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**Assessment of Japanese ODA, its Recent Reforms
and Possible Future Policies**

Master's Thesis

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I hereby declare that this thesis represents my own work and research, and all information sources that have been used are written down in the references section.

In Olomouc X. X. 2015

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Z á s a d y p r o v y p r a c o v á n í :

The topic of this paper will be about the Japanese Official Development Assistance. In its first part, the thesis will explore the background and the ideology that motivated Japan to become one of the leading ODA providers in terms of overall volume in the 1990s. The work will continue on with the analysis of apparent problems and strengths of the current Japanese ODA by using different assessments that reflect the Paris Declaration on Aid Effectiveness. The third part will analyse the policy reforms of Japanese ODA implemented in the last decade. The last part of the work will focus on possible policy changes and reforms that are based on the research described in the previous sections of this paper.

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Abstract

The theme of this thesis is on research about how the budget cuts after the year 1997 influenced the Japanese ODA program and if there are any other factors apart from the economic stagnation that contributed to this decline in volume of ODA flows provided towards developing countries. To get to the point where it can answer these questions, the work will first aim to create a regression analysis, which will show the changes in motivations of the Japanese ODA program by analysing the allocation of ODA towards different recipient countries.

The work will later explore the rhetoric of officials in charge of various institutions handling the ODA budget to show, if and how the aim and policies of the Japanese ODA program changed during recent years. The paper will continue on providing a case study dealing with financial flows sent from the government to the NGOs, which were identified in official reports as one of the new important actors in the field of ODA.

Keywords: japanese official development assistance, donor fatigue, budget cuts, regression analysis, reforms, case study, non-governmental organisations

Anotace

Tématem diplomové práce je identifikace, jakým způsobem se škrty v rozpočtu po roce 1997 projeví na japonské rozvojové spolupráci, a určení dalších faktorů mimo ekonomické stagnace, které svým působením zapříčinily úbytek objemu toků oficiální rozvojové spolupráce posílaných do rozvojových zemí. Aby mohla na tyto otázky odpovědět, musí se práce nejdříve zaměřit na tvorbu regresní analýzy, která ukáže změny motivací japonského rozvojového programu za pomoci analýzy alokace finančních toků zahraniční rozvojové spolupráce mezi různé příjemce.

Práce se dále zaměří na prozkoumání výroků představitelů různých institucí operujících s rozpočtem japonské rozvojové spolupráce, na nichž ukáže změny v politice a záměru rozvojového programu v nedávném období. Práce dále poskytne případovou studii o finančních tocích z japonských vládních institucí do nevládních neziskových organizací, jež byly identifikovány v oficiálních dokumentech jako jedny z hlavních nových hráčů na poli rozvojové pomoci.

Klíčová slova: japonská rozvojová spolupráce, rozpočtové škrty, syndrom unavenosti donorů, regresní analýza, reformy, případová studie, nevládní neziskové organizace

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Abbreviations

ASEAN – Association of Southeast Asian Nations
CDI – Commitment to Development Index
DAC – Development Assistance Committee
DPJ – Democratic Party of Japan
FDI – Foreign Direct Investment
FGLS – Feasible Generalized Least Squares
JBIC – Japan Bank for International Cooperation
JETRO – Japan External Trade Organization
JICA – Japan International Cooperation Agency
LDP – Liberal Democratic Party
MDGs – Millennium Development Goals
MITI – Japanese Ministry of International Trade and Industry
MOF – Ministry of Finance
MOFA – Japanese Ministry of Foreign Affairs
NGO – Non-governmental Organisation
ODA – Official Development Assistance
OECD – Organisation for Economic Co-operation and Development
OLS – Ordinary Least Squares
OOF – Other Official Flows
PCSE – Panel Corrected Standard Errors
QuODA – Quality of Official Development Assistance
TSCS – Time-series Cross-section
US – United States of America

1. Introduction

The Japanese foreign assistance program has been in action for over 60 years. Many authors and even official reports claim that a certain part of it, the official development assistance (hence forth ODA)¹ emerged as a crucial tool Japan used to ensure better diplomatic relations with its neighbours and economic well-being for the country itself. In terms of overall volume of ODA net disbursements throughout the 1990s, the Japanese ODA program ranked first among the countries of the Development Assistance Committee (DAC) of the Organisation for Economic Cooperation and Development (OECD). The optimistic views that a lot of Japanese officials held for the ODA can be underlined by the term “Aid Great Power.” It was frequently used as an aspiration role for Japan in the 1980s,² as due to its constitution, Japan wasn't capable of using military power and thus saw an opportunity to exercise its influence on the international community by using ODA. However, for the last 20 years there was a perceptible decline and stagnation in the budget given to the ODA program. This sudden turn in the apparent importance that was once given to ODA, was often explained by the prolonged economic stagnation which the Japanese economy had to endure in the 1990s.³ Nevertheless, the budget cuts didn't come immediately, and only after the new millennium the volume of ODA begun to decrease signalling that the economic crisis wasn't the only reason for ODA to get out of favour. Given the rhetoric that was used for the Japanese ODA program, which then explicitly put it as a tool for the promotion of Japanese economic interests⁴ and Japanese companies, it would indicate that there had to be other factors that pushed down the ODA budget.

With the above mentioned facts in mind, this paper aims to examine the changes in motivations of the Japanese ODA program in the past and also the current trends it takes with the possible implications for Japanese non-governmental organizations (NGOs). To get to that point of presenting empirical evidence of various motivation, we will first needs to explore the theories presented in the literature about the usage of Japanese ODA. This

1 Defined by the DAC as “those flows to countries and territories on the DAC List of ODA Recipients and to multilateral institutions which are provided by official agencies, including state and local governments, or by their executive agencies; and each transaction of which: a) is administered with the promotion of the economic development and welfare of developing countries as its main objective; and b) is concessional in character and conveys a grant element of at least 25 per cent (calculated at a rate of discount of 10 per cent).”

2 YASUTOMO, Dennis T. *Why Aid? Japan as an "Aid Great Power"*, p. 491

3 HAYASHI, Fumio and Edward C PRESCOTT. *The 1990s in Japan: A Lost Decade*, p. 206

4 PATRICK, Hugh. *The Transformative Role of Japan's Official Development Assistance in its Economic Partnership with Southeast Asia*, p. 3

first part of this work will also function as a historical overview of the problematic of Japanese ODA, which shows some distinctive characteristics that differentiate it from other member countries of the DAC. The second part of this section will explore past studies into the allocation of Japanese ODA that used a regression analysis to gather empirical data about this problematic. The main aim of this chapter will be the research of theoretical backgrounds for certain motivations that the Japanese ODA program could have been influenced by.

The second main section of this document will present the theory behind the regression models and their usage as research tools concerning the dependencies between certain indicators. The chapter will continue on identifying variables for the regression model and exploring the problematic of data mining, as the datasets even to this date still aren't without any blank parts and therefore some further statistical equations had to be used, such as clustering and interpolation. The interpolation was, however, used with caution and only for a few countries in the database. The final part will then present the regression model devised for this study and the conclusions that can be drawn from it. Its main aim will be to explore whether the Japanese ODA program shifted its motivations with time and the significance of each and every indicator that represent the various motivations.

The third part will follow up after the regression model by exploring the issue of unidentified indicators that could have risen into prominence after the budget cuts. To research this notion, the paper will gather data from official documents presented by various Ministries and the political representatives that addressed the ODA problematic. For example, the Ministry of Foreign Affairs (MOFA) views can be explored from the periodically published White Papers. The chapter will also further explore the differences between ODA charters, which will already be touched upon in the historical overview.

The last section of this work will present a case study about Japanese NGOs done by the author in Japan. The main issues that will be discussed include the state of the flows of ODA to the NGOs, in other words, if the volume of finances provided by the government bodies remained stable, declined or increased. The study will continue on presenting the NGOs opinion about current trends in Japanese ODA, which then also included the composition of a new ODA charter.

For recapitulation and a better overall picture of the thesis, the main points that should help to investigate the workings of the Japanese ODA before and after the budget cuts will go as follows:

- What was motivating Japan that made it possible for its ODA to rise to the top of the volume of net disbursements of DAC members?
- Are there any empirically traceable factors showing the shifts in priorities of Japanese ODA?
- What were the main policy alterations after the budget cuts and did the rhetoric behind the Japanese ODA programme change?
- Were there, if any, effects of these developments on Japanese NGOs?

By answering these four main point, this paper aim to provide enough data to make remarks about the main question of this paper, which deals with the issue of distinguishing new factors that might have had an influence on the ODA budget cuts. In this way, the thesis aims to broaden the literature about the reasoning behind why a donor cuts its budget, albeit it will be specifically looking just at the Japanese case.

2. History and Motivations behind the Increases of the Japanese ODA

This chapter will be divided into two subsections. The first subsection will explore the different stages in the development of Japanese ODA until its first budget cuts that came into action in 1995.⁵ The point of this review subsection lies in exploring the motivations Japan had to provide and increase its ODA and to further understand the evolution of thinking about the Japanese ODA policy-making. The subsection will be broken up by the events that were identified by the literature as the main incidents that helped to shape the Japanese ODA program, which include the 1954 San Francisco Treaty, the 1973 oil crisis, the 1985 yen appreciation and finally, the 1997 Asian financial crisis. All these occasions should according to the literature represent turning points in the motivations of the Japanese ODA and will be used as a reference for the regression analysis presented in the second section. Of course these weren't the only occurrences that shaped the Japanese ODA. However other events as for example the Fukuda Doctrine further strengthened a course of action that was already in place.

The second subsection will be dealing with former studies of the Japanese ODA allocation. As will be presented, the papers are evenly divided in their points of view regarding whether Japanese ODA was more focused on humanitarian or economic motives. These studies will be also later used as an example of good practice and I will return to their findings often when dealing with the regression model presented in this thesis.

2.1. Review of the Literature on the Motivations

2.1.1. From a Recipient to a Donor (from 1950s till 1960s)

After the 2nd World War has ended, the Japanese economy was in ruins and its manufacturing production had lost over 90 percent of its former output. The inflation of the currency was also a problem and the country lost almost half of its national wealth.⁶ As other European countries after the war 2nd World War, Japan was supported until 1951 by aid from the United States (US) reaching up to \$5 billion.⁷ The financial flows, however, weren't given without any repayment in mind and in the year 1962 Japan negotiated with

5 FRATTOLILLO, Oliviero. *Beyond Japan's Foreign 'Aid Fatigue'. The Path from the Cold War 'Gaiatsu' to the New Millennium Agenda*, p. 25

6 SHINJI, Takagi. *From Recipient to Donor: Japan's Official Aid Flows, 1945 to 1990 and Beyond*, p. 5

7 WATANABE, Tatsuya. *History of Japan's ODA in brief*, p. 3

the US that it will repay \$490 million.⁸ After receiving this first support aimed at the stabilization of the economy, Japan then turned to the World Bank. It took 31 loans from the year 1953 till 1966 totalling of about \$863 million. Most of these loans were directed to building infrastructure, especially for the highways and a high-speed railway system.⁹ Japan remained a net recipient of foreign aid even in the 1960s and finally repaid all these loans by the year 1990. This experience with loans is often quoted as the reason why Japanese ODA was always so heavily concentrated on loans rather than grants.¹⁰

The beginning of the Japanese Foreign Aid program can be traced to the membership of Japan in the Colombo Plan¹¹ and the reparations to countries it occupied during the 2nd World War. The technical assistance with a budget of \$50,000 was provided since 1954 using the Colombo Plan organisation.¹² It was used mainly to support a group of trainees that came to Japan from the Colombo Plan countries and the sending of experts to foreign countries from Japan itself. The membership was made possible primarily because of the pressure from the US, “*which believed that Japanese participation would promote Japanese exports to the region and thus help to complete the postwar recovery of the Japanese economy.*”¹³ The first yen (or ODA) loan was given to India in the year 1958, which amounted to ¥18 billion (\$50 million) and was used to support its second Five-Year Plan. Further loans were provided mostly to Pakistan, South Vietnam and Brazil and amounted to about \$879,8 million since the start till the year 1965.¹⁴

Directly after the end of the 2nd World War, the United States were mainly thinking of relocating most of the Japanese industry to other states. What eventually changed their mind was the onset of the Cold War. With the growing divergence of the international community into two camps and the outbreak of the Korean War, the United States eventually felt the need to make Japan a strategic ally and supported its full economic rehabilitation.¹⁵ The reparations started in 1954 with the accordance to the Peace Treaty of San Francisco that was signed by Japan in 1952.¹⁶ The reparation treaty was signed only by four countries, in chronological order: Burma (1954), the Philippines (1956), Indonesia (1957) and South Vietnam (1959); totalling over \$2 billion in various repayment forms

8 SHINJI, Takagi. *From Recipient to Donor: Japan's Official Aid Flows, 1945 to 1990 and Beyond*, p. 8

9 Ibid, p. 10

10 WATANABE, Tatsuya. *History of Japan's ODA in brief*, p. 3

11 Regional organisation which main aim was to provide human development to its members.

12 DOSS, Veda. *Japan's Development Aid: Self-Interest or Economic Partnership?*, p. 233

13 SHINJI, Takagi. *From Recipient to Donor: Japan's Official Aid Flows, 1945 to 1990 and Beyond*, p. 13

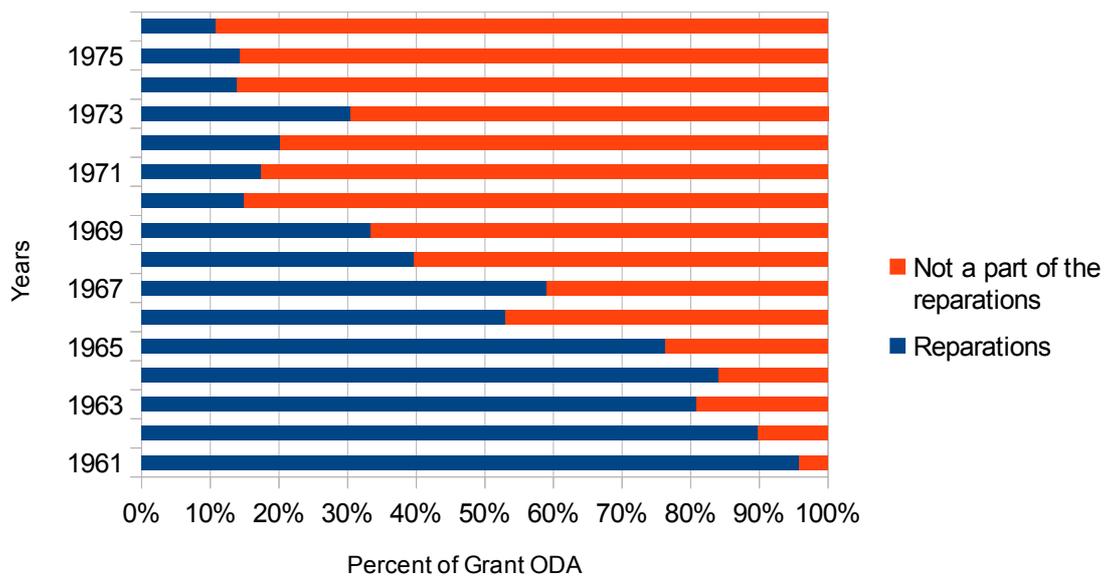
14 Ibid, p. 13-14

15 SUDO, Sueo. *The Fukuda Doctrine and ASEAN: New Dimensions in Japanese Foreign Policy*, pp. 25-26

16 SHINJI, Takagi. *From Recipient to Donor: Japan's Official Aid Flows, 1945 to 1990 and Beyond*, p. 10

from services and capital goods to debt cancellation and joint ventures, where the value of grant components reached about a half of the send flows.¹⁷ Cambodia, Laos, Thailand, Malaysia, Singapore, South Korea and Micronesia also received grant aid, which was provided as a kind of “quasi reparation.”

Figure 1 – The Ratio of Reparations on Grant ODA



Source: Adapted by the author from the data provided in the article *From Recipient to Donor: Japan's Official Aid Flows, 1945- 1990 and Beyond*

The compensations eventually took form in a kind of an economic assistance program, which main aim was directed at infrastructure and other economic activities.¹⁸ In a report made by the Ministry of International Trade and Industry (MITI) it was addressed as a strategy, in which “*Japan's ultimate economic goal was the promotion of trade to secure the resources necessary for Japan's industrial development, and to develop the markets [of recipients] for the products of Japan's industry.*”¹⁹ This way the effects of this grant aid were also felt in Japan directly, as it helped to contribute to the reconstruction of Japanese industries, mainly involving such industries as steel machinery and construction.²⁰ As you can see on Figure 1, which presents the ratio of reparations and quasi reparations to grant aid, for the first years of Japanese foreign assistance program, the reparations were the main source of grant ODA and, as a matter of fact, remained a large

17 SUDO, Sueo. *The Fukuda Doctrine and ASEAN: New Dimensions in Japanese Foreign Policy*, pp. 44-46

18 RIEI, Nagase. *Basic Information on Japan's ODA for the last 50 years*, p. 7

19 SUDO, Sueo. *The Fukuda Doctrine and ASEAN: New Dimensions in Japanese Foreign Policy*, p.35

20 RIEI, Nagase. *Basic Information on Japan's ODA for the last 50 years*, p. 8

source of Japanese grant ODA way into the 1960s. The reparations were identified as ODA mainly because of the rhetoric of the treaties, where it was stated that the aim of the reparations isn't only to repairs the damage Japan did during the 2nd World War, but also to help the recipient countries achieve economic and social development.²¹

The above mentioned facts also provided the notion of seeing this part of Japanese ODA history as a stage, where the main motivation of “*Japan's aid policy was formulated to hasten Japanese reconstruction and growth and to develop diplomatic relations with neighbouring countries.*”²² It is worth mentioning, that many articles stress that this policy wasn't created to serve a purpose of making Japan into a political or military power. It mainly sought economic interest and development after the heavy losses of the 2nd World War.²³ However, looking at the influential part that was played by the United States, one could also come to a conclusion that Japan was mainly under its influence. This interdependence of Washington and Tokyo is often felt as more significant in articles exploring the issues of gaiatsu, such as the *Beyond Japan's Foreign 'Aid Fatigue'* by the author Oliviero Frattolillo. The gaiatsu term comes from Japanese and is used to express the pressure from abroad, especially the US, which tries to influence the Japanese decision-making process.²⁴ Using this hypothesis, the main motivation of allocation of Japan's ODA would directly correspond to the strategic needs of the US agenda,²⁵ which during the main phases of the Cold War included the containment of communism.

2.1.2. From the Oil Crisis to the Yen Appreciation (From 1970s till 1980s)

It wasn't until the middle of 1960s that Japan became a net distributor of foreign aid, while by the 1970s it already was the fifth largest donor in terms of overall volume,²⁶ with a greater significance for Asian countries. In this decade, the situation arose that later became known as the oil crisis of 1973, where the Arab countries launched an oil embargo on the US and its allies for supporting Israel in the aftermath of the Yom Kippur War.²⁷ As Japan imported 40% of its oil needs from the countries directly involved in the crisis, the

21 MURATANI, Seiki. *The Nature of Japan's Official Development Assistance: Japan's Bilateral ODA and Its National Interests, 1981—2001*, p. 26

22 DOSS, Veda. *Japan's Development Aid: Self-Interest or Economic Partnership?*, p. 234

23 FRATTOLILLO, Oliviero. *Beyond Japan's Foreign 'Aid Fatigue'. The Path from the Cold War 'Gaiatsu' to the New Millennium Agenda*, p. 20

24 Ibid, p. 1

25 MURATANI, Seiki. *The Nature of Japan's Official Development Assistance: Japan's Bilateral ODA and Its National Interests, 1981—2001*, p. 76

26 SHINJI, Takagi. *From Recipient to Donor: Japan's Official Aid Flows, 1945 to 1990 and Beyond*, p. 15

27 HAMILTON, James D. *Causes and Consequences of the Oil Shock of 2007-08*, p. 5

threat of cutting this resource down for good was enough to get Tokyo to re-evaluate its stance on the previously applied separation of politics and economic interest.²⁸ As various articles state, one of the first steps Japan took to combat this crisis was to think over its position in the Israel-Palestinian conflict and recognize the Palestinian body. This also came to be looked upon as the first step to gain more independence from the US.²⁹ Another important step in regards to this thesis was the decision to increase ODA to appease these oil-producing countries and start to aim ODA more at recipients with abundant energy resources.³⁰ This shift can clearly be seen on the change in ODA disbursements, because of the fact that *“nearly 100 percent of Japanese aid flowed to Asia before the oil crisis, but Asia's share dipped to about two-thirds as Africa and Latin America enjoyed a substantial increases along with the Middle East.”*³¹

What furthermore triggered the need to find a new point of view for the Japanese foreign assistance programme was the growing discontent with Japan in its Asian partners. In the beginning of the 1970s, this dissatisfaction with Japan was mainly seen on Universities and other student institutions, where for example in 1972 the National Student Centre of Thailand entertained the notion of a complete ban on Japanese commodities.³² The escalation of this movement came on the so called Tanaka trip, where the acting Japanese Prime Minister Tanaka Kakuei took upon himself to visit the countries of the Association of Southeast Asian Nations (ASEAN). During his visits riots broke out in Bangkok and Jakarta, which had shown that even decades after the 2nd World War, Tokyo still wasn't able to fully win over its neighbouring countries.³³ Japan later tried to identify the reasons behind this resentment and came to a conclusion that *“the anti-Japanese protest movements had been in general triggered by the behaviour of Japanese who [seemed to be] only [interested in] economic activities and had not tried to cultivate mutual trust or transnational cultural understanding.”*³⁴

To cope with the situation, the new Prime Minister Fukuda Takeo made several attempts to reassure the ASEAN countries that Japanese intention weren't imperialistic. After a meeting organised in 1977 in Kuala Lumpur and a tour over the ASEAN member

28 YORKE, Valerie. *Oil, the Middle East and Japan's Search for Security*, p. 433

29 FRATTOLILLO, Oliviero. *Beyond Japan's Foreign 'Aid Fatigue'. The Path from the Cold War 'Gaiatsu' to the New Millennium Agenda*, p. 21

30 Ibid, s. 21

31 YASUTOMO, Dennis T. *Why Aid? Japan as an "Aid Great Power"*, p. 493

32 ATARASHI, Kinju. *Japan's Economic Cooperation Policy towards the ASEAN Countries*, p. 111

33 YASUTOMO, Dennis T. *Why Aid? Japan as an "Aid Great Power"*, p. 492

34 ATARASHI, Kinju. *Japan's Economic Cooperation Policy towards the ASEAN Countries*, p. 112

countries, Fukuda eventually devised the so called “Fukuda Doctrine,” which was build on three main principles.³⁵ The first was about Japan rejecting the idea of being a military power, the second principle stated the need for a mutual trust and understanding between Japan and the ASEAN members, and the last was about the cooperation between Japan and ASEAN members as equals. In practice this meant that Japan would not increase its military budget in any way and would rather focus on the ODA budget. This way it would try to move away from the image of a country only interested in trade and also work on improving the relationships that might have seem to become one of rich and poor.³⁶ On a summit in Germany, Fukuda made further commitments, where he first announced a five year plan of doubling the volume of ODA, which was later revised to three years only. These medium term targets were later on constructed until 1997 and their main goal was always about increasing the ODA budget.

Table 1 – The Medium Term Targets till 1985

Plan	Period	Main Goal
First Plan	1978-1980	Doubling of ODA from \$1.4 billion per year to \$2.8 billion per year.
Second Plan	1981-1985	Double the 5 year total amount from \$10.7 billion to \$21.4 billion.

Source: Article Will Japan increase aid and improve its allocation to help the poorer countries achieve the Millennium Development Goals?

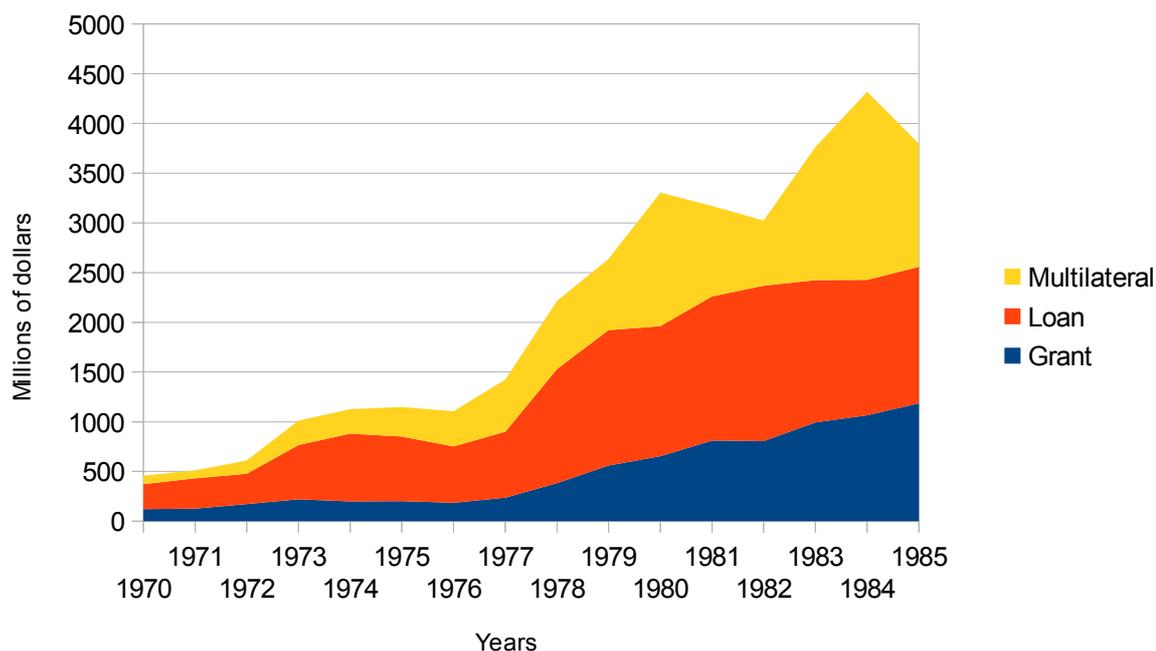
As can be seen on Figure 2, in the studied time line of this chapter, there were two noticeable increases in ODA supporting the fact that the two reactions, the response to the oil crisis and the devise of the first medium term target, were a defining step that Tokyo took in its ODA strategy. It should be noted, that the increase in ODA was always brought about as a reaction to external pressure. Considering this fact various authors have identified the second half of the 1970s and the beginning of the 1980s to be a new shift in Japan's ODA policy and its motivations. It is often stated that it turned into a central pillar and a multi-purpose tool of diplomacy, which, as can be read above, was used to appease partner countries and promote Japan's interests.³⁷

³⁵ Ibid, s. 111

³⁶ Ibid, s. 112-113

³⁷ COORAY, N.S., Ricardo GOTTSCHALK and Md. SHAHIDUZZAMAN. *Will Japan increase aid and improve its allocation to help the poorer countries achieve the Millennium Development Goals*, p. 5

Figure 2 – The Volume of ODA: Divided into Types



Source: Adapted by the author from the data provided in the article *From Recipient to Donor: Japan's Official Aid Flows, 1945- 1990 and Beyond*

This decade also marked the time, when the gaiatsu influence seemed to have less impact on Japanese policy makers as stated in the first paragraph of this section. This was possible thanks to the emerging notion of military power becoming more and more trivial in a globalized world. Tokyo came up with its own strategy centred around the economic factor of security policy.³⁸ Thus an idea emerged about combating security risk by eliminating human security threats such as hunger, disease etc³⁹. It gained even more support after the end of the Cold War. Japan, however, still contributed as an ally of the US by allocating ODA to several countries, which identified themselves as allies of the West, such as Pakistan and Egypt.⁴⁰

2.1.3. From the Yen Appreciation till the Stagnation (From 1980s till Today)

The appreciation of the yen after the Plaza Accord in 1985 is often cited to have had an effect not just on the Japanese ODA, but also on the country's foreign direct investments

38 FRATTOLILLO, Oliviero. *Beyond Japan's Foreign 'Aid Fatigue'. The Path from the Cold War 'Gaiatsu' to the New Millennium Agenda*, p. 23

39 Ibid., p. 22

40 KORKIETPITAK, Warangkana. *Japan's Foreign Aid Policy on Human Security*, p. 180

(FDI). In a response to the fact that the yen grew by 40%⁴¹ to the US dollar, many Japanese companies felt the need to secure their businesses not only by investing abroad but also by transferring “*most of the manufacturing processes overseas, in countries where economic and commercial transaction would have been accounted for directly in the US dollars.*”⁴² This was done mainly because products exported from Japan had their price raised by said 40% and the cost of commodities imported to Japan has also risen sharply. To ensure that the levels of economic growth won't decline, Japan had to expand its supply chain and market.⁴³ This setting eventually led to the situation, where Japan ended up with a large trade surplus, while the domestic cost of production was still very high.⁴⁴ Tokyo later came up with a policy of recycling this surplus using FDI combined with ODA and trade. The main idea behind this policy was the use of ODA to improve infrastructure in recipient countries, which would eventually be followed by an increase in FDI and trade in general.⁴⁵ As can be seen on Figure 3, this situation brought about a large increase in overall FDI. Looking particularly at Asia, the amount of FDI rapidly grew from \$1.4 billion per year in 1985 to \$8.2 billion per year in 1989.

The aftermath of the yen appreciation also marked the time, when Japan started to rethink its categorization of flows to foreign countries, because it was often criticized for its low share of ODA on overall capital flows to development countries.⁴⁶ In early documents by various ministries, the term ODA (or aid, as it was officially called back then) was never used.⁴⁷ Rather, it was a part of a term referred to as “economic cooperation,” which also included finances that are nowadays identified as other official flows (OOF)⁴⁸ and flows from the private sector. Tokyo began to address ODA's identity mainly after making it a tool for the development of markets.⁴⁹ This position of ODA was further strengthened in 1987 by the Prime Minister Nakasone Yasuhiro, who identified ODA “*alongside the stimulation of domestic demand and the expansion of foreign imports*

41 FRATTOLILLO, Oliviero. *Beyond Japan's Foreign 'Aid Fatigue'. The Path from the Cold War 'Gaiatsu' to the New Millennium Agenda*, p. 23

42 Ibid, p. 23

43 PHONGPAICHIT, Pasuk. *Decision-Making on Overseas Direct Investment by Japanese Small and Medium Industries in ASEAN and the Asian NICs*, pp. 303-305

44 FRATTOLILLO, Oliviero. *Beyond Japan's Foreign 'Aid Fatigue'. The Path from the Cold War 'Gaiatsu' to the New Millennium Agenda*, p. 23

45 RIEI, Nagase. *Basic Information on Japan's ODA for the last 50 years*, p. 8

46 OKUMA, Hiroshi. *Japan in the World: The Capital Recycling Programme*, p. 73

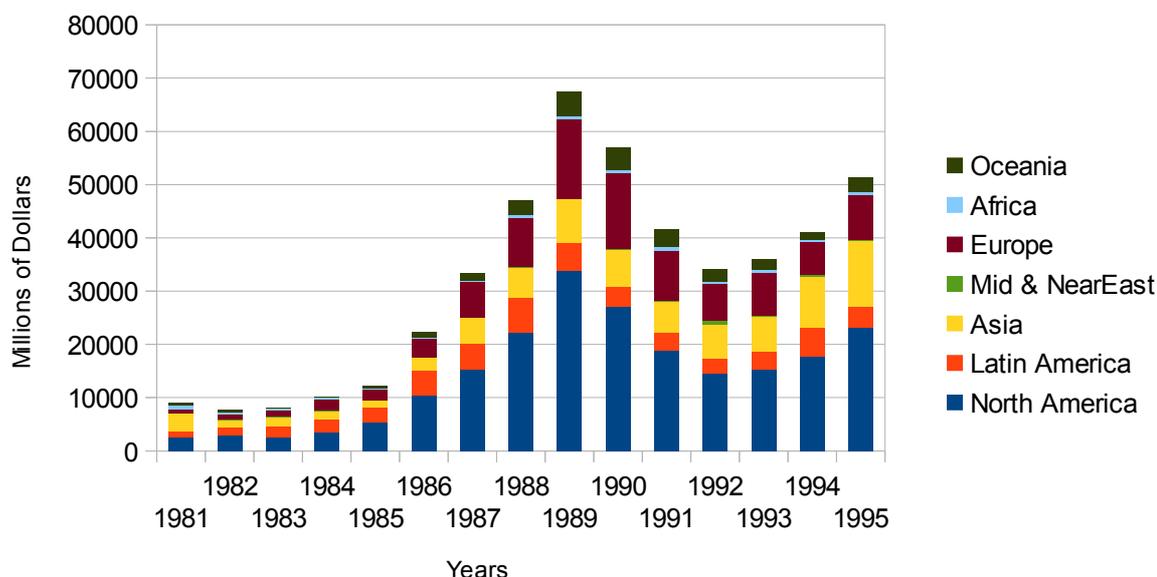
47 DOSS, Veda. *Japan's Development Aid: Self-Interest or Economic Partnership?*, p. 234

48 Defined by the OECD as transactions by the official sector with countries on the List of Aid Recipients which do not meet the conditions for eligibility as Official Development Assistance or Official Aid, either because they are not primarily aimed at development, or because they have a Grant Element of less than 25 per cent.

49 YASUTOMO, Dennis T. *Why Aid? Japan as an "Aid Great Power"*, p. 493-494

as the third pillar of his Emergency Economic Measures,⁵⁰ which were designed to combat the declining trend of the Japanese economy by addressing the problems of domestic demand and trade imbalances with other states, which was in other words a respond to the debt crisis of developing countries.⁵¹

Figure 3 – FDI Flows from Japan⁵²



Source: Adapted by the author from the dataset provided by Japan External Trade Organisation (JETRO)

To address these issues, the main goal of the third medium term (which was about doubling the volume of Japanese ODA from 1985 in seven years) was reached two years sooner than was previously planned.⁵³ The main part of the capital recycling program consisted of the \$20 billion provision to development financing institutions such as the World Bank, Asian Development Bank and Inter-American Development Bank, while a year before that Japan already made a commitment to provide another \$10 billion towards the International Monetary Fund, International Development Association and others.⁵⁴ This new policy however didn't directly address the problem of low share of ODA, as only about 20% of this program was actual ODA and rest should have been provided by loans from various institutions like the Export-Import Bank of Japan. This notion of course

50 Ibid, p. 493

51 OKUMA, Hiroshi. *Japan in the World: The Capital Recycling Programme*, p. 73

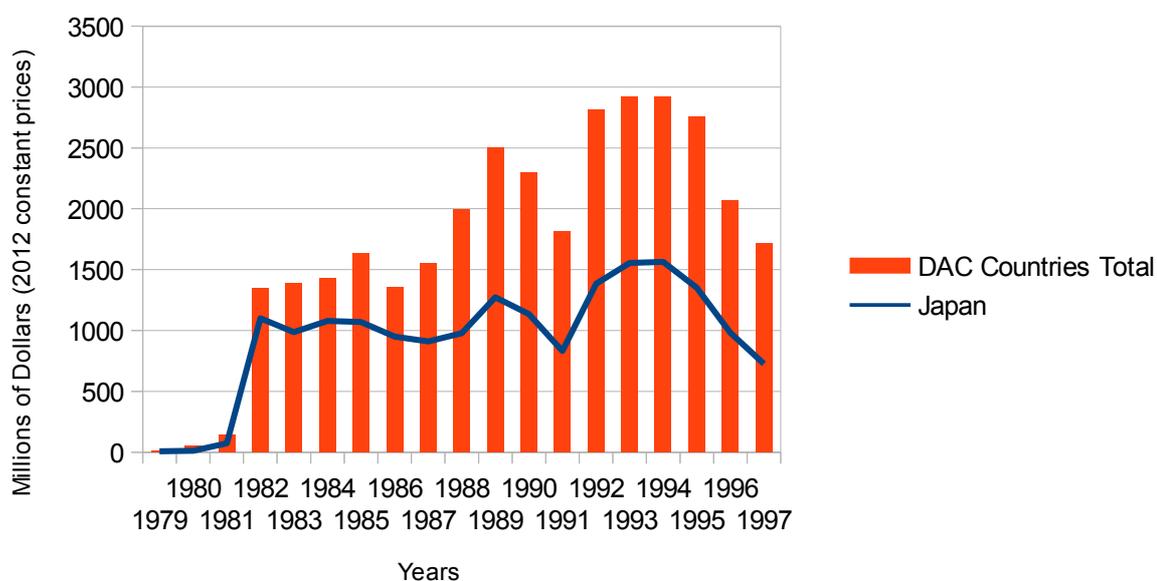
52 As based on reports and notifications, gross

53 Japan's Major Diplomatic Activities. MINISTRY OF FOREIGN AFFAIRS. *Diplomatic Bluebook 1987: Japan's Diplomatic Activities* [online]

54 OKUMA, Hiroshi. *Japan in the World: The Capital Recycling Programme*, p. 74

brought up the idea that this capital recycling scheme would only further increase the debt burden on developing countries rather than help to ease it, as loans and private flows were the main part of it.⁵⁵ Withstanding the criticism, Tokyo announced on the Arch Summit that it would further increase the budget for this program by another \$35 billion.⁵⁶

Figure 4 – Japan's Portion on the Whole ODA Provided by DAC to China



Source: Adapted by the author from the data provided by the QWIDS database of the OECD

The proponents of the scheme based on loans that facilitate the inflow of FDI usually turn to China as an example, where the loans reportedly turned into a success story and brought about economic growth to the recipient country. Starting from 1979, Japan began to provide ODA to the People's Republic of China (hereafter referred to only as China) and was the first non-socialist country to do so. The cooperation started with a loan of ¥50 billion and throughout the rest of the 1980s and 90s Japan provided China with the most capital of all DAC members.⁵⁷ As can be seen on Figure 4, Japan's portion of ODA given to China by the DAC countries was above 70% until the end of the 1980s and thereafter still remained the biggest donor providing about 50% of all ODA flows into China. Until the end of the second millennium, Tokyo implemented 152 projects in a value

55 Ibid. s. 79

56 MINISTRY OF FOREIGN AFFAIRS. *World Economic Situation and Japan's Responsibilities* [online]

57 SHINJI, Takagi. *From Recipient to Donor: Japan's Official Aid Flows, 1945 to 1990 and Beyond*, p. 18

of ¥2,668 billion, which were heavily centred on infrastructure, as more than 65% of funds were spent on transportation and energy infrastructure projects.⁵⁸

These industrial infrastructure projects financed by the Japanese ODA are what for example the author Takamine Tsukasa in his article *The Political Economy of Japanese Foreign Aid* identifies as one of the main causes of the accumulation of FDI, which he argues, eventually lead to an increase in trade. Takamine identified these three factors, the infrastructure projects, FDI investments and foreign trade, as the main driving forces that brought about the economic growth China is experiencing till today.⁵⁹ His arguments follow the theory of infrastructure being the link between factors of production, which lowers the burden on companies and therefore encourages them to invest the freed private capital somewhere else.⁶⁰ Hence if ODA loans are invested into building the necessary infrastructure in the recipient country, it should become a more interesting location for capital investment of companies abroad. Takamine also lays out that it is widely acknowledged that the Japanese ODA loans didn't necessarily provide a playing ground just for Japanese companies, as many other countries like Taiwan, Singapore, the US and Korea also had sharply risen their FDIs to China in a similar period of time.⁶¹ The DAC peer review of Japan in 1995 presented the case that in the long run many of these big infrastructure projects eventually began to have notable pay-offs and contributed to the recipient country's economic growth.⁶²

As stated above, critique of the Japanese ODA's mission wasn't uncommon, whether it was about the small share of grants, lack of a philosophy or the poor capacity for implementation,⁶³ as there were and still are many ministries involved in the ODA budget. Okuma Hiroshi in his article *Japan in the World: The Capital Recycling Programme* even states, that in 1987 the ODA budget was given to as much as 15 agencies and ministries. These critiques were also supported for example by the 1987 DAC aid review.⁶⁴ The main reason for this rise in critique was probably due to the fact that Japan became the largest donor in terms of volume at the end of the 1980s. The need to appease the international

58 TAKAMINE, Tsukasa. *The Political Economy of Japanese Foreign Aid: The Role of Yen Loans in China's Economic Growth and Openness*, p. 35

59 Ibid, pp. 37-39

60 Further read on this problematic can be found in the study *Infrastructure and Growth in Developing Countries: Recent Advances and Research Challenges* by Stéphane Straub.

61 TAKAMINE, Tsukasa. *Japan's Development Aid to China: The Long-Running Foreign Policy of Engagement*, p. 103

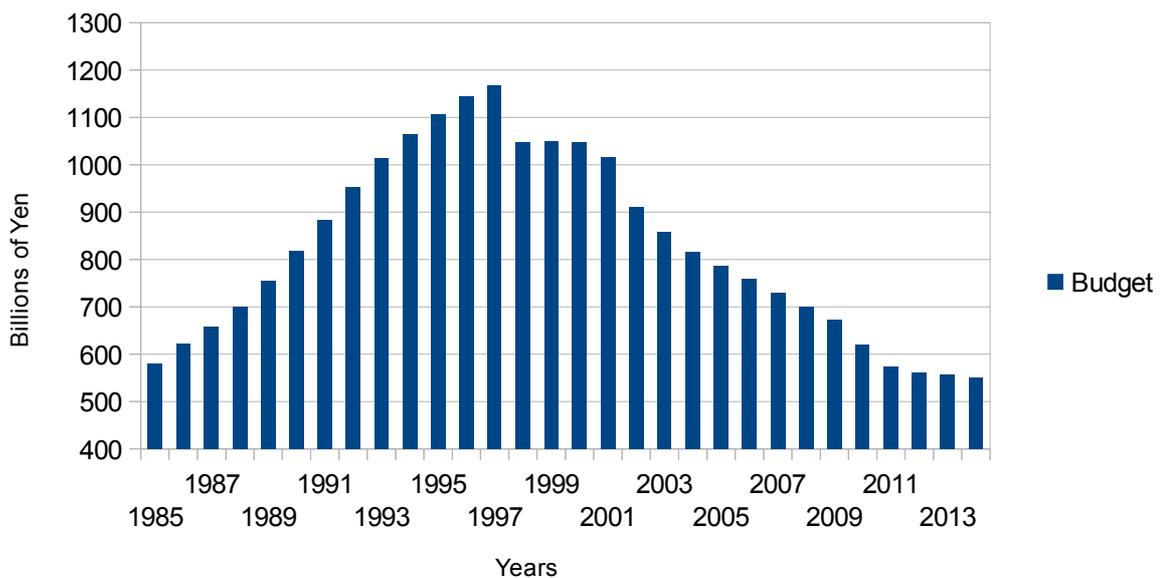
62 OECD. *Japan 1996*, p. 12

63 KORKIETPITAK, Warangkana. *Japan's Foreign Aid Policy on Human Security*, p. 180

64 OKUMA, Hiroshi. *Japan in the World: The Capital Recycling Programme*, p. 73

community and to react to the 1990s Gulf Crisis had brought upon the urgency to adopt an official ODA Charter, which was enacted in 1992.⁶⁵ Its four main points were centred on the promotion of democratization along with human rights and freedoms, the need to avoid using ODA for military purposes, the pursuit of a development without environmental consequences, and lastly, the monitoring of recipients countries behaviour, as to not support those that would want to engage in production of weapons of mass destruction.⁶⁶ The DAC peer review of 1995 acknowledged the charter and the medium term targets as instruments that will help “provide Japan's ODA programme with a clear philosophy and principles based on self-help efforts and good governance on the recipient side, to be matched on the Japanese side by a predictable flow of resources to be programmed over time.”⁶⁷ What should have been a predictable flow of resources however soon began to decrease in volume.

Figure 5 – General Account Budget Allocated for ODA



Source: Adapted by the author from the data provided by the Ministry of Foreign Affairs (MOFA)

The year 1997 didn't mark only the Asian financial crisis of under-capitalized companies, but it was also the year when the main Japanese ODA budget began its

65 FRATTOLILLO, Oliviero. *Beyond Japan's Foreign 'Aid Fatigue'. The Path from the Cold War 'Gaiatsu' to the New Millennium Agenda*, p. 24

66 KORKIETPITAK, Warangkana. *Japan's Foreign Aid Policy on Human Security*, p. 180

67 OECD. *Japan 1996*, p. 12

downward turn in terms of volume that continues with various fluctuations till today.⁶⁸ That Tokyo lost its incentive to further increase ODA, can be also illustrated on the fact that 1997 was also the first year since 1978, in which no medium term target was set to increase the volume of ODA. Ando Naoki in his article *Prospect of Development Assistance: Japan's Opinion Poll and Burden Sharing* explains that the general account budget, which is used to finance basic government expenditures, is in case of ODA ever so steadily declining since 1997.⁶⁹ As can be seen on Figure 5, these budget cuts are happening since the end of the medium term targets and the current budget is less than half of what it was back in 1996. Even though the general account budget isn't the only way how Japanese government plans its spending and there are other budgets⁷⁰ that also provided funds for the ODA programme, if we take a look at the net disbursement of ODA, its overall volume was also declining for several years, mainly in the period from 2000 till 2007.

2.2. Past Studies about Motivations using Regression Models

As this thesis aims to construct a regression analysis model which will investigate the Japanese motivations of giving ODA, we should first focus on former studies done in this field and in the later sections explain, how the model used in this paper is any different from its predecessors. As you can see in the overview table in the subsection *Reasons for Differences in the Findings*, there were at least four studies made prior to this thesis that have also decided to investigate the motivations of the Japanese ODA program using a regression analysis of its allocation.

2.2.1. Overview of the Studies

This type of research based on a regression analysis of the behaviour patterns of donor countries was done many times in the past in order to find the determinants that motivated countries to provide their financial assistance. The studies discovered that donors do have different factors that affect their decisions about allocating the volume of assistance.⁷¹ The first study we will review aimed to compare the differences in usage of ODA among several donors. The research paper is called *Clarifying the Foreign Aid Puzzle* and was done by authors Schraeder, Hook and Taylor in 1998. In their study not only

68 FRATTOLILLO, Oliviero. *Beyond Japan's Foreign 'Aid Fatigue'. The Path from the Cold War 'Gaiatsu' to the New Millennium Agenda*, p. 25

69 ANDO, Naoki. *Prospect of Development Assistance: Japan's Opinion Poll and Burden Sharing*, p. 1

70 METRAUX, Danial A. and Kellie Ann WARNER. *Japan: a country study* [online]

71 COORAY, N.S., Ricardo GOTTSCHALK and Md. SHAHIDUZZAMAN. *Will Japan increase aid and improve its allocation to help the poorer countries achieve the Millennium Development Goals*, p. 11

Japan, but also the US, France and Sweden were examined using the aid allocation to 36 African countries in the period from 1980 to 1989. Independent variables were created on the theories that ODA was based on humanitarian need, strategic importance, economic potential, cultural similarity, ideological stance and finally regional identification. In the case of Japan, results found that the notion of “*economic self-interest was a key determinant of Japanese foreign aid policies toward Africa*”⁷² with an emphasis on access to raw materials. As the authors stated in the quoted sentence, these findings of course can't be applied to the whole Japanese ODA program, as the sample only included a fraction of the ODA given from Japan to its recipients, because its focus was only on Africa.

Six years later another study about the determinants of Japanese ODA to African countries appeared that can also be eventually seen as investigating only a part of the whole ODA program, as the sample included 35 countries from the year 1979 till 1998.⁷³ This research paper was done by Tuman and Ayoub and tested the allocation for humanitarianism, human rights, Japan's national economic interests and the strategic and economic interests of the United States. The findings in this study support that the Japanese ODA was driven by humanitarian interests and trade, while also being influenced by US strategic interests.

In 2009, Tuman now accompanied by Strand and Emmert tried to model a much larger sample, which included data from 1979 to 2002 for 86 countries from Africa, Asia, Latin America and the Middle East. The study again investigated the determinants of Japanese ODA to be the influence of the United States, Japan's national interests and humanitarianism, with the conclusion being that the US economic interests and Japan's national interests had “*little effect in the worldwide distribution of Japanese ODA flows.*”⁷⁴ They found however a stronger evidence for humanitarianism motives and that “*the Japanese ODA concentrates in poor countries that lack oil and that do not trade with Japan.*”⁷⁵

The last presented research paper done by Cooray, Gottschalk and Shahiduzzaman examined in 2005 the possibilities of further increases in the volume of Japanese ODA. The sample included 96 recipient countries in the period from 1981 to 2001. Unlike the

72 SCHRAEDER, Peter J., Bruce Taylor HOOK and Bruce TAYLOR. *Clarifying the Foreign Aid Puzzle*, p. 311

73 TUMAN, John and Ayoub AYOUB. *The Determinants of Japanese Official Development Assistance in Africa*, p. 43

74 TUMAN, John P., Jonathan R. STRAND and Craig F. EMMERT. *The Disbursement Pattern of Japanese Foreign Aid: A Reappraisal*, p. 236

75 Ibid, p. 236

studies above, they decided not to group variables under exact theories and tested the allocation for being influenced by GDP per capita, population, Japanese exports and imports, distance from Tokyo and so on. Their conclusions include that Japan's ODA flows show a bias towards middle income and Asian countries, also securing commercial interests, while humanitarian issues were statistically insignificant.⁷⁶

2.2.2. Differences in the Findings

Table 2 on the next page of this chapter presents an overview of the studies mentioned in the subsection above. As can be seen in the Computed Determinants column, the proposed determinants differ greatly even when the models aren't using any distinctively different sample states and periods of interests. It should also be noted that these studies all heavily relied on similar data for their indicators that was provided by the databases of the World Bank and the OECD. What differs most on the first glance is the type of models used to compute the correlations between variables and which indicators were chosen to represent certain theories about the ODA allocation.

The problematic of the statistical models and variables will be discussed in the next chapter, what interests us now is how the researchers identified, allocated and later on interpreted the independent variables and what effect it can have on the eventual findings. For example let's take the GNP indicators, which appeared in the first two studies. The study done by Schraeder, Hook and Taylor identifies their GNP per capita indicators as a means to see, if a donor rather gives ODA to a country with better economic potential⁷⁷ (where of course we could discuss, why the model used GNP per capita, as per capita values should indicate the level of development of a country, rather than its whole economic potential). Whereas the paper done by Tuman and Ayoub associates GNP per capita already with an idealism connotation, as it identified the GNP per capita indicator in the idealism section. Both studies, given the similar sample base and period found a negative relation between the level of ODA and GNP per capita, which implied that Japan provides assistance to countries that are worse off than the rest of Africa. Schraeder and Co. however took a different turn on the interpretation of the results and state that this still shows a bias towards an economic self-interest point of view, as in their eyes “*the*

76 COORAY, N.S., Ricardo GOTTSCHALK and Md. SHAHIDUZZAMAN. *Will Japan increase aid and improve its allocation to help the poorer countries achieve the Millennium Development Goals*, p. 16

77 SCHRAEDER, Peter J., Bruce Taylor HOOK and Bruce TAYLOR. *Clarifying the Foreign Aid Puzzle*, p. 304

Table 2 – Summary of Studies about the Determinants of Japanese ODA Allocation

Authors, Number of Sample States and Period	Model used	Independent Variables (Divided into Identified Categories)	Control Variables	Lagged Independent Variables	Computed Determinants
Schraeder, Hook and Taylor 36 states (1980–1989)	pooled TSCS analysis, GLSE regression	Humanitarian need: caloric intake, life expectancy Strategic importance: military spending, military force, security alliance Economic potential: GNP per capita, trade Ideological stance, Cultural similarity and Region	lagged dependent variable	no	economic self-interest and trade
Tuman and Ayoub 35 states (1979–1998)	pooled TSCS analysis, OLS with PCSE regression	Idealism: real GNP per capita, human rights abuse, food production per capita National interest: trade per capita, oil exporting countries Influence from abroad: US military personnel, communist border, IMF structural adjustment program	lagged dependent variable	yes	humanitarian interest and trade, US strategic interests
Tuman, Strand and Emmert 86 states (1979–2002)	pooled TSCS analysis, OLS with PCSE regression	Humanitarianism: real GDP per capita, human rights abuse, population and region Economic interests: real trade/real GDP, oil exporting countries Influence from abroad: US military personnel, communist border, state sponsor of terrorism, IMF structural adjustment program	lagged Japanese real ODA/GDP and real budget/GDP, dummy variable for ODA charter and World War II recipients	yes	humanitarian interests
Cooray, Gottschalk and Shahiduzzaman 96 states (1981–2001)	pooled TSCS analysis, random and fixed effect regression	real GDP per capita, population, Japanese export and import, distance, political rights and civil liberties index, infant mortality rate	sum of import and export to GDP	yes	middle-income and Asian countries, commercial interests

Source: Created by the author from various articles

*countries that were the targets of Japanese aid were often resource rich, but those riches did not translate into broad-based economic affluence (that is, rising per capita GNPs)."*⁷⁸ They support this claim by the relative significance of the level of trade on ODA. Tuman and Ayoub didn't make the same connection and that's why the articles differ on the humanitarian issue in their findings.⁷⁹

While we can say that the right association of indicators to theories is very important to the studies, the above mentioned facts show that two teams can have a distinctive interpretation of nearly identical outcomes from their models and supports caution when handling assumptions based on regression models.

78 Ibid. p. 314

79 TUMAN, John and Ayoub AYOUB. *The Determinants of Japanese Official Development Assistance in Africa*, p. 50

3. Regression Model of the Changes in Motivations to Provide ODA

3.1. The Logic Behind the Statistical Equations

Before this paper dives into the problematic of identifying quantifiable variables of motivations explained in section 2 and data gathering for the regression analysis model, we first need to understand a few basic econometric and statistical practices. This section will not explore these issues very deeply, however it is imperative to understand the basics, so the paper can later on turn onto a more complicated field of regression analysis. This chapter will begin with the statistical formulas that have been used to sort out or improve the gathered data, as even to this day, there are considerable gaps in the datasets provided by the World Bank and other institutions.

3.1.1. Interpolation

Interpolation is a mathematical field of study which is used to get values in between known data points. In other words this means, that if you know the values of GDP from the years before 2002 and after 2005, you can derive what were the values for the missing years of 2003 and 2004. The interpolation I've been using for handling the dataset for the regression analysis is the most simple linear interpolation in a one dimension, which uses the two available parameters and joins them by a straight line curve.⁸⁰

Equation 1 – One Dimensional Linear Interpolation

$$y = \frac{y_1 - y_0}{x_1 - x_0}(x - x_0) + y_0$$

Source: Stata Manuals⁸¹

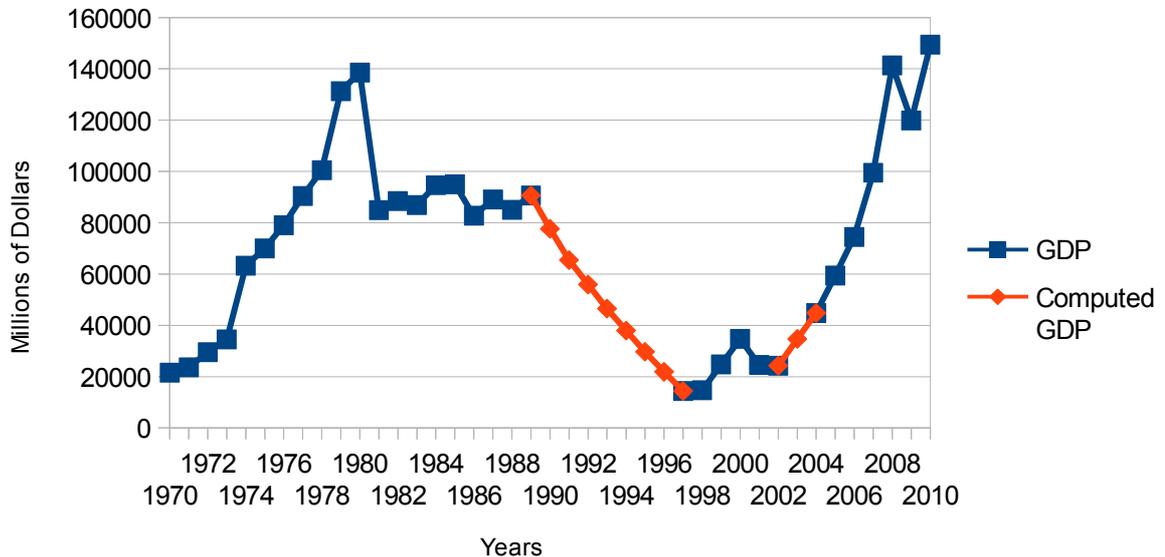
If we look at the mathematical equation, the values of the variables y and x are found by using the closest known points, which are denoted as (x₀, y₀, x₁, y₁). As an example we can look at the Figure 6 below this paragraph, which shows the practical application of the interpolation for the dataset used in this paper. The red points were computed in the software Matlab by using the interp1 command and the blue squares are the known data points provided in the database. The instances where the red points and blue square meet are the last known data reported in the World Bank database. Figure 6

80 CHAPMAN, Stephen J. *MATLAB Programming for Engineers*, p. 204

81 STATA CORP. *Ipolate — Linearly Interpolate (Extrapolate) Values* [online]

thus illustratively shows that this statistical exercise practically makes a straight line from one known point to another.

Figure 6 – Interpolated GDP of Iraq



Source: Computed by the author from the data provided by the World Bank

This of course has its issues, as in reality the data would most probably fall a lot faster than what the interpolation suggests, given that this particular absence of data was brought about by war. There is, however, no such equation to successfully simulate this kind of a scenario, as one would have to have access to various other data and similarly to GDP it usually also isn't reported in war zones. More such issues arise, when one would try to compute data for even longer periods of time, as the interpolation method won't account for any unexpected turbulences in the world market. The interpolation equation was used with caution in this study and only seven states had their GDP data interpolated, from which four states had data interpolated for a period longer than three years, Iraq being one of them.

3.1.2. K-means Clustering

The other mathematical equation this paper is using to sort out the data into a more manageable and simpler way is k-means clustering. Clustering itself is a method to reorganize data into clusters smaller in number than the actual data. The logic behind it is to ensure that the data points that have a similar pattern to each other are grouped into a

cluster while other data points that have different patterns are grouped into their specific clusters.⁸² This of course means that one has to sacrifice some detail of the dataset, however the clusters still should be representative of the original data.⁸³ This method is needed in order for me to make the 152 sample states into a much more flexible smaller group that will represent its data points.

The K-means algorithm is described as an equation that “*divides M points in N dimensions into K clusters so that the within-cluster sum of squares is minimized*”⁸⁴. In other words this means that it aims to find a centre point of a cluster called a centroid from which the distance from the data points to the cluster is the smallest.⁸⁵ This is done first by randomly choosing initial centroids, where every data point is grouped to its closest cluster. The cluster is then recomputed to be the mean value of its data and the distance to the data points is again calculated to see, if some data points didn't become closer to another centroid. This calculations are done until each and every data point is grouped and no further reassignments to other clusters are possible.⁸⁶ This brings up the issue that wrongly assessed number of clusters can heavily influence the eventual regression, as it will badly represent the information provided about the sample states. The k-means algorithm itself however doesn't have a theoretical solution for this problem and therefore the most “*simple approach is to compare the results of multiple runs with different k classes and choose the best one according to a given criterion.*”⁸⁷

For my regrouping of the data I've chosen various numbers of clusters and have tested the regression analysis and finally decided that I will proceed with a database containing of 40 clusters. This left some countries such as China, Saudi Arabia or Iran to be left alone without any other countries in their respective clusters. While for example Cambodia, Laos and Vietnam or Belarus, Kazakhstan, Turkmenistan and Uzbekistan were grouped together in a single cluster. The cluster with a highest number of countries was one which included relatively small island states or states in Central America. The exact distribution of states among clusters can be found in Appendix B. Similar to interpolation, the computations were handled by the software Matlab using its kmeans command.

82 ALSABTI, Khaled, Sanjay RANKA a Vineet SINGH. *An Efficient K-Means Clustering Algorithm*, p. 1

83 FABER, Vance. *Clustering and the Continuous k-Means Algorithm*, p. 1

84 HARTIGAN, J. A. and M. A. WONG. Algorithm AS 136: A K-Means Clustering Algorithm, p. 1

85 LESKOVEC, Jurij, Anand RAJARAMAN and Jeffrey D. ULLMAN. *Mining of Massive Datasets* [online], p. 241

86 WAGSTAFF, Kiri, Claire CARDIE, Seth ROGERS and Stefan SCHROEDL. *Constrained K-means Clustering with Background Knowledge*, pp. 1-2

87 SOMAN, K.P., Shyam DIWAKAR and V. AJAY. *Insight into Data Mining: Theory and Practice*, p. 303

3.1.3. Regression analysis

Simple Linear Regression

A linear regression analysis is a “*mathematical function that describes how the mean of the [researched] variable changes according to the value of [other] variables.*”⁸⁸

In the case of this paper, it is the effect of various indicators such as FDI, GDP or imports on the amount of ODA provided by Japan to a recipient country. To begin with, let us first look at the most simple linear regression, which handles just two quantitative variables.

Equation 2 – Simple Linear Regression

$$E(y) = \alpha + \beta \cdot x$$

*Source: Statistical Methods for the Social Sciences*⁸⁹

This model can be used to answer a simple question about the correlation between the shifts in the values of the dependent variable y and the independent variable x . As the name of the function suggests, the model assumes that the relationship between the two variables is linear, in other words in a figure the function follows a straight line.⁹⁰ Its direction is deduced by the so called regression coefficients α and β , where α shows the location in which the regression line intercepts the y horizontal axis and β its slope that equals the change in y for an increase of x by a unit.

This means that we try to use the pattern of changes in the value of x to explain the changes in mean value of y , in the model presented as $E(y)$. Use of the mean value rather than the plain y is reasoned by the fact that it is unrealistic in social sciences to expect that every value of x will exactly corresponds to a single value of y . This model allows for y to have a flexible value at every amount of x .⁹¹ To give an example, let's say the variable y is a salary and x is the level of education of a person. We would expect that with increases in education the value of salary increases by a certain amount, but in no way the increase will be constant for every person with the same qualification.

This relation can be further used in assessing if the changes in x have any meaningful impact on the value of y , which is measured by assessing its statistical significance using the conditional standard deviations that are calculated for each

88 AGRESTI, Alan and Barbara FINLAY. *Statistical Methods for the Social Sciences*, p. 266

89 Ibid, p. 266

90 Ibid, p. 283

91 Ibid, p. 265

distribution of data.⁹² Standard deviation itself measures the dispersion of values around a mean, which summarizes the typical sizes of the fluctuations of an y around the mean value of y .⁹³

Multiple Linear Regression

A multiple regression analysis differs from the model mentioned above by extending the number of independent variables and in this way it makes it possible to “*analyse relationships between variables while controlling for other variables.*”⁹⁴ Its basic model can be seen below this paragraph, where the main difference from its predecessors is the ability to use multiple independent variables x_n to calculate the changes in the value of y . The most simple use of this model is to “*treat all but one [independent] variable as control variables and fix them at particular levels.*”⁹⁵ This way one can avoid the situation of creating a model that contains multiple dimensions and still remains linear. It should be added that this method is better for exact sciences such as physics rather than social sciences, as there is no possibility in reality to hold certain variables such as GDP in a steady state to create such a condition, unlike for example temperature or pressure in physics research.

Equation 3 – Multiple Linear Regression

$$E(y) = \alpha + \beta_1 \cdot x_1 + \beta_2 \cdot x_2 + \dots + \beta_n \cdot x_n$$

*Source: Statistical Methods for the Social Sciences*⁹⁶

On this model we can further explore certain control equations that reoccur in more complex regression models. The first one is the coefficient of determination (denoted as R^2), which calculates the differences between the actual observations of y and its predicted values using the independent variables. In this way it “*measures the proportions of the total variations in y that is explained by the predictive power of all [independent] variables.*”⁹⁷ There are also two types of test of statistical significance as we are interested not only if the model is statistically significant, but also if each and every independent variable has a statistically significant impact on y . The tests for the whole model are

92 Ibid, p. 266

93 ROBERSON, Q. M., M. C. STURMAN and T. L. SIMONS. *Does the Measure of Dispersion Matter in Multilevel Research? A Comparison of the Relative Performance of Dispersion Indexes*, p. 571

94 AGRESTI, Alan and Barbara FINLAY. *Statistical Methods for the Social Sciences*, p. 321

95 Ibid, p. 322

96 Ibid, p. 325

97 Ibid, p. 332

handled by an F test, which null hypothesis⁹⁸ is that all independent variables have no influence on the mean value of y. Rejecting this hypothesis confirms that at least one independent variable is having an impact on the dependent variable, however this does not show which variable it is and how the rest of the variables handled themselves.⁹⁹ For this case a multiple linear regression model is usually accompanied with a t test that is analysed for every variable independently. It computes the partial effects of the independent variable, while still accounting for other variables in the model. Its null hypothesis is that the certain variable doesn't show influence on y and by rejecting it, it confirms that the variable has an effect on the mean of y.¹⁰⁰

Issues of Pooled Time Series Cross Section Regression Models

We will now skip a few steps that include the time series and cross section types of regression analysis, as the theory behind them isn't much different to the multiple linear regression. The final model presented in this paper deals with data that were grouped to a pooled panel dataset that combines the effects of time series and cross section data. The resulting regression analysis not only includes a time dimension, but can also make use of multiple spacial dimensions for each variable.¹⁰¹ A general pooled regression model can be written down as the following equation.

Equation 4 – Pooled Regression Model

$$y_{it} = \alpha + \sum_{k=2}^k \beta_k x_{kit} + e_{it}$$

Source: Recent Developments in Quantitative Comparative Methodology: The Case of Pooled Time Series Cross-Section Analysis¹⁰²

As we can see, there are several changes to the model from those that were reviewed before. The subscripts i and t refer to dimensions, where i represents the spacial units and t specifies the time periods. In this way the model can handle the several spacial and time dimensions a panel data can encompass. The subscript k on the other hand refers to certain independent variables.¹⁰³ What differs in this particular model is that it no longer expresses the mean value of y and rather tackles the same issue of fluctuations of y by

98 A statistical term that indicates that the researched phenomena doesn't have a relationship with each other.

99 Ibid, pp. 337-338

100Ibid, p. 340, 354

101PODESTÀ, Federico. *Recent Development in Quantitative Comparative Methodology: the Case of Pooled Time Series Cross-Section Analysis*, p. 6

102Ibid, p. 6

103Ibid, pp. 6-7

identifying a coefficient of variabilities for each y . The coefficient is written down as ε and is called the error term as it “*represents the error that results from using the mean value $(\alpha + \beta x)$ of y at a certain value of x to predict the individual observation.*”¹⁰⁴

The model handling pooled data usually comes with various issues that violate the assumptions of classical regression models explained above, as they are based upon the ordinary least square (OLS) technique, which is used in the regression model to minimize the differences between the actual data and its predicted value by the $(\alpha + \beta x)$ function. This includes for example the need to have the data scattered in a homoscedastic way, in other words the independent variables have the same error term, which in the case of panel datasets usually isn't the case.¹⁰⁵ Other complications include the so called serial correlation that tackles the issues of correlation in a independent variable in time and contemporaneous correlation that deals with the issue of correlation between two independent variables in the same time period.¹⁰⁶ To tackle these violations, changes to certain parts of the regression model had to be made so that the eventual outcomes aren't biased. The two most frequently used models by political scientists for panel datasets in the studies of macroeconomics were devised by Parks and Kmenta (FGLS model), and Beck and Katz (PCSE model).

FGLS versus PCSE

Looking at Table 2, there seems to be broader consensus that the PCSE model is better off than the earlier FGLS model, however to understand the reasoning behind PCSE, we also need to understand its predecessor, which as we will discuss still in certain cases should work better. The FGLS method differs from the OLS technique by using different assumptions about the error term that lets the dependent variables fluctuate. It is based on the generalized least square (GLS) equation that uses the covariance matrix¹⁰⁷ of the error term to compute the parameters of β , however in reality the covariance matrix is never known.¹⁰⁸ The FGLS therefore estimates the covariance matrix, where “*OLS is used in the first step to obtain [the error term] and an estimator of [the covariance matrix]*” and this is then used to compute the slope of the regression,¹⁰⁹ in which the OLS estimations are

104AGRESTI, Alan and Barbara FINLAY. *Statistical Methods for the Social Sciences*, p. 287

105PODESTÀ, Federico. *Recent Development in Quantitative Comparative Methodology: the Case of Pooled Time Series Cross-Section Analysis*, p. 9

106Ibid, pp. 10-11

107Often denoted as Σ , it is a matrix, which measures the dependency between the independent variables.

108BECK, Nathaniel and Jonathan N. KATZ. *What to Do (and Not to Do) with Time-Series Cross-Section Data*, p. 637

109MOON, Hyungsik Roger and Benoit PERRON. *Seemingly Unrelated Regressions*, p. 4

used to correct the serial and contemporaneous correlations.¹¹⁰ The overall FGLS estimator will increase its explanatory value, if the number of data in the panel increases, as the estimation of the covariance matrix will improve.

Beck and Katz main critique of the FGLS method was based upon the fact that “*the FGLS formula for standard errors (...) assumes that the error process is known, not estimated.*”¹¹¹ Thus the model doesn't account for a lack of exact estimations of the covariance matrix, which can arise if a dataset has too many parameters, such as often happens with panel data. They argue that this causes an underestimation of the variability of standard errors.¹¹² Their proposed model uses OLS parameters, but the OLS standard errors are replaced with panel-corrected standard errors (hence PCSE method), which are “*proposed [as] a sandwich type estimator of the covariance matrix of the estimated parameters*”¹¹³ The PCSE estimator can be used so that the OLS models handles two of three above stated violations of OLS assumptions, serial correlation has to be fixed by including the dependent variable a second time into the model with a lag.¹¹⁴ The biggest difference between these two models therefore lies in the fact that FGLS tries to account for the violations by recomputing the regression line, whereas the PCSE method leaves the standard OLS regression line and handles the violations strictly in the error term.

In the study that proposed the PCSE method, Beck and Katz also try to prove their point by running a series of test of their and FGLS estimator, where they show that the FGLS produces less accurate estimations of the parameters of the regression line, overestimate the error term (in a way that the null hypothesis is rejected more often) and is only more efficient than their PCSE model, when the contemporaneous correlation rise over the point of 0.50.¹¹⁵ These test and the difference between models was further analysed by Reed and Web in the article *The PCSE Estimator is Good, Just Not as Good as You Think*, where they expose that the PCSE estimator doesn't perform as well as it was supposed to. They showed that given certain conditions that arise relatively frequently when dealing with panel data, the PCSE estimator “*will tend to underestimate standard*

110PODESTÀ, Federico. *Recent Development in Quantitative Comparative Methodology: the Case of Pooled Time Series Cross-Section Analysis*, p. 15

111BECK, Nathaniel and Jonathan N. KATZ. *What to Do (and Not to Do) with Time-Series Cross-Section Data*, p. 634

112Ibid, p. 634

113BAILEY, Delia and Jonathan N. KATZ. *Implementing Panel-Corrected Standard Errors in R: The pcse Package*, p. 1

114PODESTÀ, Federico. *Recent Development in Quantitative Comparative Methodology: the Case of Pooled Time Series Cross-Section Analysis*, p. 17

115BECK, Nathaniel and Jonathan N. KATZ. *What to Do (and Not to Do) with Time-Series Cross-Section Data*, pp. 642-643

errors, and over-reject hypotheses, when used in [the] situations [where there is a severe serial correlation in the dataset].”¹¹⁶ The PCSE model can also fall considerably less efficient than FGLS in the presence of contemporaneous correlation, where it falls over 40% less efficient, when the correlation reaches from 0.25 to 0.5. Their conclusion therefore was that PCSE is still in various cases better than FGLS, however a researcher should mind that it falls short more than previously predicted in real life conditions.

3.2. Constructing the Dataset

Before this thesis gets to the part about which regression model is going to be used, it must first construct its data and methodology of identifying and dividing certain indicators to the theoretical assumptions about the Japanese ODA program's motivations. The theoretical background was already discussed in the sections 2.1 and 2.2. The literature seems to make it clear that there are evident increases to the volume of ODA after certain events, which the articles identified to be mainly the first oil crisis and the yen appreciation, and after these events it is said that the Japanese ODA program shifted its priorities, as to react to external pressure. To test this hypothesis, indicators will be grouped accordingly to these identified theories of economic self-interest, pressure from abroad (specially the US), diplomatic tool, investment support and the recent human security issues.

The following subsections will recollect the motivations already presented in the literature review in the previous chapters. They will describe which variables were chosen to operationalize the motivations, so that they can be empirically studied by the following statistical model.

3.2.1. Independent Variables

Economic Self-Interest

The post 2nd World War aid programme was dominated by repatriations. Arguably, these repatriations had the mission to promote Japanese economic self-interest by increasing the trade with foreign countries. As Japan is certainly not a resource rich country, to operationalize this notion of self-interest, the model will use the Japanese import from developing countries to see, if a bigger amount of imported products equalled a bigger share of ODA send to the recipient. The model will also include the export from

¹¹⁶REED, W. Robert and Rachel WEBB. *The PCSE Estimator is Good — Just Not As Good As You Think*, p.

Japan to developing countries, to account for the market promotion strategy also noted in the theory above. Tackling this motivation with trade as a whole, as was done in some of the articles presented in Table 2, would probably end up biasing the model, in the sight of the differences the study done by Cooray, Gottschalk and Shahiduzzaman presented. The data for this part of the model were obtained from the Statistical Bureau of Japan's MOFA.

Pressure from Abroad (the US)

According to the literature review, the American influence on Japan was the strongest a few decades after the 2nd World War, and was considerably falling ever since. To examine the effects gaiatsu might have had on the Japanese decision making regarding ODA, I first considered to create several dummy variables that would include the existences of military bases and or security pacts with the United States. However taking into account that the data was later on clustered into groups, having various dummy variables that would only gain a value of two figures, would widely influence the distribution of states into clusters. To avoid this situation, I have decided to use the volume of US ODA flows as an indicator for this theoretical notion. I support this by the final remarks in the study done by Schraeder, Hook and Taylor, in which their model *“confirmed widely held presumptions of U.S. foreign aid as being driven by strategic and ideological interests associated with the cold war”*.¹¹⁷ I deduce accordingly that using the US ODA should suffice to explore the US security questions without the need to identify military presence with other indicators. Given the case that the US ODA isn't influenced by the strategical and ideological interests, a positive influence could still indicate that the Japanese ODA program reacts to similar stimuli as does the US program and therefore reacts to pressure from abroad. The dataset for this part was gathered from the database OECD Stat Extracts, which was also used for the flow of the Japanese ODA.

A Tool of Diplomacy

The literature identified that the need to appease countries came after the first oil crisis. It is said that it was used to lesser the tensions between the recipient countries and Japan. The years when the supposed ODA diplomatic tool came into action had also been marked by a sharp increase in overall ODA flows from Japan. Using the logic of the literature review, Japan would pour more ODA to countries that had been exporting primary products to secure its supply of much needed resources. Similar to the studies

117SCHRAEDER, Peter J., Bruce Taylor HOOK and Bruce TAYLOR. *Clarifying the Foreign Aid Puzzle*, p. 310

before, I will use petroleum to operationalize this theoretical concept, but unlike them, I will refrain from just identifying countries as oil exporters or members of OPEC and will rather make a dataset of the production of petroleum. As a data source I will be using the databases provided by the Centre for Sustainable Mineral Development in their World Mineral Statistics archives.

Investment Support

The increased FDI flow came as a reaction to the appreciation of yen and the eventual relocation of the manufacturing and other facilities abroad. With this came the notion of ODA supporting Japanese companies by preparing the recipient countries and their markets for the FDI flows. There is no wonder that I will be using the FDI indicator for this theory. As it is said that ODA was used to prepare the recipients for Japanese firms, corresponding increases in FDI should be accountable in the data. I have used the JETRO database to get access to the needed data for this part of the model.

Human Security

According to theory, the importance of the human security notion should be steadily increasing in the last couple of decades, as Japan often argued that protection of lives should help stabilize countries. Similarly to the older studies, I will use GDP to operationalize this motivation, as allocation to recipient with less economical potential should indicate an interest in dealing with the human security issues. Otherwise the GDP would support the theories of Japanese ODA program being more interested in economic relationships. However, I do have to note that this would surely be easily disputable as a purely economic indicator, as the security issues can't be based solely on the economic power of a state, when the population isn't accounted for. To counter this, the model will also have other indicators solely aimed at the human security theory. The first one will be a binary dummy variable for the presence of armed conflicts (internal and external), where the country will be coded as 1 if it had at least 1000 battle related deaths on its soil in the researched period of time, the rest will be coded with a 0. The second indicator will explore the level of freedom and democracy of the recipients. The data will be gathered from the Freedom House organization and its database of political rights and civil liberties, which each is valued from 1 to 7. For this model I will do a simple sum of both parts, where countries denoted with a value of 2 are the most free countries in the world and those that have 14 repress their population the most. If human security concerns truly

matter, the effect of human security on ODA will be positive. The dummy for the presence of conflicts was adapted from the UCDP/PRIO Armed Conflict Dataset and GDP comes from the World Bank.

3.2.2. Control Variables

As the example of studies presented in the Table 2 shows, it is good practice to control for other influences that can have an impact on the distribution of ODA, such as the well-being of the donor's economy. Using this practice one can improve the coefficient of determination and in this way increase how much of the actual data is explained by the independent variables of the model. There are, however, three reasons I won't be using any control variable in my model.

The first reason is that two of the three proposed models below already had an R^2 over 0.50, which means that the model explains for 50% of the variability in ODA. The second reason is that when I had included the GDP of Japan into the model, it had no statistical significance and therefore made the model more biased. Nonetheless this fact is interesting considering the views that the overall volume of Japanese ODA was impacted by the economic stagnation, which in the case of the volume send to each recipient wasn't statistically significant.

The last issue is about the inclusion of a lagged dependent variable into the model, such as was done by the studies presented a few sections above. The use of this method was explored in various articles that dealt with the question of how significant the impact of this lagged variable is on a model. It is suggested that either for FGLS or PCSE models researchers should be vary of using a lagged dependent variable with serial correlation corrected data, if the suspicion arises that the model includes an even slightly dynamic process. According to the article by Keele and Kelly “*the probability that a process is at least weakly dynamic is too great to ever use these models [with a lagged dependent variable] given the amount of bias found in the analysis.*”¹¹⁸

3.2.3. Recollection of the Specified Researched Period and Data Mining Methods

The data covered the period from 1971 till 2009. Such a broad sample period naturally had several issues of not being complete, as this complication was always stated

¹¹⁸KEELE, Luke and Nathan J. KELLY. *Dynamic Models for Dynamic Theories: The Ins and Outs of Lagged Dependent Variables*, pp. 20-21

also in the studies mentioned in the Table 2. The authors handled the situation mostly by excluding the states with incomplete data, however it should be noted that this approach has a discernible influence on the outcome of the models. For example authors Tuman, Strand and Emmert in a earlier version of their paper presented in Table 2 discuss that they didn't find a positive correlation between oil exporting countries and the amount of Japanese ODA, after which they quickly add that they left out Saudi Arabia, Iraq and United Arab Emirates from the dataset that eventually could have had an impact on the regression coefficients.¹¹⁹ As to not end up with the same conclusions, I have decided to try to leave as many states as possible in the dataset.

As was already explained above, to not lose various states, I used a simple linear interpolation to recount some of the blank spot in data of GDP. The exact places where I used interpolation will be presented with a blue highlight in the tables presented on the DVD with this work. Recounting was however not possible for the datasets of Japanese imports, exports and FDI, as the amount of data encompassed only a bit more than half of the states. Looking again back at the former studies, one can see that for example Cooray, Gottschalk and Shahiduzzaman decided to handle the situation of missing values in certain indicators by replacing *“the missing observation with the sample mean of observations.”*¹²⁰ Looking closely at the provided data for FDI, imports and exports, this method would bias the datasets. Even though for example the import database had only data available for a portion of the countries, one has to take into account that Japan doesn't trade with every country in the world. Considering the overall value of reported imports for each state was about 99.4% of all imports in the year 2004, I have decided to leave the unreported countries with a 0 still in the dataset. With the scaling that was performed before the clustering, various countries would have such a low value that it would practically still be 0 anyway. I don't expect to found much difference in the export dataset, as it was done by the same organisation. The FDI data seem even more thorough, as they report 99.9 % of all outward FDI flows for the year 2004. Also the Freedom House database wasn't complete as it was constructed from the year 1972. Generally speaking, as the values didn't change drastically in a short period of time, I decided to fill the two blank years 1970 and 1971 with the copied values of 1972.

119TUMAN, John P., Jonathan R. STRAND and Craig F. EMMERT. *Reconsidering Gaiatsu*, pp. 9-10

120COORAY, N.S., Ricardo GOTTSCHALK and Md. SHAHIDUZZAMAN. *Will Japan increase aid and improve its allocation to help the poorer countries achieve the Millennium Development Goals*, p. 13

The studied sample of states had to still be reduced by moving out several small island countries, as most of the economic datasets were hardly ever mentioning them and the amount of ODA Japan provided these countries was also considerably small. Several issues also arose with the countries that had undergone separations. For example, the former Yugoslavia was also left out from the model, as various databases omitted this country and already presented data only for its successors. Having reported no GDP at all, I was also forced to remove Taiwan, Northern Marianas and Myanmar, from which all countries had a substantial financial flow from Japan in the form of ODA, FDI, import and export. All things considered, the sample covered over 152 countries, which shows that the Japanese ODA programme operated nearly all over the world.

All the data was transformed into a constant 2012 dollar value to remove the effect inflation could have had on the regression. This was done by a simple equation of dividing the consumer price index of the constant year (here 2012) with the nominal year (the computed year) and multiplying it by the value presented in each of the datasets for the nominal year.¹²¹ The data for the CPI was provided by the United States Department of Labor's Bureau of Labor Statistics. The only datasets I had to calculate from yen to dollars was that of exports and imports, where I used the exchange rates provided by the Board of Governors of the Federal Reserve System. The data for the regression model was further normalized by scaling all figures to encompass only the values from 0 to 1. As you can see on the equation below, the normalized value of a single variable is denoted here as nx . We calculate it by subtracting the actual value (x) of the variable from the minimal value of all the variables ($\min(X)$) in the dataset and divide it by the subtract of the maximal value of all variables ($\max(X)$) from the minimal value of all variables ($\min(X)$).

Equation 5 – Normalization to Values between 0 and 1

$$nx = \frac{x - \min(X)}{\max(X) - \min(X)}$$

Source: Documentation for the NORM module for Stata¹²²

3.3. The Regression Model

The above mentioned studies have in common that they always tried to find the main motivation over a permanent set of years, as to find an answer if the Japanese ODA

¹²¹BAILEY, Eldon R. *Intermediate Accounting II Essentials*, p. 207

¹²²ANSARI, Muhammad Rashid and Chiara MUSSIDA. *NORM: Stata module to normalize variables*

was always more centred for example on economic self-interest or humanitarian motives. The model constructed for this thesis will bring something new to the current literature by it being done for a set of three periods 1971-1983, 1984-1996 and 1997-2009. Every dataset has 520 observations for 9 variables representing 40 clusters. Using the model this way, it can explore the differences between the motivations in time, using the comparison of the same variables in the three different time periods. This method will provide empirical data that can be used to answer the question, if there were any shifts in motivations of providing ODA. By exploring this research point, the paper aims to provide deeper understanding about how and if Japan reacted to external or internal pressures and if the shifts in the motivations of ODA program were anywhere near considerable.

In the following chapters we will first explore the methods of identifying the characteristics of the datasets. Using this knowledge, we can later make assumptions regarding the regression models. The sections after that will be about the regression analysis model and what implications it has on the identified theories, the assumptions will be based on the results provided by the regression and the literature review.

3.3.1. Stata Input and Output

Testing the Datasets

For the calculations henceforth, I was using the statistical software called Stata. To handle the data, Stata first had to be made aware that the data are arranged as a panel dataset. This was done by the function `xtset`, where one identified the reoccurring clusters and the time period. Later on I had proceeded to test the now loaded dataset for various violations that were discussed in the chapter Issues of Pooled Time Series Cross Section Regression Models. The first test I had used was the command `xtcsd` and its `pesaran` option, which explores if in the dataset there is an evidence of contemporaneous correlation by “*implementing two semi-parametric tests proposed by Friedman and Frees (...) in panel data models with small T and large N.*”¹²³ Its null hypotheses is that there is no correlation. The test statistic for each of the three datasets had a value smaller than 0.05 and therefore we could reject the null hypothesis of no contemporaneous correlation.

The data had also been checked for heteroskedasticity. This was done by using the command `xttest3`, which tests its hypotheses by using a regression model that assumes the

¹²³HOYOS, Rafael De and Vasilis SARAFIDIS. *XTCSD: Stata module to test for cross-sectional dependence in panel data models*

data has homoskedastic errors, its null hypothesis is therefore that the data are of homoskedastic nature.¹²⁴ For all datasets the p-value was 0.0000, which strongly rejected the hypotheses of homoskedasticity in the errors. This further supported the use of either the FGLS or PCSE models.

The last of the three violations was serial correlation, which can be explored by using the command `xtserial` that implements a robust test for serial correlation that is based on the equation derived by Wooldridge.¹²⁵ The null hypothesis this time is that there is no serial correlation in the sample data. Serial correlation was discovered in the first two datasets, where the first had a test statistic of 0.000 and the second 0.012, the dataset for the year 1996 till 2008 had a p-value of 0.522 and therefore failed to reject the null hypotheses. To maintain the models comparable, the decision had to be made whether to leave all three datasets controlled for serial correlation or not. The main problem with this finding was that in test runs, when it had been controlled for serial correlation, the third model became unusable, as it didn't have this correlation and controlling for it considerably biased the output. Considering the fact that the serial correlation is the correlation of each and every independent variable in time, it tends to be a bigger issue with datasets containing data for longer periods.¹²⁶ Having the time period of 13 years and the issue with the third model at hand, I had decided not to control for the serial correlation in the models.

Using these three test we can conclude that the dataset presented in this paper had all the characteristics of a panel dataset used in political studies and therefore we have to assume that a standard OLS model would be insufficient to explore the dependencies between variables and thus the above stated models of FGLS and PCSE come into consideration. Considering the evidence provided by Reed and Web, the PCSE equation should works better for the model presented in this paper. The main reason for not using the FGLS method is the issue of it being more biased, when the time dimension is smaller then the cross-sectional dimension,¹²⁷ which is the case for the models used in this thesis. The results will be presented in a table in the next section, where I'll use the value of the slope and the test of statistical significance, the z-value.¹²⁸

124BAUM, Christopher. *XTTEST3: Stata module to compute Modified Wald statistic for groupwise heteroskedasticity*.

125DRUKKER, David M. *Testing for serial correlation in linear panel-data models*, p. 168

126ASGHARI, Maryam. *Does FDI Promote MENA Region's Environment Quality? Pollution Halo or Pollution Haven Hypothesis*, p. 96

127REED, W. Robert and Rachel WEBB. *The PCSE Estimator is Good — Just Not As Good As You Think*, p. 1

128Similar in function to t-tests in the multiple linear regression, the higher the number, the more significant the variable is. Calculated from statistical errors.

The Regression Analysis

In this chapter, I will compare the gathered results and explore the possibilities of certain indicators gaining or losing significance with time, while still bearing in mind the basic statistical deductions made from a regression analysis. The regression models were imputed into Stata with the commands `xtpcse`. Similarly as the previous studies, I had lagged the independent variables by a year, so that the model takes into account the fact that the “aid decisions are made just prior to or at the commencement of a year.”¹²⁹ The only two variables that weren't lagged by a year were FDI and the conflict dummy. FDI wasn't lagged because according to theory it comes after the ODA flow, so lagging it could potentially bias its coefficient. Conflict dummy can't be lagged as it remains constant for the whole period.

Table 3 – The Regression Analysis

variables	1971-1983 model		1984-1996 model		1997-2009 model	
	coefficient	z-value	coefficient	z-value	coefficient	z-value
gdp	-0.008	-0.070	0.469*	Λ 4.700	Λ -0.087	∨ -0.970
fdi	0.258*	3.950	0.199**	∨ 1.970	∨ 0.258***	Λ 1.900
usoda	0.537*	5.680	0.080	∨ 1.540	∨ 0.299**	Λ 2.430
imp	0.217*	2.950	0.773*	Λ 4.430	Λ 0.250*	∨ 2.990
exp	0.141***	1.860	-0.265**	Λ -2.530	Λ -0.206*	∨ -3.670
oil	-0.052*	-2.920	-0.120*	Λ -3.380	Λ -0.035*	∨ -3.120
demo	0.004*	2.990	0.013*	Λ 8.360	Λ 0.009**	∨ 1.970
conflict	0.002	1.480	0.002	- 1.160	∨ 0.001	∨ 0.860
constant	0.130*	7.210	0.166*	Λ 5.780	∨ 0.148*	∨ 3.930
R ² coefficient	0.543		0.610		0.302	

Figures are rounded.

* indicates significance at 1% level

** indicate significance at 5% level

*** indicate significance at 10% level

Variables with unmarked coefficients are insignificant and don't have an influence on the dependent variable, which is the Japanese ODA flow.

Source: Created by the author from the data computed by Stata

The abbreviations in the table above are *jpnodea* (Japanese ODA flow), *gdp* (GDP of the recipient), *fdi* (FDI from Japan to the recipient), *usoda* (ODA flow from the United States), *imp* (Japanese imports from the recipients), *exp* (Japanese exports to the

¹²⁹COORAY, N.S., Ricardo GOTTSCHALK and Md. SHAHIDUZZAMAN. *Will Japan increase aid and improve its allocation to help the poorer countries achieve the Millennium Development Goals*, p. 12

recipients), oil (petroleum production), demo (Freedom House index), conflict (conflict dummy), coefficient (regression coefficient) and the z-value (statistical significance). Right next to the coefficient and the z-value you can see an indicator that shows whether the significance increased or decreased from the previous period. As such, the first period will have these frames blank. The level of significance can for example increase from a positive 1.860 to a negative -2.530, as we are interested in how far from 0 the value is, put differently, how much of an impact the variable had on the Japanese ODA flow.

Interpretation of the Results

In this chapter, I will interpret the results provided by Table 3, while checking the result with the literature overview part and the identified theoretical notions. I will present the variables in the same order as they were reported in the table and in the next subsection, I will state some concluding remarks that will tackle the research questions of this thesis.

Looking at the statistical significance of GDP, the models suggests that its effect was felt only in the period 1984-1996. As the studies before used mainly GDP per capita, I can't really use them for comparison in this case. The table shows that at least in the second model there was a measurable increase in ODA, when one had significantly higher overall GDP. What could have made such a large impact on data can be answered by looking at the previous chapters. From the year 1983 Japan stepped up its ODA flow to China and this eventually transformed into what we can now see in the model, as the rest of the recipients had nowhere near reached the level of China's GDP. Generally speaking, the GDP indicator doesn't support the assumptions based on humanism and rather would weakly support an economic centric view.

Unlike GDP, FDI remained statistically significant throughout all models. However it was losing it's impact on ODA with time, while still having a positive influence on the allocation, where if a state was a receiver of FDI, the ODA flow from Japan was more generous. These finding nevertheless don't indicate what was suggested in the literature, that it should have a higher impact after the yen appreciation, but it still does support to a degree the existence of a investment enabler scheme.

The distribution of the ODA flow from the US seemed to have a higher effect in the 70s model, becoming insignificant in the second model and again stepping up its importance in the late 90s. This actually does very well fit the literature about gaiatsu,

where it was argued that Japan tried to become more independent in the in the 80s and more so after the Cold War. The growing significance in the last decade can be argued to have been caused by a massive increase in ODA from Japan to countries such as Afghanistan and Iraq. According to the data used in this study, Iraq was Japan's most favourite recipient in the year 2008 as it got over a billion dollars more than the second placed country on the list, which was Vietnam. Even if one would argue that this indicator doesn't just show US concerns but also the allocation to certain donor darlings, the 2nd model does disprove this assumption as it lost its significance for a short period. The results prove that Japan does indeed react to certain stimuli from the US, as a country could expect more ODA from Japan, when it already was given assistance from the US.

My hypothesis based on previous studies to not include import and export into the model as overall trade, considering that both will have different significance, seemed to be the right choice, as export from Japan had less impact on the ODA then the import from recipients. The models even suggests that as the importance of export rose with time, it didn't mean for the recipients that they would get more ODA for Japanese exports, as the relationship between export and ODA flow is reported to be negative. Import on the other hand was one of the most significant indicators in all models and mainly in the year 1984-1996. This does support the theory of the ODA allocation based on economic self-interest views. However the negative export doesn't support the market promotion part that was also present in the literature. Putting both of these indicators into a unified perspective, a quick look at the data suggests that Japanese exports were aimed mainly to China, Korea, Hong Kong, Thailand and so on, in other words relatively developed countries, to which Japanese ODA was gradually declining with time. It can thus be argued that what influences the import indicator are mainly imports composed of primary products exporters such as Sudan, Nigeria and Democratic Republic of Congo, to which ODA remained constant.

The above stated facts would indicate that ensuring an import chain would be of much importance to Japan and its ODA was therefore used to gain leverage upon other states competing for resources. The indicator for petroleum production however shows negative value towards ODA, while remaining on a nearly constant level of significance for all periods. This implies that the argument of protecting the petroleum resources never was an issue for the Japanese ODA program and undermines its supposed use as a tool of

diplomacy, because it means that a state got less finances out of the Japanese ODA program the more petroleum it produced.

The level of democracy and the presence of conflict are the last two indicators in this model. As can be seen in the table, the democracy indicator showed a weak decrease in significance in the last model, while having slightly positive influence on the amount of ODA. This means that more finances were provided to states that had less civil liberties and political freedom, however the practical influence is among the smallest from all indicators, which implies that with higher democracy variable (showing worse liberties and freedoms) only a tiny fraction of ODA increased. The conflict dummy never managed to pass the 10% significance level and hence it can be said that Japanese ODA didn't show any favouritism towards areas with the presence of conflicts. Both these indicators and the GDP variable don't correspond to the views of human security based Japanese ODA program and show that Japan was more or less uninterested in these issues when considering the ODA flows.

3.3.2. Remarks about the Model

In the beginning of this paper, I had hypothesised that the effect of certain indicators on ODA changed with time suggesting that the Japanese ODA program didn't have constant priorities. The above presented models confirm this theory, as it does suggest that the Japanese government changed its views on the usefulness of ODA as a tool of international politics and economics. All in all, it can be deduced from the analysis of this model that the Japanese ODA program did show an inclination towards the economic centric views of its use and that it did react to international pressure mainly coming from the US. However the decline of the significance of the FDI, GDP and import indicators show that these views are possibly being overhauled. One could argue that the loss of importance of this economic part of ODA decision-making could have been another factor for the decline of the volume of ODA, as the economic aspect was often cited in the literature review section as one of the main motors behind the increases in ODA. This isn't only supported by the changes in the allocation, but also about the steadily decline of the volume of ODA provided to recipients in the 2000s, which timing corresponds with the loss of significance of the indicators representing the economic view of the ODA.

In theory it was argued that the priorities should shift in the favour of the human security method, however the results of the analysis presented in this paper didn't find any

evidence for this actually being the case. The reduced value of the coefficient of determination in the last model indicates that other variables not included into the model had gained more influence on the level of ODA provided to recipients. These indicators could include various humanitarian notions, such as the presence of NGOs in field, as they redirect a small, but nonetheless important portion of the Japanese ODA flows. One could also check upon the influence of regions, as it was calculated in the studies before that distance from Japan does matter.¹³⁰

Creating a more complex model would come however with the issue that if certain indicators weren't important in the past, they would negatively influence these models and a comparison would be much less possible. For these reasons I have tried to include variables identified in theories that should have a longer lasting effect on ODA. However I can reason that as of late the Japanese ODA program is being influenced by different indicators than in the past. In the next chapter I will proceed on identifying these possible new trends by going through various official documents and statements of Japanese politicians.

¹³⁰COORAY, N.S., Ricardo GOTTSCHALK and Md. SHAHIDUZZAMAN. *Will Japan increase aid and improve its allocation to help the poorer countries achieve the Millennium Development Goals*, p. 15

4. Rhetoric and Reforms after the Budget Cuts

The Japanese ODA program has already been discussed to be different than the programs of other members of the DAC, where one of the points in the beginning of this thesis entertained the notion of Japan being a net recipient for a longer period of time than most other current donors and thus creating a fixation on loans rather than grants. Another difference could be found in the extraordinary fragmentation of the administration background, which needs to be understood before we proceed in this section. The ODA policy unlike in other countries wasn't for a longer period of time handled by a central ministry such as the Secretary of State in the United States.

As it was already written in the literature review section, as many as 15 agencies had been given a portion of the ODA budget in the year 1987. It is said that in those days “*the Japanese aid administration was fragmented and involved intense competition and bargaining among various policy-making units.*”¹³¹ The MOFA was in charge of directing the grant aid that was implemented by JICA, which also had directed the technical assistance type of ODA. The situation was much more complicated for loan aid part, because it was under the influence of many ministries such as the MOFA, MITI and Ministry of Finance (MOF) in an organization called the Economic Planning Agency.¹³² It is no wonder that in such a fragmented administration every ministry and agency sought to pursue their own goals with ODA. For example the main aim of MOFA is said to be the increased influence of Japan on the international stage and was prone to the pressure from abroad to for example untie the ODA flows from Japanese companies.¹³³ MITI on the other hand represented the interests of various companies and is said to have “*understood foreign aid as a part of broad economic interactions (trade and FDI) intended to support Japanese industry abroad.*”¹³⁴ The main aim of the MOF, on the other hand, was the ODA budget, as with the prolonged economic crisis MOF was very conservative in regards of spending.¹³⁵ The division between the views of these organizations made Japanese ODA highly decentralized and it can be argued that the Japanese ODA from before the reforms didn't have any unified perspective.

131HIRATA, Keiko. *New Challenges to Japan's Aid: An Analysis of Aid Policy-Making*, p. 311

132POTTER, David M. *Japan's Official Development Assistance*, p. 20

133HIRATA, Keiko. *New Challenges to Japan's Aid: An Analysis of Aid Policy-Making*, pp. 314-317

134POTTER, David M. *Japan's Official Development Assistance*, p. 21

135HIRATA, Keiko. *New Challenges to Japan's Aid: An Analysis of Aid Policy-Making*, p. 320

Changes to the system came gradually. In 2001 MOFA was granted a more influential role in coordinating the ODA policy, two years later, JICA was moved from MOFA to become an independent entity and the loan aid was unified with other financial flows in the institution called Japan Bank for International Cooperation (JBIC).¹³⁶ JICA and the Japanese ODA program further transformed in the year 2008, where the whole portion of grant and loan assistance was transferred from the JBIC and also from the MOFA schemes to JICA (however MOFA still relocates a certain amount of the ODA budget).¹³⁷ As Ogata Sadako, the past president of the JICA organization stated in the 2009 ODA report, this was done to “*synthesize the implementation of Japan’s ODA policies.*”¹³⁸

As the two main actors that influence the aim of the current ODA budget emerged to be the MOFA and JICA, the further subsections will explore the current trends their officials expect ODA to take and thus find other possible motivations that influence the current Japanese ODA flows. This will be researched by using official documents provided by each organisation. In the case of MOFA, it has a history of ODA report papers, where the ministers present their views each and every year. The JICA publishes an annual report as well and its predecessor in handling loan aid, the JBIC, also put out similar publications. In all these official documents, the heads of agencies stated their visions about the ODA program's mission and issues it should address and this can be used to explore, if there was an evolution of thinking about the policy concerning the ODA program.

4.1. Rhetoric of the Political and Administrative Representatives

4.1.1. Ministry of Foreign Affairs (The Overall Policy-Making)

The annual publications of the Ministry of Foreign Affairs were completely translated from the year 1999 and only summaries are available for a few years earlier. This is similar also to the publications posted in Japanese and therefore this review will begin two years later than the period of the last regression model. The following table will present the opinions of former ministers of foreign affairs, as they were presented in the ODA reports available on the MOFA's website.

136POTTER, David M. *Japan’s Official Development Assistance*, p. 22

137JICA. *Japan International Cooperation Agency Annual Report: 2012* [online], p. 18

138OGATA, Sadako. Preface. JICA. *Japan International Cooperation Agency Annual Report: 2009* [online]

Table 4 – Main Aims of the Japanese ODA Program as Identified by the Ministers in Forewords to MOFA's White Papers

Year	Minister (Party)	Political Spectrum	ODA program's aim and policy changes
1999	Kono Yohei (LDP)	Right-wing	increasing the credibility of Japan abroad, human security issues, economic revitalization of Asia, increase the awareness of Japanese citizens, cooperation with local government agencies and NGOs, assistance to indebted countries
2001-2003	Kawaguchi Yoriko (LDP)	Right-wing	emphasis on MDGs and human security to overcome poverty that can lead to terrorism, the reconstruction of Iraq, gaining of public understanding of ODA (domestic criticism issues), cooperation of Japanese ministries and agencies, reform to make ODA more transparent, efficient, flexible with greater strategic aspect and with public participation, promote Japan's friendship with other countries especially the developing world
2004-2005	Machimura Nobutaka (LDP)	Right-wing	ensure Japan's security and prosperity by contributing to the stability of the international community, persistent bad public opinion, the need to achieve MDGs, expansion of the ODA volume, doubling to Africa and enhancing of its quality, efficiency, transparency etc.
2006	Aso Taro (LDP)	Right-wing	increasing the development and stability of partners increases the stability and prosperity of Japan, improve trade and investment environments, promote economic partnerships and secure resources, the need to achieve MDGs, reconstruction of Iraq and Afghanistan, making ODA more effective and efficient
2007	Koumura Masahiko (LDP)	Right-wing	realization of Japan's national interests, increase trust in Japan and Japanese people, climate change issues and assistance to Africa, pursue growth and development
2008	Nakasone Hirofumi (LDP)	Right-wing	peace and development of international community that leads to security and prosperity of Japan, climate change and African development issues, reaction to the economic crisis by expanding recipient countries domestic demand, emphasis on NGOs
2009	Okada Katsuya (DPJ)	Centre	promote international cooperation to achieve peace and affluence, so that the people of Japan can also fully appreciate it, making use of the knowledge of an earthquake-prone country, more efforts into the achievement of MDGs, human security concerns, address climate change issues, attract sympathy of the general public, enhance both quality and volume while including NGOs, the private sectors and international organizations
2010	Matsumoto Takeaki (DPJ)	Centre	despite the Tohoku earthquake, the importance of ODA does not change, priorities of reducing poverty, achieving MDGs, policies on health and education, sustainable growth, climate changes and human security issues, utilization of ODA to advance Japan's economic diplomacy for securing supplies of resources and high quality infrastructure, contributing both to Japan and the recipients, more importance to work closely with NGOs
2011	Gemba Koichiro (DPJ)	Centre	interdependence between Japan and the world, efforts to reduce poverty, enable sustainable growth and address environmental issues, ODA can serve both national and international interests, human security concerns and the initiative to achieve MDGs, working together with local municipalities, NGOs and small and medium-sized companies, increase the ODA budget that decreased to half of it size in 14 years, ODA is an international obligation that can serve Japan's national interests

2012-2013	Kishida Fumio (LDP)	Right-wing	support democratization efforts, human security notions of enabling individuals to achieve their full potential, export of Japan's infrastructure systems and overseas activities of Japanese companies in general, and thereby revitalize Japan's economy (ODA serving as a catalyst to prepare and attract private finances), divergence of the responsibilities to smaller actors such as local governments, NGOs and private companies, disaster risk reduction efforts, achievement of stability and development while being beneficial to Japan and the whole international community
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Source: Created by the author from the annual official reports published by MOFA

As can be seen in Table 4, most of the main aims of the MOFA's ODA policy remained stable throughout the years. One of the most reappearing aims the representatives of MOFA had for the ODA program seemed to have been the successful achievement of the Millennium Development Goals (MDGs). This was usually accompanied after a list of current problems of the developing countries, a more detailed plan about which goal should be Japan's main aim was explained only in the foreword written by Mr. Matsumoto Takeaki, while some others identified this with the need to increase ODA flow towards African countries and remained very general on the theme overall. Another frequently reoccurring notion was that of the human security, which, as was stated for example by Mr. Kishida Fumio, is about enabling individuals to achieve their full potential in their respective countries and help to build better societies.¹³⁹ It is interesting to see that the concept was proposed already by the first presented preface, however it wasn't mentioned in the years 2004 till 2009, otherwise it always appeared close to the MDGs agenda of dealing with poverty and similar such issues. It is interesting to note that according to the regression analysis presented in this paper, the human security notion didn't really have an impact on ODA before the year 2009.

Without doubt the most frequently reappearing point of the ODA program was about what Japan was getting from sending these financial resources to recipients. These points usually appeared to take up two stances, one was about the improvement of Japan's image abroad, the other and more often mentioned was about the interdependence of Japan and the international community. Arguably it can be said that this might have been put onto paper mainly to appease the domestic public opinion, as many ministers acknowledged the public disapproval about the ODA spending as a crucial issue. By making people understand that this spending is also done for the well-being of Japan itself, this rhetoric would help to counter the arguments saying that Japan should rather use the money send

¹³⁹KISHIDA, Fumio. Foreword. MINISTRY OF FOREIGN AFFAIRS. *Japan's Official Development Assistance White Paper 2012: Japan's International Cooperation* [online]

abroad to revitalize its own economy. What is more interesting is that from the year 2010 there seems to be more emphasis on the idea of ODA being used for Japan's economic gains, as to ensure a stable supply of resources. One could argue that given the Tohoku earthquake and the shutting down of the nuclear power plants, the need to secure resources abroad has risen¹⁴⁰ to such a degree that this change in rhetoric could have been expected. What also seemed to gain more importance with time was the need to encompass more entities into the ODA process. Mainly after the year 2008, the cooperation with actors such as NGOs, private companies and local governments was stressed every year.

Reforming the Japanese ODA program seemed to be more of an issue in the first part of the 2000s, rather than the latter. The ministers in their forewords usually just stated several practices that should improve the Japanese ODA flows, with the most quoted being the increases in efficiency, transparency and quality of the projects that were implemented under the ODA program, however they were always very general when tackling this theme. The need to implement these principles was present in the speeches only until 2006 and after that the political representatives seemed to have turned to face the issue of the ODA programs overall volume, where for example in the year 2005 Mr. Machimura Nobutaka made promises of strategic expansion of ODA reaching the volume of \$10 billion. It is also interesting to note that the gradual decrease of volume ceased in the same year as the talks about reforms seemingly ended, showing that the reforms most probably were driven by the diminishing ODA flows. In a previous report from 1997, it was argued that the issues of reforming the ODA structure and flows came about as a reaction to cuts in the budget it received after the last medium term target.¹⁴¹ This paper can explore if the reforms were anywhere near successful by looking at the works based on ODA quality studies, which will be explained in a more detailed way in the subsection below.

Looking at the Table 4 once again, one can't but notice that the political spectrum of the ministers seemed to not have that much of an impact on their views. The rhetoric and policy of the members of LDP and DPJ towards the ODA program seems to be nearly identical and it brings up the issue of why this is the case. Certain studies identify Japanese ODA as not being an interesting enough issue for the majority of Japanese politicians to get involved with its management. For example the article *New Challenges to Japan's Aid* by the author Hirata Keiko argued that most politicians are “*generally uninterested in*

¹⁴⁰EBINGER, Charles, John P. BANKS and Alisa SCHACKMANN. *Transforming the Electricity Portfolio: Lessons from Germany and Japan in Deploying Renewable Energy*, p. 9

¹⁴¹MINISTRY OF FOREIGN AFFAIRS ECONOMIC AFFAIRS BUREAU. *Trends concerning ODA in Japan and Overseas* [online]

foreign aid because it is a poor vote-catcher in Japanese elections. They also lack detailed knowledge of ODA and do not have concrete ideas or strategies to shape Japanese aid programs for the future.”¹⁴² It continued on to present that only a certain few politicians influence the ODA policy-making. It is necessary to add that this article examines the period before the new millennium, however considering the fact that the MOFA policies remained more or less stable throughout our examined period, the evidence suggests that nothing much has changed. This is also supported by the article *Japan’s Official Development Assistance* by David M. Potter, which asserts that the policy-making is managed by bureaucracy rather the political body and therefore remained remarkably stable.¹⁴³

All things considered, one can argue that the policies in the last decade truly didn't change much, if one would take into account the priorities stated by the ministers in the beginning of the MOFA's ODA reports. Certain “new” notions however seemed to appear, which were identified as the return of the economic centred view and the rise of importance of smaller actors such as NGOs and local governments. The next part will explore whether JICA and in a way its predecessor JBIC had similar views on the ODA problematic.

4.1.2. JICA and JBIC (ODA Grants versus ODA Loans)

As JBIC was and JICA still is working as implementing agency, their effect on the overall Japanese policy-making should be considerably smaller. Taking into account the previous statements of Japanese ODA program being run by bureaucracy, I feel the need to include the views of representatives of both of these organisations in a similar matter to the previous chapter. This subsection will be a bit shorter as it will not include such detailed table about the changes in the policies, as the presidents of both organizations remained on their seats usually for a longer period of time and their rhetoric didn't change that much with time. This thesis will examine the forewords of the first presented reports on the JICA website and will continue on with the reports from the year 2004, as it was the first major year of JICA reforms. I will later proceed to the last reported year from both organizations, the year 2008, as it was right before their respective ODA programs merged into a new JICA agency. After this I will continue to look over the new JICA's reports to find, if the views of the current representatives are closer to that of the JBIC or the JICA. This is done

¹⁴²HIRATA, Keiko. *New Challenges to Japan's Aid: An Analysis of Aid Policy-Making*, p. 323

¹⁴³POTTER, David M. *Japan’s Official Development Assistance*, p. 18

with the consideration that JBIC was handling the loan assistance type and JICA the grant assistance type. As was shown in the research done by Hata Tomohito, there are certain differences in the allocation of Japan's ODA loans and grants, where in his regression analysis he finds that countries handling their debt better received more grants than others, while recipients in a better macroeconomic situation were awarded with more loan type of ODA.¹⁴⁴ In the official reports it is also suggested that the loans and grants both serve a different purpose, where loans are used to build large-scale construction and infrastructure projects and grants help to promote socio-economic development, such as promotion of education, healthcare, environmental activities and so on.¹⁴⁵

JICA's representatives before the merge identified ODA with the notion of world interdependence, which was about Japan helping itself to a stable society by ensuring a stable international community.¹⁴⁶ The concept of human security also seemed to be a major point of the policy-making, where it was argued that JICA will help in overcoming issues by providing conflict prevention activities and emergency assistance that will eventually transform into a long-term development projects.¹⁴⁷ Unlike the MOFA, JICA seemed to determine the environmental changes as much more of an issue, as it was mentioned in all of the three prefaces. Also, the African continent seemed to gain more and more importance with time, as it was mentioned that in the year 2004 JICA established an African Department. The speech presented in the 2008 report was already directed mostly to African problems.¹⁴⁸ Considering that JICA was aimed mainly at implementing grants and providing technical assistance before the year 2008, rhetoric concerning that ODA will help with the economic situation of Japan was nowhere to be found.

Similarly to JICA and MOFA, JBIC representatives seemed to draw a line between the prosperity of Japan and the prosperity of the world, which was one of the main repeated motivations stated by the representatives of the JBIC. They also seemed to put a line between its normal loans and the ODA loans and it was said that ODA based operations should have been mainly aimed at recipients to bring social development, environmental conservation and poverty reduction for the recipient countries.¹⁴⁹ How to achieve the poverty reduction was later on presented as a method realized “*through*

144HATA, Tomohito. *Loans versus Grants in Japanese Bilateral ODA: Evidence from Panel Data*, p. 13

145JICA. *Program Goals and Overview* [online]

146Based on the forewords of Annual reports published by JICA in the years 2001, 2004 and 2008

147Ibid.

148Ibid.

149Based on the forewords of Annual reports published by JBIC in the years 2001, 2004, 2007 and 2008

economic growth and building peace, in order to contribute to the sound development of the Japanese and international economies."¹⁵⁰ In most of the statements other motives such as diseases, environmental changes, MDGs and cooperation with other smaller actors was also briefly touched upon, however most of the prefaces were mainly about the development of the Japan's and developing countries' economies and to secure Japan's resources with the promotion of Japanese exports.¹⁵¹

The new JICA even still under president Ogata Sadako, who was the representative of the organisation from the year 1993, seemed to take a bit of a turn towards what could be called a more conservative rhetoric. The 2009 statement made it clear that the priority of the Japanese ODA program was the reconstructions of Afghanistan, Pakistan and Iraq.¹⁵² As was already discussed before, countries from this region certainly did top the list of recipients to which Japan send most of its ODA volume in these years. In a report one year later, she stated that JICA now can "*combine ODA Loans and Grant Aid for the construction of road networks and border facilities, with Technical Cooperation for training immigration and customs officials [in Africa].*"¹⁵³ The foreword also stressed the importance of a concept called Inclusive and Dynamic Development, which was also acknowledged by her successor. This stated vision of JICA was nothing new for the Japanese development program, as it put importance into the need of self-help and the economic growth leading to poverty reduction.¹⁵⁴ This change in rhetoric is of course understandable, if we take into account the apparent differences in the aim the Japanese ODA program had for its grants and loans. On the more humanist side, it should be added that the notions of human security also appeared in these reports, however the MDGs, climate change issues and working with NGOs was discussed considerably less than before in JICA's ODA report prefaces.¹⁵⁵ Considering the above results of the regression analysis and the rhetoric of the highest ranking officials presented in this chapter, all seem to support the evidence that there was a distinctive difference in the use of both types of ODA.

Ms. Sadako's successor, Tanaka Akihito, expressed the need to bring new approaches and ideas to JICA and the overall development community in his first report in

150SHINOZAWA, Kyosuke. Message from the Governor. JBIC. *Annual Report: 2004* [online].

151Based on the forewords of Annual reports published by JBIC in the years 2001, 2004, 2007 and 2008

152OGATA, Sadako. Preface. JICA. *Japan International Cooperation Agency Annual Report: 2009* [online]

153OGATA, Sadako. Foreword. JICA. *Japan International Cooperation Agency Annual Report: 2010* [online]

154JICA. *Mission Statement: New JICA - Our Vision, Mission and Strategy* [online]

155Based on the forewords of Annual reports published by JICA from the year 2009 till 2012

2012.¹⁵⁶ Mr. Akihito formulated the conservative views in an interview from the report of 2014, in which he stated the conviction that the ODA program needs to move along the concepts of self-help and economic growth with hard and soft (human resources) infrastructure that will eventually lead to poverty reduction. This practice, in his opinion, is one of the main reasons why “*international cooperation has worked well in East and Southeast Asia, [because these] areas [have] achieved sustained economic growth and that [lead to] significant poverty reduction.*”¹⁵⁷ He also noted the importance of building markets in recipient countries, which will lead to the stimulation of Japan's economy. It is interesting to add that JICA's presidents as well as most other Japanese politicians and officials always stated the importance of interdependence of Japan and the world.

All things considered, reviewing the statements of government officials in charge of implementing agencies seems to imply similar conclusions to that of the MOFA chapter and that is the growing significance of the economic part of ODA in the rhetoric. This is even more apparent if one takes only JICA into perspective, where before 2008 not many economic motivations could be spotted, but the reports in recent years tend to look at the development issues in a much more conservative way, rather than equally dividing it between the grant based rhetoric and the loan based rhetoric. The article by David M. Potter states that “*the core elements [of Japanese ODA policies] were typically conservative positions on development: self-help, economic infrastructure development, and poverty reduction through economic growth.*”¹⁵⁸ These identified core values seem to make a comeback in the last years, mainly if one takes into account just the rhetoric of the official documents. However, no such implication could be drawn from the regression analysis presented in this paper.

4.1.3. ODA Charters (The Stated Policy)

In many articles it was argued that the ODA charters came as a need to express Japan's views about the aim of its ODA program. This was more so stressed after Japan achieved the position of the World's top donor in overall ODA volume after the end of the Cold War.¹⁵⁹ The charter of 1992 was revised in 2003 and later on again revisited this year. In this subsection the paper will present the basic points of the 1992 charter and then

156TANAKA, Akihito. Foreword. JICA. *Japan International Cooperation Agency Annual Report: 2012* [online]

157JICA. *Japan International Cooperation Agency Annual Report: 2014* [online], p. 8-9

158POTTER, David M. *Japan's Official Development Assistance*, p. 18

159EYINLA, Bolade M. *The ODA Charter and Changing Objectives of Japan's Aid Policy in Sub-Saharan Africa*, p. 414

proceed to look mainly at the changes done to the revised versions and the reasoning behind them.

In the basic philosophy of the first ODA charter, Japan stated that it will strive to build a society of freedom and democracy, while taking into account the environmental issues. It also stated that it would support self-help efforts, so that countries can achieve an economic take-off. The priority issues were seen in global problems such as the environment and population, basic human needs, assistance to human resources development, infrastructure improvement and structural adjustment for market mechanisms. The charter also stated four main principles of implementation of the Japanese ODA program. The first principle was about the need to include thoughts about the environment when dealing with development issues, second forbid sending any ODA that could lead to its misuse for military purposes and the escalations of conflicts, third dealt with the question about military expenditures, in which Japan should take in consideration to send less ODA to countries heavily investing into arms, and the last principle was about promoting democratization and a market-oriented economy.¹⁶⁰

The changes to the first revised version in 2003 were basically a reaction to the terrorism issue that arose after the 9.11. attacks, it was also decided to divide the basic philosophy section into objectives and policies. In the objectives subsection environmental issues were grouped under humanitarian problems. The effort to build peace was argued as a solution to the terrorism question. Economic issues were presented more in the notion of interdependence, where it was stated that *“it is essential that Japan make efforts to enhance economic partnership and vitalize exchange with other Asian countries.”*¹⁶¹ The basic policies section stressed similarly to its predecessor the need of self-help by the developing countries and the use of the human security concept. It also touched upon the issue of redistributing wealth and easing of social disparities in recipients. Japan's strength was identified in their own economic and social development experience and this know-how should be exported using ODA. The priority issues of structural adjustment, infrastructure improvement and human resource development were regrouped under the sustainable growth label and basic human needs under poverty reduction. Global issues, such as environmental changes, remained and the need to address factors causing conflict and terrorism was newly addressed by the peace-building approach. Similarly to the

160MINISTRY OF FOREIGN AFFAIRS. Japan's Official Development Assistance Charter. In: MINISTRY OF FOREIGN AFFAIRS. *Japan's ODA Annual Report (Summary) 1999* [online].

161MINISTRY OF FOREIGN AFFAIRS ECONOMIC COOPERATION BUREAU. *Japan's Official Development Assistance Charter* [online], p. 1

previous charter, it identified Asia as being a priority region due to its close relationship with Japan. The principles of implementation remained unchanged.¹⁶²

The 2003 ODA charter was revisited by the Japanese cabinet a few months prior to submitting this thesis and the new ODA charter was now renamed into the Development Cooperation Charter. The objectives this time left more room and therefore importance to economic growth of developing regions, which Japan can help due to its own vast experience in this field rather than to tackle environmental issues as it did before. The second part of the objectives section tackled the issue of piece-building that should lead to a stable international community, which ensures Japan's national interests of peace, security and prosperity. For the first time it also mentioned the importance of working together with various smaller organizations such as local government bodies, companies and NGOs, which were previously mentioned only in the implementation of policies sections. The policies again stressed the concept of human security and the need of self-help interest from the partner countries, which was merged together with the export of Japanese development experience. The policy against oppressive behaviour of state was replaced by the prospect of contributing to peace by not aggravating international conflicts with ODA, which was previously stated in the implementation principles. The priority issue of sustainable growth was grouped together with the poverty reduction into “quality growth,” which stresses the importance of socio-economic growth to eradicate absolute poverty.¹⁶³ Peace-building transformed into sharing universal values (such as freedom, democracy, rule of law and respect for basic human rights), which will lead to a realization of a peaceful and secure society. Global issues were also renamed and a bit further explored in the building a sustainable and resilient international community approach, in which Japan tackles various issues from environmental problems to demographic challenges. It is also interesting to note that the Asian region this time wasn't identified as a priority region, but still was mentioned as having high relevance to the Japanese security and prosperity.¹⁶⁴

The implementation principles were reworked the most, where the principles of effectively using ODA newly appeared. Japan identified the need to have a better strategic approach in working together with the implementing agencies and for example enhance the synergy of ODA and non-ODA flows. ODA should also be used according to Japan's

¹⁶²Ibid.

¹⁶³Identified by the World Bank as living under \$1.25 dollars per day.

¹⁶⁴CABINET OF MINISTRY OF FOREIGN AFFAIRS. *Development Cooperation Charter: For peace, prosperity and a better future for everyone* [online]

strengths, like its expertise and advanced technology and Japan itself should promote its ODA policies to the international community. The security principles of implementation were more similar to the older ones, as they identified the issues of democratization, avoidance of supporting countries that spend money on their military, rather than spending it on development, and the protection of the environment. Newly it stated the importance of controlling for the equity towards socially vulnerable, the possible fraud and corruption, the gender equity, and security and safety of the development personnel. However most controversy was brought about by the issue of using ODA for military purposes and aggravation of conflicts, as a new paragraph stated that Japan can use ODA flows to support “*armed forces or members of the armed forces in recipient countries [in the case they] are involved in development cooperation for non-military purposes such as public welfare or disaster-relief purposes.*”¹⁶⁵ This brought along the discussion in a few newspapers, for example in the Japan Times, that such a change is going to be balancing the ODA budget on a thin line that could lead to it being distorted to support military activities, as Japan won't have any control over the finances when they are in the hands of the receiving military organization.¹⁶⁶ This issue was also strongly felt in some of the NGOs I have spoken to in my case study that will be presented in section 5.

All considered, as can be seen in this overview, the rhetoric of the documents did indeed change in the past decades. Throughout the 3 documents, certain aspects were repeated, such as the need to combat global challenges that the recipients are facing as well as donors. Self-help and human security concept were also present in all charters and also the notion of interdependence. The main difference between the 1992 and the 2003 charter lied in the issue of terrorism and the need to use ODA to manage the situation in developing countries that spawned these movements. In the 2015 charter, more emphasis on various aspects was given, particularly considering the overall objectives of the ODA program, which rhetoric changed to a more economic centred way suggesting that ODA should be used mainly to support economic growth that will eventually lead to a peaceful international community, while acknowledging that smaller entities, such as companies, local government bodies and NGO, are increasingly important in the development process.

¹⁶⁵Ibid, p. 10

¹⁶⁶Dangerous turn in ODA policy. *The Japan Times* [online].

4.2. Impact of the Reforms

As was stated in the MOFA forewords overview, in the first part of the 2000s, a lot of stress has been put on the issues of reforming the Japanese ODA program, given that it was losing a considerable amount of its former volume. The commitment to improve aid was stated by the ministers often as the need to gain more transparency and overall quality. In the ODA White Paper of 2002, the transparency issue was said to be handled by the inclusion of third party actors into public tenders and the increase in auditing and evaluation methods.¹⁶⁷ The quality aspect was often mentioned as the need to untie aid, in other words, have foreign companies included into the tenders, and improve the overall ratio of grants,¹⁶⁸ as Japan was often criticized for both of these issues.

The issue of ODA effectiveness was explored by the politicians in the Paris Declaration on Aid Effectiveness, which later spawned other forums that were discussing the presented issues. The principles to increase the quality of ODA were stated as:¹⁶⁹

- Ownership – recipient countries are actively involved in the development process;
- Alignment – donors send their ODA according to the recipient strategies;
- Harmonisation – donors take into consideration that their ODA is transparent, doesn't have a large impact on the environment, and is collectively effective;
- Managing for Results – ODA program focuses on the intended results and donors improve their monitoring and evaluation systems;
- Mutual Accountability – donors and recipients share the accountability for the results of projects.

This later on made way to an ever increasing literature about the effectiveness of donors' methods and ranking systems, when dealing with their ODA budgets.

To explore whether the commitment of Japanese policy makers to improve ODA policies had any effect on their actual ODA flow, this paper can use various initiatives that research the notion of ODA effectiveness. One initiative with a longer history is the Aid part of the Commitment to Development Index (CDI), as it was done from the year 2003. In the report last year, CDI started to use a new methodology for the ODA aspect called the

167MINISTRY OF FOREIGN AFFAIRS. *Increasing Public Support and Participation: Further Promoting ODA Reform* [online]

168MINISTRY OF FOREIGN AFFAIRS. *History of Official Development Assistance* [online]

169OECD. *The Paris Declaration on Aid Effectiveness and the Accra Agenda for Action* [online], p. 3-8

Quality of Official Development Assistance (QuODA), which aims to provide data about the quality of aid based on the principles presented in the above mentioned Paris Declaration. The dimensions it measures are explained in table 5 below this paragraph.

Table 5 – Dimensions and Indicators of QuODA

Dimension	Indicator	Notes about the indicator	
Maximizing Efficiency	Share of allocation to poor countries	providing more funding to relatively poorer countries	
	Share of allocation to well-governed countries	aid is more effectively used in countries that are better governed	
	Low administrative unit costs	lower administrative cost to program cost ratio implies that more funding is reaching development programs	
	High country programmable aid share	resources available to partner countries by excluding technical cooperation and loan interest payments, in addition to excluding debt relief, humanitarian aid, food aid, and administrative costs	
	Focus/specialization by recipient country	promoting development in countries where they have a revealed comparative advantage	
	Focus/specialization by sector	promoting development in sectors where they have a revealed comparative advantage	
	Support of select global public good facilities	the share of official development assistance committed or disbursed to nine multilateral initiatives established to promote global public good	
	Share of untied aid	donors received the highest possible score for untying their ODA	
	Fostering Institutions	Share of aid to recipients' top development priorities	measure of a donors' support of their partners' top priorities
		Avoidance of Project Implementation Units	donors committed to capacity building should reduce their dependence on separate project implementation units
Share of aid recorded in recipient budgets		increasingly reporting aid commitments to recipient country governments for inclusion in their budgets	
Share of aid to partners with good operational strategies		increase support to partners with good operational strategies and continue to support partners engaged in the process of designing a unified operational strategy	
Use of recipient country systems		working with partner countries to improve their public financial management systems and channelling more ODA through those systems	
Coordination of technical cooperation		alignment of technical cooperation with the capacity development objectives and strategies of partner countries	
Share of scheduled aid recorded as received by recipients		support partner country systems and promote long-term development by disbursing funds, and notifying partners of those disbursements, within the year they are scheduled	
Coverage of forward spending plans/Aid predictability		public provision of forward spending information, which enables partner countries and other donors to improve their long-term planning and decision-making	
Reducing Burden		Significance of aid relationships	implementing projects that represent a relationship that is significant for the donor and recipient
		Fragmentation across donor agencies	limiting the institutional channels through which a donor delivers ODA

	Median project size	donors can in many instances increase the efficacy of their ODA by increasing the size of their projects
	Contribution to multilaterals	donor's total gross aid disbursements channelled through core support to multilateral agencies
	Coordinated missions	donors should increasingly collaborate among themselves and with partner countries to reduce the absolute number of missions
	Coordinated analytical work	analytical work, consisting of studies, strategies, evaluations and discussion papers, are of critical importance to developing and implementing country strategies and informing policy dialogue
	Use of programmatic aid	increase the use of program-based approaches, which are programs and projects delivered through common arrangements that increase country ownership and reduce administrative burden
Transparency & Learning	Membership in IATI	initiative that establishes common formats for publishing information on aid and making this information more accessible
	Recording of project title and descriptions	set of fields for which donors are expected to provide information on aid projects
	Detail of project description	donors can contribute to better aid management by providing thorough descriptions of all their aid projects
	Reporting of aid delivery channel	providing specific information on delivery channels for their aid projects, donors can enable better tracking of the movement of aid flows
	Completeness of project-level commitment data	donors should ensure that their project-level aid reporting to the DAC Creditor Reporting System is complete and accurate
	Aid to partners with good M&E frameworks	donors can follow through on commitments to emphasize the importance of strengthening monitoring and evaluation systems by providing more funding to partners with effective performance assessment frameworks

Source: Adapted by the author from the *QuODA* website

As we are interested in the measurable changes in performance to test if the reforms did have an impact, this indicator also provides well arranged data about the changes from the year 2008 till 2012 for each reported donor. This is done mainly because the QuODA score is reported as weighted across all donors. It is therefore impossible to directly determine if the donor improved their ODA just by comparing the score of the dimensions for each year, as the country could have improved in a sector, but the other donors could have improved their performance even more and thus the score would be negative. The dimension change database is fixated only on the donor itself and it doesn't take into account the progress of other countries.¹⁷⁰

Comparing to the 2008 year, in 2012 Japan was considerable worse of when considering the maximization of efficiency of ODA. According to the provided data, Japan improved in the fields of share of allocation to poor countries and low administrative unit costs, however it got worse of when considering the share of untied aid, support of select

170CENTRE FOR GLOBAL DEVELOPMENT. *Quality of ODA (QuODA)* [online]

global public good facilities, focus/specialization by sector or country, and the high country programmable aid share.¹⁷¹ It improved to a certain degree in the fostering institutions principle, especially counting the share of scheduled aid recorded as received by recipients and the coverage of forward spending plans/aid predictability. It worsened in the case of share of aid recorded in recipient budgets and provided to recipients' top development priorities. Japan also improved a bit in reducing burden towards recipients, where it improved mainly in the fragmentation across donor agencies, the median project size, the contributions to multilateral organizations, and the coordination of missions and analytical work. The area it improved mostly was of the transparency and learning part, which included the recording of project title and descriptions, reporting of aid delivery channel, completeness of project-level commitment data and giving aid to partners with good frameworks. A slight critique came to Japan for not being a member of the International Aid Transparency Initiative and reporting less detailed project descriptions than before.¹⁷²

Looking at the data, it can be assessed that Japan did make a lot of improvements on the administration level of handling ODA, as was also for example explained in the beginning of this section about the creation of the new JICA agency. Some of the results also support the above stated characteristics of Japan's ODA program. For example the relative stability of the budget that isn't swayed by the political situation in Japan. As the maximization of efficiency suggests, the actual allocation worsened a bit, which could reflect the rise of the tied aid and more economic centred view of the ODA. Considering the tied aid, in which Japan according to the QuODA worsened in the past few years, we can look at Figure 7, which does reflect a past endeavour to reduce the amount of tied ODA, as was for example stated in this reaction written by Mr. Imura presented on the MOFA website: "*Japan is a strong proponent of untying aid and has clearly demonstrated its commitment. Its ODA loan was 100 per cent untied on a commitment basis for fiscal year 1996, and in the same fiscal year 47.6 percent of its grant aid for general projects was locally procured.*"¹⁷³ The trend, however, based on the reported data seems to get a bit reversed past the last decade in the case of ODA loans. It should be noted that in 2011 Japan was reported as having 5% of its overall bilateral ODA tied, which isn't an alarming number, considering that other donors have a similar level of tied ODA.¹⁷⁴ Still, the trend

171Ibid.

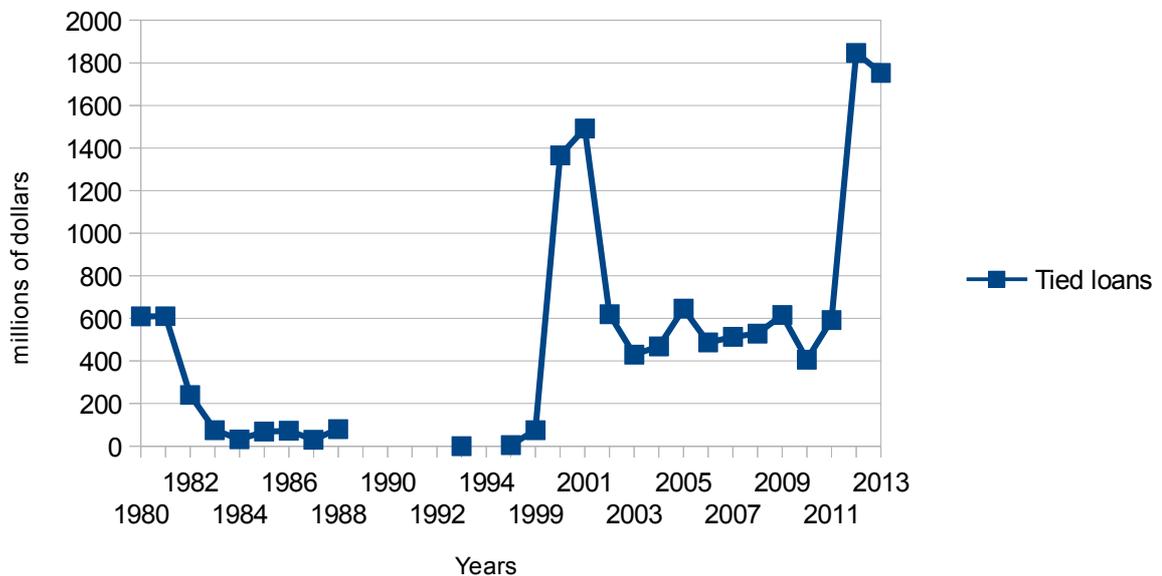
172Ibid.

173IIMURA, Yutaka. Japan's position on untied aid. MINISTRY OF FOREIGN AFFAIRS. *Ministry of Foreign Affairs of Japan* [online]

174MINISTRY OF FOREIGN AFFAIRS. *Japan's Official Development Assistance White Paper 2013: Japan's International Cooperation* [online], p. 229

after 2011 is another story, as the amount of tied ODA loans more than doubled and continuing this direction could leave a mark on the trustworthiness of the whole Japanese ODA program.

Figure 7 – The Volume of ODA Loans Tied to Japan as Reported to the OECD



Source: Adapted by the author from the OECD database StatExtracts

The reason why I didn't include grant type of ODA into this paragraph is because according to the OECD database it wasn't reported from 1995 till 2011. The volume of tied grant ODA for the year 2012 was about \$63 million, which is about 3% of the volume of tied ODA loans and therefore it wouldn't have much impact on the overall picture.

4.3. Remarks

In this section the paper explored the possibilities of various new influences on the Japanese ODA program. As was hypothesised, the increasing importance of NGOs and other smaller actors was identified by the policy makers and the ODA charters, which suggests that these organizations could influence the allocation and the motivations of the Japanese ODA program to a certain degree. Another and more unexpected turnout is the increase in the conservative rhetoric about the need for economic growth that would on the one hand help the recipients and on the other Japan itself with its economy. This trend however seemingly has risen in power mainly after the last period analysed in the regression somewhere around the year 2011, which indicates it couldn't have an effect on

the model and its decreased importance put into economic views therefore isn't disputed. This fact however brings up interesting questions about why such rhetoric emerged again. One possible answer, due to the timing, could lie in the aftermath of the Tohoku earthquake and the need to secure resources for which Japan simply tried to use the method it has done in the past. The sections about reforms showed many positives of the work done to make Japanese ODA administration more efficient, however it also identified issues of worsening allocation and increases in tying of ODA. All these issues however can be expected if we take into account the increased conservative rhetoric.

5. Case Study: Japanese NGOs' ODA Flows and Views

A case study is a practice that makes it possible for a researcher to study individuals and organizations in a reality of complex relations and programs within their contexts.¹⁷⁵ The researcher thus explores one or more entities with his aim being on providing an analysis about his researched theme. It is rather a broad field of study used in various fields such as social and or political sciences and there is no real unified method, which could be used as an example of good practice as was done in the regression analysis before.¹⁷⁶ Therefore we need to begin with identification of several steps leading to the analysis of the actual case study, as to slowly proceed in the understanding how the data was gathered. These steps include the determination of the propositions, number of cases, sampling time, data collection procedures and finally the analysis. In the remarks the paper will also briefly touch upon the issues of objectivity and validity of the study.

5.1. Building the Case Study

As was presented above, we will first begin with identifying the propositions about the researched theme, which will be based upon the sections above and other official documents. The propositions are stated to *“focus the data collection, determine direction and scope of the study and together the propositions form the foundation for a conceptual structure or framework.”*¹⁷⁷ In the section 4 we have explored the possibilities of new factors influencing the ODA flows from Japan. As was argued, NGOs seemed to gain more importance in the views of the new Development Coordination Charter and also the political representatives of the MOFA. One preposition would therefore be that the budget coming towards NGOs would increase. The growing importance of NGOs was also acknowledged for example in the 2012 MOFA's White Paper, where the cooperation between the NGOs and the Japanese government was presented as a key to achieve more effective international cooperation.¹⁷⁸ On the contrary, given JICA's recent more economic centric view, NGOs could go more out of favour to other actors such as private companies, when this agency allocates grants. A second preposition would thus be, that the flows from

175BAXTER, Pamela and Susan JACK. *Qualitative Case Study Methodology: Study Design and Implementation for Novice Researchers*, p. 544

176COMMONWEALTH ASSOCIATION FOR PUBLIC ADMINISTRATION AND MANAGEMENT. *Overview of Case Study Models and Methodology*, p. 1

177BAXTER, Pamela and Susan JACK. *Qualitative Case Study Methodology: Study Design and Implementation for Novice Researchers*, p. 552

178MINISTRY OF FOREIGN AFFAIRS. *Japan's Official Development Assistance White Paper 2012: Japan's International Cooperation* [online], p. 20

JICA towards NGOs would be decreasing and this could affect the budgets of NGOs. Going through the last reports presented on the MOFA website, in the 2010 White Paper's section Cooperation with Diverse Stakeholders stated, that the MOFA will listen to the opinions of NGOs about their policies by making a NGO Advisory Group.¹⁷⁹ The last proposition will therefore question, whether certain Japanese NGO are interested in the overall ODA politics and try to lobby their opinions.

Given the prepositions stated above, I have decided to contact various Japanese NGOs during my limited stay in Japan and build a study based on multiple cases. The practice of choosing these cases (in this case NGOs) shouldn't be random due to the nature of the case study practice, as it was said that “*qualitative sampling seeks information richness and selects the cases purposefully rather than randomly.*”¹⁸⁰ I was unable to select the research samples purposefully, probably mainly because of the language barrier and the limited time I had available to do the research. I had decided to contact the NGOs in two waves, the first included 50 NGOs, from which 5 responded and invited me to their head office. After that I proceeded with sending emails to 100 different NGOs, from which I got 8 replies. The organizations were selected from the Japan NGO Centre for International Cooperation (JANIC) database of NGOs, where I only picked the ones that were interested in dealing with problems in developing countries, as they were more likely the target group from various ODA schemes.

As I was a guest student on the University of Tsukuba for only three months, I have decided that using multiple observations of the same case was practically impossible for me, as nothing much would change in three months considering the amount of financial flows provided and policies implemented. To gather the data, I have decided to ask for a simple interview that would be structured around 5 main points. This was done mainly to make the subsequent analysis more objective, as every organization would provide similar answers. I, however, didn't press the discussion to remain solely in the boundaries of the five points and I have tried to evolve the questions to better fit the next interview based on the answers of the former ones. This way I could also include the issues of the new ODA charter to the policy question. Based on the five interviews in the head offices, I have send out a questionnaire to the 100 other NGOs. However from the 8 responses only two are usable in the study, as some emails were really short and didn't contain any usable

179MINISTRY OF FOREIGN AFFAIRS. *Cooperation with Diverse Stakeholders* [online]

180MEYER, Christine Benedichte. *A Case in Case Study Methodology*, p. 333

information value. In hindsight, I think that choosing the interviews rather than a survey made it possible to get more detailed information about the questioned NGOs.

The five NGOs I visited were Save the Children Japan, JVC, Africa Japan Forum, AAR Japan, and NICCO. To my luck, there wasn't much similarity between the organizations. Some were really big, some smaller and they all had different aims about their work. To gain trust, which is an issue when dealing with interviews, I have decided not to use any recording devices during the interviews and I have simply put down the answers onto a sheet of paper, which I will photocopy and include onto the data disk submitted with this work. I have also suggested in the emails that I won't provide the gather data towards a third party organization. Thus, I will not provide the names of NGOs in the table provided after this section and I will erase the names in the photocopies.

5.2. Analysis of the Interviews

For the interviews and also the questionnaire, I have prepared three main points, with the first being about budget issues, second about ODA lobbying (and issues of advocacy) and the last about changes in their priority regions. The questions went as follows:

1. Dependence on the ODA budget as measured by the percentage on the whole budget of the organization;
2. The stability of the volume of ODA flows, as seen on past fluctuations and overall increases or decreases;
3. Future prospects about the ODA flows towards the NGO (and NGOs in general);
4. New regional focus and the reason behind it;
5. Involvement in lobbying in the case of ODA policy-making changes, advocacy issues.

As can be seen in Table 6 on the next page, the percentage of overall budget financed by the ODA program varied largely across the NGOs depending on their activities and their aim. It is also interesting to note that some NGOs had issues with the amount of ODA in their budget, as they see it as a possible invitation of governmental influence on their activities. Generally speaking, it seems that the volume of ODA is unlikely to have a

Table 6 – Case Study Analysis

Question	NGO1	NGO2	NGO3	NGO4	NGO5	NGO6	NGO7
1	20–30%	30.00%	75.00%	24.00%	A few projects	Up to 70% for certain projects	A small percentage
2	Steadily increasing, but mainly MOFA, JICA decreasing (turn down a lot of projects)	Stagnating, JICA scheme for NGOs is much more difficult for projects	Increases from MOFA, problems with the JICA NGO program (NGO can have only one project)	Increases, however JICA's complicated process makes it harder to obtain funds	Lobbying unfunded, therefore it is hard to obtain funds from the ODA program	Declined, as it was harder to obtain grants	Obtaining grants becomes harder because of the increasing competition between NGOs
3	Fluctuating because of public opinion	Increasing, however limitations are necessary to ensure the NGO remains non-governmental	No dramatic increases, however it should remain considerably stable	Stable, depending on the increase in the number of NGOs, however private funding more important	Depending on future projects, capacity building programs supported	Stable for some years	Stable for some years depending on the political situation, ODA used mainly however to support Japan's image
4	Towards new market targets	No real new targets	Suggestions by JICA, but language barrier issues	No real new targets, regions chosen by the level of need	No new targets	Changes to not bring about dependency	No new targets
5	ODA charter changes issues	Interested in various issues involving policy-making	ODA isn't an interesting theme for the electorate, politicians have no interests towards NGOs, changes in ODA charter will have no direct impacts	Uninterested	Politicians interested in domestic issues and neighbour countries, public opinion depends on the level of education, reason for the economic based views of the ODA program	Uninvolved because of the lack of human resources	Not main activities, however interested in involving Japanese citizens into the problems and situations in developing countries

Source: Interviews and email responses of the officials in the NGOs

share of more than 30% in the budgets of Japanese NGOs. Most of the NGOs noted that they experienced increases directly from the MOFA grant schemes and also from the Japan Platform, which was said to be mainly financed by the MOFA and the private sector.¹⁸¹ On the other hand, JICA's program towards NGOs seemed not to be of much use in the questioned NGOs, as they mainly expressed their discontent with its level of difficulty and restrictions imposed on the NGOs. Nonetheless, the NGOs did experience increases in the ODA flows and the ones that didn't usually either weren't interested so much in the ODA finances or were doing projects that weren't explicitly financed by ODA (such as lobbying and advocacy). In the data there seems to be wide agreement considering the issue of near future flows, which in the opinion of most organizations should remain stable, however issues could arise depending on the changes in political representatives.

Most of the NGOs also did not seem to take up new regions based on the decisions of the Japanese government and/or market priorities of their private contributors and either had a stable focus on a selected few regions or moved based on the principle of not making a society too dependent on their projects by staying for a longer period of time in one area. The last question explored the issue of lobbying and advocacy, which showed that some of the Japanese NGOs were interested in the situation around the updating of the ODA charter. A few also stressed that the lobbying part is hard because of the relative non-involvement of the Japanese public with the development issues, which brings along the indifference of Japanese politicians. Speaking generally, most of the questioned NGOs seemed to support the notion of importance of involving Japanese citizens into the issues of developing countries, but they also have acknowledged that it isn't an easy task to do.

5.3. Control Methods and Remarks

As we have recognized in the beginning of this chapter, several issues of validity arise when dealing with case studies. These include the need to remain objective and not get too involved with the organization.¹⁸² Given my short stay in the NGOs and the fact that the questions were structured, the influence of me, the researcher, on the data obtained should be minimized. To validate the questions used in the study, I have based them on notions that were identified in the previous sections of this thesis and I will again use these propositions in this chapter to make concluding remarks about the analysis. To make the

181 JAPAN PLATFORM. *About Japan Platform* [online].

182 MEYER, Christine Benedichte. *A Case in Case Study Methodology*, p. 344

data more reliable, as to maximize the possibility of replicating the study,¹⁸³ I have described the steps of the study in a detailed manner, as to make it possible for further researchers to replicate these findings. The issue of generalizability, in other words making assumption on the overall NGO community based on this study,¹⁸⁴ was handled by including a multiple case approach, where I explored the issues from the views of multiple organizations that all had different priorities and size.

Looking back at the prepositions, going through the statements and reports of various policy-making agencies showed the rise of importance of NGOs, which would imply that they would get more finances to support their activities. This actually was the case, as was already expressed in the analysis. The case study also found evidence of decreased flows from JICA, as was also suggested by the review of the statements of its presidents and would indicate the presence of the more economic view discussed above. No real evidence of direct influence of the Japanese government over the NGOs was found based on the question about regional allocation of the organizations' projects. This was included into the study based on the first interviews which expressed the cautiousness of some organizations about the influence from the governmental bodies. The question about lobbying opened an interesting discussion about the state of ODA politics. When the NGOs touched upon it, it supported claims of uninterested politicians made in section 4. It seems though, that several NGOs are trying to use the available channels to influence the Japanese ODA policy-making. As was stated in the analysis above, some have also identified the debate about the new ODA charter to be a focus point of their lobbying agenda, where they tried to influence the part of using ODA towards military organizations on peaceful missions. Given the fact that the development cooperation charter was released without any changes, the actual impact of the lobbying power of NGOs is still questionable in Japan.

183Ibid, p. 348

184Ibid, p. 347

6. Conclusion

The prolonged economic stagnation Japan is experiencing from the 1990s is widely acknowledged as having a negative effect on the volume of ODA sent from Japan, and there is much consensus on this even in official reports. If the economic miracle would continue, there isn't much doubt that the ODA budget wouldn't receive such long lasting cuts. The literature however failed to explore the possible additional factors that contributed to the relatively fast decline of the ODA send from Japan.

To shed more light on this issue, this thesis put its aim to explore if there are any other contributing factors that could have negatively influenced the ODA volume. Looking back to the regression analysis, one could see a declining trend in statistical significance of economic aspects of the ODA, while aspects of human security seemed not to have any meaningful significance on the ODA flows. Considering the fact that Japanese ODA program was based on economic centric views for a longer period of time, as was stated in the literature overview and the regression analysis, the lessening importance of ODA as an economic and diplomatic tool could have brought about an additional push to cut its budget. As was researched in the section dealing with statements from government officials, the more conservative rhetoric came back after the year 2010, also with the practice of tying certain parts of ODA to Japanese corporations. This turn back towards a more economic view of development cooperation could easily be argued as a mechanism to bring certain companies or politicians to again support the ODA endeavour. Another factor that could have negatively impacted the ODA budget was identified in the review section of the statements of MOFA's, JICA's and JBIC's representatives. I'm speaking of course about the uninterested public in the issues of developing countries and the resulting non-involvement of politicians in the ODA problematic. This was later on also argued by the NGOs in the case study, when they were prompted to answer the question about their advocacy and lobbying activities. Making cuts in the budget allocated for ODA therefore didn't bring any backlashes for the politicians.

Nevertheless, as this work discussed, the declining amount of ODA brought along a reform of the previously fragmented system and the Japanese institution in charge of ODA also tried to implement various policies that were denoted by the majority of DAC members as good practices. This was illustrated in many statements by the politicians and bureaucrats in charge of the two main ODA actors in Japan, the MOFA and the JICA.

Much consideration was given towards issues of MDGs and human security in the years of the declining budget. This new focus is also apparent for example in the case study, which has shown increases and overly stable financial support towards NGOs from the Japanese governmental agencies.

This trend however seems to be on a stalemate, as can be found in the QuODA data, Japan's allocation of ODA worsened since 2008. The new and more economic centric rhetoric also apparently makes the NGOs uneasy, as most of the questioned organizations voiced their opinion that they expect the near future flow of ODA provided to them to stop increasing and remain stable. Given all these stated concepts, if in the future Japan's ODA again sharply rises, one should pay attention towards its tied and untied status, as the increased volume in ODA will according to the rhetoric of JICA and MOFA be more centred around the economic development of the recipient country and the revitalization of the Japanese market and companies further strained by the Tohoku earthquake. A consequent study of the views of Japanese companies hold towards ODA flows (and mainly ODA loans) could shed light on this issue, however during my stay in Japan, I was unable to secure any meetings with corporations that were stated as contractor companies in the database of the biggest loan projects provided by JICA.

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Appendix A – Regression Output in Stata

First model (1971-1983):

```
. xtpcse jpnoda gdp fdi usoda imp exp oil demo conflict
```

Linear regression, correlated panels corrected standard errors (PCSEs)

```
Group variable:  cluster          Number of obs   =    520
Time variable:  year             Number of groups =    40
Panels:         correlated (balanced)  Obs per group: min =    13
Autocorrelation: no autocorrelation    avg           =    13
                                                max           =    13

Estimated covariances   =    820      R-squared       =    0.5427
Estimated autocorrelations =    0      Wald chi2(8)    =    249.79
Estimated coefficients   =    9        Prob > chi2     =    0.0000
```

jpnoda	Panel-corrected					[95% Conf. Interval]	
	Coef.	Std. Err.	z	P> z			
gdp	-.0076501	.1062754	-0.07	0.943	-.2159461	.2006458	
fdi	.2582524	.0653429	3.95	0.000	.1301826	.3863222	
usoda	.5373254	.0946047	5.68	0.000	.3519035	.7227473	
imp	.2172804	.0737057	2.95	0.003	.0728198	.361741	
exp	.1411284	.075953	1.86	0.063	-.0077367	.2899935	
oil	-.0516519	.0176748	-2.92	0.003	-.0862939	-.0170099	
demo	.0038085	.0012736	2.99	0.003	.0013124	.0063047	
conflict	.0023741	.0016016	1.48	0.138	-.0007649	.0055132	
_cons	.130293	.0180742	7.21	0.000	.0948682	.1657179	

Second model (1984-1996):

```
. xtpcse jpnoda gdp fdi usoda imp exp oil demo conflict
```

Linear regression, correlated panels corrected standard errors (PCSEs)

```
Group variable:  cluster          Number of obs   =    520
Time variable:  year             Number of groups =    40
Panels:         correlated (balanced)  Obs per group: min =    13
Autocorrelation: no autocorrelation    avg           =    13
                                                max           =    13

Estimated covariances   =    820      R-squared       =    0.6097
Estimated autocorrelations =    0      Wald chi2(8)    =    212.79
Estimated coefficients   =    9        Prob > chi2     =    0.0000
```

jpnoda	Panel-corrected					[95% Conf. Interval]	
	Coef.	Std. Err.	z	P> z			
gdp	.4692806	.0999074	4.70	0.000	.2734656	.6650957	
fdi	.198697	.1009541	1.97	0.049	.0008306	.3965634	
usoda	.0801462	.0521889	1.54	0.125	-.0221422	.1824346	
imp	.7726625	.1743585	4.43	0.000	.4309262	1.114399	
exp	-.2648066	.1048085	-2.53	0.012	-.4702274	-.0593858	
oil	-.1197408	.0353747	-3.38	0.001	-.1890739	-.0504076	
demo	.0131202	.0015692	8.36	0.000	.0100446	.0161958	
conflict	.0019187	.0016582	1.16	0.247	-.0013313	.0051687	
_cons	.1658141	.0287016	5.78	0.000	.10956	.2220681	

Third model (1997-2009):

```
. xtpcse jpnoda gdp fdi usoda imp exp oil demo conflict
```

Linear regression, correlated panels corrected standard errors (PCSEs)

```
Group variable:  cluster                Number of obs   =    520
Time variable:  year                    Number of groups =    40
Panels:         correlated (balanced)   Obs per group: min =    13
Autocorrelation: no autocorrelation     avg           =    13
                                                max           =    13

Estimated covariances   =    820        R-squared       =    0.3015
Estimated autocorrelations =    0        Wald chi2(8)    =   106.92
Estimated coefficients   =    9         Prob > chi2     =    0.0000
```

jpnoda	Panel-corrected					
	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
gdp	-.0870809	.0894392	-0.97	0.330	-.2623785	.0882167
fdi	.2581597	.1360014	1.90	0.058	-.008398	.5247175
usoda	.2992991	.1231872	2.43	0.015	.0578566	.5407415
imp	.2500776	.0835513	2.99	0.003	.0863201	.4138351
exp	-.2059102	.0561525	-3.67	0.000	-.3159671	-.0958532
oil	-.0352775	.0113142	-3.12	0.002	-.0574529	-.0131021
demo	.0087319	.0044361	1.97	0.049	.0000373	.0174266
conflict	.0012745	.0014856	0.86	0.391	-.0016372	.0041862
_cons	.14776	.0375782	3.93	0.000	.0741081	.2214119

