciding what projects will be financed by the Japanese governmental loans. Those are:²¹⁾

- (1) project's contribution to national economy;
- (2) project's economic and technical feasibility;
- (3) estimated amount of investment and its local financing possibility;
- (4) project's location and construction plan;
- (5) security for financed capital;
- (6) repayment possibility and its schedule;
- (7) necessity of foreign technology and engineering service.

To finalize project selection, the Ministry of Finance holds a conference of concerned ministries. The following participants come and consider the aspects they are jurisdictionally, and organizationally responsible for:²²⁾

- (1) The Economic Planning Bureau of the EPB considers projects' relevance to the economic development plan;
- (2) The Budget Bureau of the EPB considers the possibility of domestic financing of the proposed projects, and the repayment schedule;
- (3) The Industrial Policy Coordination Bureau of the EPB considers economic and technical feasibility, profitability, and public necessity of projects;
- (4) The Economic Cooperation Bureau of the MOF coordinates participating ministries, and considers the loans policy of Japanese government;
- (5) The Ministry of Commerce and Industry considers the possibility of local supply of facility of the project;
- (6) The Ministry of Home Affairs considers the local government's financing capability when a project is to be carried out by a local government, such as Seoul City. If the local unit does not have sufficient resources, it considers assistance from the central government;
- (7) The Office of Supply considers the procuring process and its contracts;
- (8) The Ministry of Science and Technology considers technology accompanying the

21) Article 27, Presidential Decree Concerning Foreign Capital Inducement Act, Promulgated on June 30, 1984, in the Korea Chamber of Commerce and Industry, *Hankuk Oeja Toip Anne (Guide to Foreign Capital Introduction to the ROK)* (Seoul: 1985), p.147.

22) An interview on July 13, 1984, with the same section chief, Ministry of Finance, ROK; An interview on November 1, 1984, with a Third Secretary of the ROK Embassy to Japan.

loans;

(9) The Economic Cooperation Bureau of the Ministry of Foreign Affairs considers diplomatic protocol to the Japanese government.

After bureaucratic consultation, the Minister of Finance submits policy proposal to the Foreign Capital Inducement Deliberation Committee before presenting the plan to the President for his approval. With presidential approval, the plan is fixed as the plan of the executive. This plan should acquire the consent of the National Assembly before official presentation to the Japanese government.²³⁾ However, for most routine projects, processes after the bureaucratic consultation are pro forma.

C. Feasibility Study

When the Korean government presents projects to the Japanese government, it has to justify the selection of the project and its investment. This justification is mainly made through a feasibility study of each project. Although the ROK government itself examines economic and technical aspects of the projects, it employs consultants to carry out feasibility studies of the selected projects which require high level engineering and management techniques which the ROK does not possess. In the case of national projects, the two governments often decide the possibility of financing through Japanese governmental loans before the feasibility, although in theory the study should be an important factor in deciding whether to finance a project or not.

To the Japanese government, the feasibility report provides a basis for evaluating whether the project is feasible, how well the Korean government has prepared and finally deciding whether to finance or not. Thus, the Japanese government demands that the report include as many as ten major points:²⁴⁾

(1) Background information for the project, such as data on the recent state of the economy of the borrower (or the borrower's country, where the borrower is not the government), information on the project site and surrounding area, and the history of the formulation of the project;

(2) Analysis of the need for the project, including supply-and-demand analysis and determination of the relative priority of the project in the overall economic development plan and the sectoral program of the country concerned;

(3) Details and comparison of the various alternatives and proposals;

23) Article 26, of the same Act. Reprinted in Hong-Dae Kim, pp. 361-382.

24) OECF (Japan) *OECF Loans and Loan Procedures*, pp. 14-15.

(4) Description of the project proposed, that is, of the best of the above alternatives (purpose, scope, site, etc.);

(5) General engineering arrangements (including timetable) and preliminary designs for major structures;

(6) Estimated cost of the project (both foreign and local currency portions);

(7) Implementation schedule (construction plan, timetable for construction, etc.);

(8) The implementing agency's manpower and expertise resources, need for consultant's assistance;

(9) Evaluation of technical soundness, economic profitability, financial and commercial viability, and social and environmental impact of the project;

(10) Recommendations (if any).

The Overseas Economic Cooperation Fund (OECF), the Japanese implementation agency for governmental loans, usually consults with the Korean government about a proposed projects, either prior to or during the negotiations relating to the loan. The OECF will dispatch a fact-finding mission to study the project proposed, after the Japanese government receives the Korean government's official request for a loan. When the OECF dispatches the mission, it may directly receive information from the consultant hired by the ROK government, and sometimes some of the ROK's consultants are included in the OECF mission.

The Japanese consultant often becomes a bridge between the Japanese loan decision-making administration and the Korean government. Through the consultant's activity, the Japanese government is able to get information about projects the Korean government is interested in. Also the Japanese consultant lets its government know whether a Japanese corporation is capable of carrying out the projects, before the Korean government presents its official request for the loans. Through this activity, Japanese private corporations can prepare for undertaking the projects, and can lobby for a Japanese governmental loan to be provided to the ROK, if the corporation and Korean government does not have sufficient financing resources to carry out the project. The Korean government can thus induce the Japanese private corporation interested in the Korean project to lobby within the Japanese decision-making system. In the case of the subway project, in response to a request from the Korean government, Japanese Ministry of Transportation dispatched a survey team from the Japan National Railroad Public Corporation, one of the few organizations able to consult on subways. When the Korean government requested funding for the iron and steel

mill, it asked for assistance from the Japanese Iron and Steel Association. Among several eligible steel corporations, the biggest and the second biggest corporations, Yawata and Fuji became consultants. They strongly urged construction of the mill before the Japanese government decided whether to finance the project or not.

In addition to conducting the feasibility study and preparing the report, consulting services may also include the following functions:²⁵⁾

- (1) detailed engineering of the project
- (2) supervision of construction work;
- (3) technical and administrative services for the operation and maintenance of the project;
- (4) advisory services and other services necessary for the project.

The OECF recommends hiring the consultants who carried out the feasibility study for the implementation of the project, not only to obtain the consultant's consistent technical assistance, but also to implement the OECF loans effectively.²⁶⁾ If a consultant has already satisfactorily carried out the feasibility study, there are, realistically, considerable advantages in appointing that consultant to carry out the other functions thereafter.²⁷⁾

The available information on the ROK's process for requesting Japanese governmental loans indicates that most decisions result from a relatively routine organizational process. Decisions about what kinds of projects to support are determined mainly by pre-established economic plans and policies for maximizing the productivity of foreign investment. These criteria are sufficiently clearcut to allow working level bureaucrats to make decisions by technical formulas, without much controversy. So far as can be determined by a brief review, the economic plans and foreign investment policies themselves appear to be developed through essentially technocratic processes—at least they have not become subject to open debate.

The chief exceptions to this predominantly organizational process are a few large projects close to the heart of the President, such as the POSCO steel mill, and the Seoul-Pusan expressway. These seem to have been chosen on grounds of broad national interest even when they did not satisfy routine technical criteria. Their financing and implementation were assured through direct interventions by the President and his close allies rather than normal bureaucratic procedures.

25) Ibid., pp. 38-39.

26) Ibid., p. 38.

27) Ibid., p. 39.

4. Japanese Formal Process

When the Japanese Ministry of Foreign Affairs (MFA) receives the Korean request through the Japanese Embassy in the ROK, the Japanese government begins its decision process. The Japanese process is largely divided into two stages: first, the ministerial consultation process; and second, the implementation process. And each process is carried out by multiple ministries or agencies, depending on the kind of economic cooperation. The Ministry of Foreign Affairs (MFA) decides policy about grant assistance after consulting with the Ministry of Finance (MOF). In the case of technical assistance, which is a form of grant aid, the Ministry of Foreign Affairs, the Ministry of Finance, and the Ministry of International Trade and Industry (MITI) all share the responsibility of decision-making. Matters related to ODA are dealt with in joint consultations by the Economic Planning Agency (EPA), MFA, MOF, and MITI. Policy related to multilateral assistance is mainly decided by MOF.²⁸⁾

There are three implementing public corporations. The Overseas Economic Cooperation Fund (OECF), under the jurisdiction of the EPA, disburses ODA, concessional government loans. It also examines information provided by the recipient government concerning implementation of the development projects, and it audits project construction. The Japan International Cooperation Agency (JICA), under the jurisdiction of the MFA, renders technical assistance. It also provides technical assistance for feasibility study of loan-financed development projects. And the Japan Export-Import Bank (Japan Ex-Im Bank), under jurisdiction of the MOF, is the executing agency for export credits whose grant element is less than 25 percent. This section is mainly about Japanese governmental decision-making about bilateral ODA to the ROK, which is made on the basis of consultation among the four ministries: MFA, MOF, MITI, and EPA.

Bureaucratic Processes

After the Ministry of Foreign Affairs receives the loan request and other supporting documents such as the feasibility report, it arranges a conference for consultation among the following four ministries: (1) Economic Planning Agency; (2) Ministry of Foreign Affairs; (3) Ministry of Finance; and (4) Ministry of International Trade and Industry. Of course, before the conference, the MFA circulates details of the request and results of

²⁸⁾ Ibid., p. 3-4.

the feasibility study.²⁹⁾ Concerned division of each ministry follows.³⁰⁾

(1) Economic Planning Agency... First Division of Economic Cooperation, Policy Coordination Bureau.

(2) Ministry of Foreign Affairs... Loan Aid Division, Economic Cooperation Bureau; and Division of Northeast Asia, Asian Affairs Bureau.

(3) Ministry of Finance... Overseas Public Investment Division, International Finance Bureau; and Budget Bureau.

(4) Ministry of International Trade and Industry... Economic Cooperation Division, International Trade Policy Bureau.

Before the ministries' consultation, the Ministry of Foreign Affairs also requests, through the Economic Planning Agency, that the Overseas Economic Cooperation Fund (OECF) study the information provided by the ROK government. OECF studies the information and makes recommendations to the ministries regarding projects or programs to be studied by an OECF fact-finding mission is to conduct site surveys, collect information and hold discussions with the officials of the borrowing country. The mission makes recommendations regarding projects to be financed and the amount to be allocated to be decided by the ministries. They also determine interest rates, repayment period, and procurement conditions such as general untied, and tied.³¹⁾ During this consultation, each concerned ministry expresses its own opinion.³²⁾

Much of the process of policy-making in Japan goes on within the governmental bureaucracy, usually involving conflicts resulting from formal organizational differences and the pursuit of different policy goals. Bureaucratic conflicts also result from overlapping jurisdictions, interdependence, and competition for scarce resources.³³⁾ This ministerial consultation is the most important regular process to reach policy decisions by resolving the conflicting interests among ministries.

John White and Alan Rix have observed the general positions of four ministries over governmental economic cooperation in inter-ministerial consultations.³⁴⁾ The Ministry of

29) Alan Rix, *Japan's Economic Aid* (New York: St. Martin's Press, 1980), p. 141.

30) OECF, *Kaigai Keizai Kyoryoku Benran (Digest of Overseas Economic Cooperation)* (Tokyo: OECF, 1982), pp. 550-552; Rix, *Japan's Aid*, p. 88.

31) OECF, *Loans Procedures*, pp. 21-22.

32) *Ibid.*, pp. 3-4.

33) John C. Campbell, "Policy Conflict and its Resolution within the Governmental System," in Ellis S. Krauss et al., eds., *Conflict in Japan* (Honolulu: University of Hawaii Press, 1984), p. 298.

34) John White, *Japanese Aid* (London: Overseas Development Institute, 1964), pp. 28-33; Rix, *Japan's Aid*, pp. 87-89.

Foreign Affairs is generally in favor of increasing the amount and quality of governmental economic cooperation. Because it is the official 'window' for all Japanese aid business, the MFA usually represents the borrowing country's position within the Japanese bureaucracy. It also considers important the bilateral relationship with the borrowing countries, and perceives governmental economic cooperation as an important tool of diplomacy toward the developing countries.³⁵⁾ For the MFA, the policy of economic cooperation takes into account strategic and security considerations as well.³⁶⁾ Its governmental loans policy is based on the following principles: vis-à-vis developing countries, governmental loans are a major component of the available repertoire of foreign economic policies, and the only tool the Japanese government can directly use with them;³⁷⁾ and vis-à-vis western developed countries, governmental loans can show Japan's national commitment to contribute to solving the discrepancy between wealthy and developing countries, as an advanced nation and a senior member for the Development Assistance Committee.³⁸⁾

MITI's basic position has been very positive toward giving economic cooperation related to exports of Japanese goods and services.³⁹⁾ MITI is influential in aid policy because aid and commercial policy are closely interrelated. It has become one of the most powerful ministries because it has directed Japan's postwar industrial and trade growth. This strength has spilled over into aid policy, especially since loans often involve industrial or resource projects.⁴⁰⁾ Because MITI's power over economic policy has become less dominant as the Japanese government de-emphasizes growth-oriented and export promotion policies, its influence over the economic cooperation policy making has also become less significant.

The MOF's general position is to be cautious about risky investment in projects, and about long-term commitments which produce financial burdens. The MOF has leverage in interministry policy discussions because it has control of budgets. It generally examines any policy request from the vantage of budget making, and applies to the request its own principles of budgeting.⁴¹⁾ The MOF's policy sword on economic cooperation is double-edged,

35) Rix, *Japan's Aid*, p. 87.

36) *Ibid.*, p. 24.

37) Alan G. Rix, "The Future of Japanese Foreign Aid," *Australian Outlook* 31 (December 1977), p. 418.

38) Rix, *Japan's Aid*, p. 36; White, *Japanese Aid*, pp. 10-12; Sukehiro Hasegawa, *Japanese Foreign Aid: Policy and Practice* (New York: Praeger, 1975), pp. 96-98.

39) This positive position is well expressed in MITI's annual *Keizai Kyoryoku no Genjo to Mondaiten* (*White Paper on Economic Cooperation*).

40) Rix, *Japan's Aid*, p. 89.

41) John C. Campbell, *Contemporary Japanese Budget Politics* (Berkeley: University of California Press, 1977).

dealing both with aid in the budget context and with aid as a tool of international finance policy. In terms of international financial policy, the MOF is not always negative about increasing governmental economic cooperation, especially since Japan had a big trade surplus starting in the late 1960s. The Budget Bureau applies its budget principles to the aid requests from foreign countries.⁴²⁾

The other main actor, the EPA, is a minor force in the bureaucracy. The EPA participates in the aid administration because of its authority over the OECF.⁴³⁾

There are policy conflicts not only between the ministries, but also between the implementing agencies.⁴⁴⁾ JICA and OECF are two separate public corporations under the supervision of two different ministries, respectively, MFA and EPA. Because the two agencies have overlapping jurisdiction over the feasibility studies, and technical evaluation of projects, there is competition between the organizations and employees of the two agencies. Similarly, the OECF and the Japan Ex-Im Bank argued over their respective policy jurisdictions until an agreement was reached between the Ministry of Finance and the Economic Planning Agency concerning jurisdiction over concessional loans.⁴⁵⁾ After the agreement, the OECF became responsible for all concessional governmental loans which have 25 per cent or more grant element, whereas the Japan Ex-Im Bank is responsible for export credits, whose grant element is less than 25 per cent.

In the case of policy making concerning governmental economic cooperation to the ROK, the Ministry of Foreign Affairs and the Ministry of Finance are often the main conflicting ministries. When the Korean government makes a controversial request and asks for political consideration, the MFA is usually sympathetic to the Korean government. The MFA emphasizes the special bilateral relationship between Japan and the ROK, which recognizes Japan's security interest in that country, and the unique historical experiences the two countries share. The Ministry of Finance tries to treat the ROK as one of many recipient countries and does not want to accord it special status. The MOF is extremely cautious about giving special treatment to the ROK for fear that the ROK government will continue to demand it again in the future, and that other borrowing countries will demand the

42) Ibid.

43) Rix, *Japan's Aid*, p. 89.

44) T. Tsuji, "Governmental Fragmentation in Japan's Foreign Aid: Two Public Corporations," mimeo.

45) Final agreement about the jurisdiction was made in July, 1975. See OECF, *Kaigai Keizai Kyoryoku Kikin Nijunenshi (Twenty Years' History of the OECF)* (Tokyo: OECF, 1982), p. 79; p. 120; and pp. 222-224.

same treatment. It does not attach the same importance to the future relationship between Japan and the ROK. The MOF also reviews the ROK's request in terms of budget principles. It examines administrative aspects of the ROK request routinely. The MOF's style of decision-making is what John C. Campbell called 'simplifying,' a technique in which various budget requests are treated as if they were non-programmatic. As Campbell observed, the Japanese MOF tends to examine administrative aspects of the request itself, instead of discussing a program in terms of the importance of the problem it is designed to solve, its likely effectiveness, or whether there might be cheaper alternatives.⁴⁶⁾

After a conclusion is reached within the Japanese government, the next stage involves negotiations with the recipient country. The Ministry of Foreign Affairs informs the ROK government of Japan's willingness to extend a loan package, its total amount, and other terms of the loans. This is called the "pledge" and is usually made in the form of a letter sent by the Japanese ambassador to the borrowing country. When the ROK government has informed the Japanese government of its acceptance of the terms of the pledge, negotiations on the Exchange of Notes between the Japanese government, represented by the Ministry of Foreign Affairs, and the ROK government begin.⁴⁷⁾

Before or during the negotiations for the Exchange of Notes, OECF sends a mission for appraisal of the project to confirm its feasibility and to assist in making a first estimate of the exact amount of the loan. However, when the study made by the fact-finding mission is adequate to confirm the feasibility of the project or program and the discussions between the fact-finding mission and the officials of the borrower have yielded adequate results, OECF does not bother to send an appraisal mission.⁴⁸⁾ After the appraisal work, negotiations on the Loan Agreement start. OECF sends a negotiation mission to the borrowing country. When the mission and the representatives of the borrowing government reach agreement, the points agreed on are put in the minutes of their discussions. After the OECF Board has approved extension of a loan, the Loan Agreement is signed by the President of OECF and the representative of the borrowing government.⁴⁹⁾

After the conclusion of the loan agreement, the Korean government or private individuals

46) Campbell, *Japanese Budget Politics*, p. 63.

47) OECF, *Loans Procedures*, p. 22-23.

48) *Ibid.*, pp. 23-24.

49) The exchange of notes is an understanding that the two governments will do all their power to make the realization of the loan concerned possible. The loan agreement is a legal commitment made to the Korean government by the OECF as the implementing agency. See OECF, *Loans Procedures*, p. 23.

(person or company) carries out implementation of the planned project, for which procurement of the goods and services necessary is funded by the Japanese governmental loan. The Korean government or juristic person usually holds a competitive bidding, open to all eligible suppliers and contractors to obtain goods and services. When the Korean government or juristic person chooses a supplier and concludes a contract with him for goods and services, the OECF of Japan is ready to disburse the contracted amount to the supplier. When the Korean government informs the OECF of the procurement of the goods and services, the OECF disburses the cost to the supplier. Once the Korean side receives the goods and services from a foreign supplier, it has an obligation to repay the principal of the Japanese governmental loans and its interest within the reimbursement period, as specified in the loan agreement between the two governments. This is the final stage of the loan cycle of Japanese governmental loans to the ROK.

5. Conclusion: Standardized Formal Process

The Japanese government always tries to apply the formal pattern of (1) recipient's request— (2) Japanese decision— (3) implementation to all recipient countries.

The Japanese government tried to employ this standard decision-making pattern regardless of the time frame. The loans relationship between Japan and the ROK from 1965 to 1983 is divided into three periods depending on the basic policy framework, under which Japanese ODA was introduced to the ROK. The first policy was the property and claims fund, which regulated the \$500 million for reparations over ten years, from 1966 to 1975. Since 1971, the ROK government also received regular loans from the Japanese government. These regular Japanese governmental loans continued until 1981. By regular loans, it is meant that there is no limit or framework such as the property and claims fund in 1965, or \$4 billion package of public loans in 1983. The ROK government would have to follow the Japanese directives for governmental loans. The Japanese government did not have either a pre-scheduled annual limit or a minimum amount to provide to the Korean government. These regular Japanese governmental loans had annual interest rates which ranged from 3.5 per cent to 5.25 per cent, and the reimbursement period ranged from 20 to 25 years with 5 to 7 years of grace period.⁵⁰⁾

In 1981, the ROK government made a special request to the Japanese government for

50) Japan External Trade Organization (JETRO), *Economic Cooperation of Japan* (1980), p. 42.

a \$ 6 billion package of public loans. The new Korean President, Chun Doo-Hwan, wanted to obtain increased Japanese governmental loans. The negotiations were concluded in January, 1983, and the Japanese government pledged to provide \$ 4 billion to the ROK government for 7 years, within which governmental loans would amount to \$ 1.85 billion. Since 1983, Japanese governmental loans have been provided within that framework.

The basic flow cycle of Japanese governmental loans is much the same regardless of the existence of different frameworks. Since the frameworks did not specify individual projects or programs to be funded by the Japanese loans or grants, the project specification is open to negotiation on a case by case basis. In the case of the property and claims fund and the \$ 4 billion package, which are considered to be politically concluded, once the negotiations about the major issues such as total amount and terms were completed the decision-making process followed the same standard procedures as those for regular loans.

Regardless of the nature of the projects, the Japanese government applied a standard pattern. It is true that political projects had a special selection process, reflecting the direct interest expressed by the Korean President. Also, the Japanese top leadership sometimes intervened in the final decision-making. But even in these cases, the formal process—bureaucratic and inter-ministerial consultations—had to be followed before the final decision of the top leadership. Procedures were inviolable and rules had at least to appear to be satisfied. The Japanese government always required that proposals be sent through official channels before the project could be properly assessed and approved.⁵¹⁾

51) Rix, *Japans' Aid*, p.139.