

Explaining Variations in Responsiveness to External Pressure: Japan's Aid Policy and Bureaucratic Politics*

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Abstract

Although preceding studies on Japan's foreign aid tend to report that Japan's aid policy is receptive to U.S. pressure, it remains unclear which direction the U.S. wishes Japan to assist its aid programs and how bureaucratic politics of Japan reduces the magnitude of U.S. influence. This article pursues the first attempt to provide a theoretical framework for the direction of U.S. influence on Japan's aid provision and explore whether its impact varies across different types of aid. I utilize a new dataset on Japan's Official Development Assistance from 1971 to 2009 and employ both ordinary least squares and two-stage least squares regressions to handle the issues of reverse causality and joint decision-making. The results suggest that the U.S. tends to urge Japan to complement its aid efforts rather than to substitute them as substitution will allow Japan to increase its clout in strategically important recipients, and the U.S. attempts to minimize this risk by asking Japan to disburse aid in tandem. I also find that the allocation of Japanese grants is more receptive to U.S. pressure than that of loans because the former is left to the discretion of the Ministry of Foreign Affairs that uses external pressure to win bureaucratic turf wars, whereas loans are determined through consultations among multiple agencies with constituencies that prioritize Japan's domestic interests. The findings are robust across different model specifications and different samples.

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Foreign aid has been perceived as one of the major tools of developed countries to attain their political objectives. Preceding studies often found that donors tend to disburse aid to advance their political and strategic interests, such as assisting governments that are of vital importance (Maizels and Nissanke 1984; Schraeder et al. 1998; Alesina and Dollar 2000; Boschini and Olofsgård 2007; Fleck and Kilby 2010; Boutton and Carter 2014) and/or altering the policies of recipients (Dunning 2004; Kuziemko and Werker 2006; Bueno de Mesquita and Smith 2007; Dreher et al. 2009a; 2009b; Bearce and Tirone 2010; Lim and Vreeland 2013; Carter and Stone 2015) rather than merely meet recipients' needs. Although the use of aid to attain political objectives is not restricted to particular donors, scholars often identify the U.S., the largest economy in the postwar era along with the greatest interest in maintaining global stability, as the most frequent user of foreign aid as a policy tool because the efficacy of aid in achieving desirable diplomatic outcomes hinges largely on the resources available to the donor (Meernik et al. 1998; Apodaca and Stohl 1999; Fleck and Kilby 2010). For instance, during the Cold War, the U.S. government directed large volumes of aid to anti-communist leaders, such as Mobutu Sese Seko in Zaire and Ferdinand Marcos in the Philippines. Similarly, since the onset of the War on Terror, the U.S. has increased its aid levels to frontline states, such as Iraq and Afghanistan. The U.S. administration has also disbursed substantial assistance to Egypt as a reward for concluding a peace accord with Israel in 1979, whereas as a punishment, it redirected aid from Zimbabwe, which failed to vote in tandem with the U.S. while sitting on the United Nations Security Council (UNSC) (Maizels and Nissanke 1984, 892).

Yet, the efficacy of aid as a foreign policy tool depends not only on the resources available to one specific donor but also on the aid policies adopted by the others (Orr 1990, 144). If other donors join the U.S. efforts, Washington is more likely to attain its political objectives. Conversely, if other donors take measures that will offset the impact of American foreign aid, the U.S. needs to expend more resources to achieve its ends. As cooperation from other donors, particularly from its allies, certainly helps the U.S. attain its overarching political objectives, the U.S. government often

keeps a watchful eye on the flows of aid disbursed by others. There are potentially two directions in which the U.S. would ask allies to assist its aid programs. One way is to complement its aid efforts: by urging allies to disburse aid in tandem, the U.S. attempts to make their foreign aid given to the same recipients. Another way is to substitute its aid efforts: the U.S. may pressure allies to disburse aid to countries that receive little U.S. aid. Depending on which direction the U.S. presses allies to disburse aid, the probability the U.S. achieves its overarching diplomatic objectives will vary as substitution entails the costs of losing control over the developing countries, allowing other donors to pursue their own interests. To see whether and how the U.S. attempts to minimize such **agency slack**,¹ I examine both the direction and magnitude of U.S. influence on lesser powers' aid allocation.

Although the U.S. has applied pressure on various subordinate states, I focus on the relationship between the U.S. and Japan.² Japan has been one of the largest donors of bilateral aid during the period of this study (1971–2009). Despite its significance, Japan's aid policy has been criticized for its responsiveness to *gaiatsu* (external pressure), especially the one from the U.S. (Calder 1988; Orr 1990; Miyashita 1999).³ For instance, at the 1983 Organization for Economic Co-operation and Development (OECD) conference, "U.S. representatives reportedly presented Japanese delegates with a list of 20 countries for aid consideration, selected for their strategic importance" (Yasutomo 1986, 104). **Postwar Japan depends heavily on the U.S. for its security and trade, and in return, it agrees to reduce its autonomy on other issue areas (Morrow 1991). Foreign**

¹In this article, **agency slack** means that an ally pursues its narrow interests (instead of helping the U.S.) when the U.S. cannot perfectly monitor or enforce its behavior.

²While a growing literature on multilateral aid suggests that the U.S. attempts to ease its burden through institutionalization, it still seems to preferentially employ bilateral channels in certain contexts as some donors (i.e., donors that rely heavily on U.S. protection) are vulnerable to U.S. pressure.

³*Gaiatsu* is defined here as explicit external, especially American, pressure that often changes the course of action of the Japanese government. It often takes a form of expressed concerns or requests for concessions and is not necessarily accompanied by explicit threats of retaliation or use of force (Orr 1990, 17).

aid has been one of such areas, and Japan frequently made concessions to demonstrate its willingness to support U.S. foreign policy (Orr 1990, 17). Interestingly, however, different studies found that Japan seeks commercial interests through aid delivery, and that such aid policies have been repeatedly criticized by U.S. officials (Orr 1990, 125; Arase 1995; Hook and Zhang 1998; Schraeder et al. 1998; Berthélemy and Tichit 2004; Tuman and Strand 2006). **The inconsistency in previous findings seems to stem from the use of aggregated data on Japan's foreign aid or placing a focus on a specific region. Japan's Official Development Assistance (ODA) consists of grants and loans, and the ratio of grants/ODA or that of loans/ODA varies from year to year and across regions, which may lead past analyses to different conclusions. Moreover, Japan's aid policy is mostly determined by bureaucratic administrators (Inada 1989, 401), and different bureaucratic agencies are in charge of allocation of grants and loans. Such differences in decision making seem to influence the degree to which U.S. interests shape Japan's aid policy. Although a large share of loans and strong sectionalism in bureaucracy are characteristics that are unique to Japan, participation of different bureaucratic agencies in allocation of grants and loans offers a good opportunity to investigate variations in minor powers' receptiveness to external pressure. Accordingly, I analyze U.S. influence on Japan's aid allocation by separating grants from loans in the hope that the findings will provide important insight into how bureaucratic politics of minor powers affects the degree to which the U.S. alters their foreign policy.**

I argue that the U.S. applies pressure on Japan to complement its aid efforts rather than to substitute them because substitution will allow Japan to strengthen its ties with recipients and advance its own interests.⁴ Such opportunistic behavior will reduce American influence on the recipients and prevent the U.S. from achieving its overarching diplomatic objectives. To minimize this risk, the U.S. pressures Japan to complement its aid efforts. I further assert that allocation of Japanese grants is more receptive to U.S. pressure than that of loans because in Japan, grants

⁴For instance, Japan may attempt to secure markets for domestic manufacturers (Schraeder et al. 1998).

are left to the discretion of the Ministry of Foreign Affairs (MOFA) that uses external pressure to win bureaucratic turf wars, whereas loans are determined through consultation among multiple bureaucratic agencies, including the one that represents the interests of Japanese domestic industry. Using a new dataset on Japan's ODA from 1971 to 2009, I estimate both ordinary least squares (OLS) and two-stage least squares (2SLS) regressions to handle the issues of reverse causality, joint decision-making, and omitted variable bias. I also conduct case studies to demonstrate how frequently the U.S. applied pressure on Japan and how bureaucratic politics of Japan helped to circumvent U.S. pressure. The results of my empirical analysis support the argument.

Related Literature

The responsiveness of Japan's foreign policy, including its aid programs, to external (especially U.S.) pressure has been widely discussed in the preceding studies (Calder 1988; Orr 1990; Miyashita 1999). Past theoretical studies often attributed Japan's receptiveness to *gaiatsu* to its heavy reliance on American security guarantees (Lake 2009). Japan had no alternative alliance partners, and faced acute threats from China, the Soviet Union, and North Korea. Its self-imposed military constraints also exacerbated fears of U.S. disengagement among the Japanese public (Cha 2000).⁵ Preceding studies tended to assert that Japan disbursed aid in accordance with U.S. interests in order to deflect American complaints about unequal burden-sharing and reinforce the U.S.-Japan security tie. For instance, Lake (1999, 182) argued that Japan's postwar dependence on U.S. protection made it impossible to have freedom in policy making. Similarly, Miyashita (1999) posited that Japan's responsiveness to American pressure is primarily a result of the asymmetric interdependence be-

⁵To reduce regional fears over the resurgence of Japanese militarism, Japan has set limits on its defense spending and military actions; Japan's postwar constitution prohibits the use or possession of force other than for self-defense; Since 1967, Japan has also abandoned the possession of nuclear weapons (Nester 1996, 289); Since 1976, Japan has set its military expenditures less than 1 percent of GDP (Nester 1996, 323).

tween them. Several empirical analyses on Japan's aid allocation provided evidence to support these claims. For example, focusing on the countries in South and Central America, Katada (1997) found that U.S. aid has a negative impact on Japanese aid allocation. Similarly, Neumayer (2003) demonstrated that U.S. military aid had a positive impact on Japan's aid allocation.⁶

However, different empirical studies have reported that there are dissimilarities between U.S. and Japanese aid patterns: whereas the U.S. seeks to advance its geopolitical and ideological interests, Japan's aid is driven primarily by its commercial interests (Schraeder et al. 1998; Berthélemy and Tichit 2004). Indeed, even in the 1980s, on average twenty-one percent of Japanese aid went to socialist countries, whereas only six percent of U.S. aid was directed to such regimes (Schraeder et al. 1998, 312). Provision of large volumes of aid from Japan to these countries during the Cold War arguably suggests that Japan was not entirely susceptible to U.S. pressure. The mixed findings of preceding studies indicate that we need a different theoretical framework to understand variations in Japan's receptiveness.

Moreover, preceding studies did not examine the direction of U.S. influence on Japan's aid patterns. As noted, there are potentially two directions in which the U.S. might ask Japan to assist its aid programs: one is to complement U.S. aid efforts by disbursing ODA to recipients of American foreign aid; another is to substitute U.S. aid by helping countries that receive little U.S. aid. Exploring the direction in which the U.S. asks Japan to assist its aid programs is important as Japan's aid allocation affects the probability that Washington will achieve its diplomatic objectives. Since most previous studies did not explore why the U.S. urged Japan to disburse aid to particular recipients, I attempt to fill this gap by providing a theoretical framework for the direction of U.S. pressure on Japan's aid flows. Previous empirical studies also failed to provide general insight

⁶Tuman and Ayoub (2004) and Tuman et al. (2009) also explored the impact of U.S. pressure on Japan's aid disbursement using the number of U.S. military personnel stationed in a country in Africa as a proxy for U.S. security interests. As I am interested in whether the U.S. urges Japan to complement its aid efforts or substitute them, I utilize U.S. aid as the measure of U.S. influence.

into U.S. influence on Japan's aid policy as they tended to focus on one specific region or employ one particular type of assistance as a measure of American influence. The limited scope of their analyses resulted in mixed findings; whereas Katada (1997) found that the U.S. urges Japan to supplement its aid efforts in South America, Neumayer (2003) showed that Washington pressures Japan to complement its military assistance. Thus, it remains uncertain whether their findings still hold even if we expand the scope of their analyses into different regions or employ a different measurement of U.S. influence. A more systematic study needs to be conducted to provide more general insight into Japan's responsiveness to U.S. pressure.

Another shortcoming of preceding studies is that they did not differentiate loans from grants,⁷ even though they acknowledged that loans constituted a disproportionately large share of Japan's ODA.⁸ **The allocation of loans and grants deserves separate attention because different bureaucratic agencies participate in their allocations, and such differences in the policy-making process largely affect the degree to which U.S. interests shape their provision. Japan's strong sectionalism in bureaucracy has been widely discussed, and its impact on formulating aid policy has drawn particular scholarly attention (Rix 1983; Orr 1990). If each ministry or bureaucratic agent attempts to maximize the parochial interests through aid delivery, then who participates in the decision-making process must have a significant impact on Japan's aid allocation.** Accordingly, I conduct separate analyses of Japanese grants and loans to explore both the direction and magnitude of U.S. pressure on their allocations, and examine how domestic actors in Japan affect the degree to which it responds to external pressure.

⁷To the best of the author's knowledge, Potter and Van Belle (2004) is the first and the only quantitative study that analyzed grants and loans separately. Yet, their research focused on media impact on Japan's aid allocation, and did not investigate the relationship between U.S. and Japanese aid flows.

⁸Japanese policy-makers defended the predominance of yen loans on the basis of Japan's own experience. They argued that loans would support recipients in their self-help effort by reducing dependency, and that loans would encourage recipients to avoid corruption and use financial resources efficiently in order to repay the debt (Rix 1993, 33; Hook and Zhang 1998, 1054; Katada 2002, 330).

The Argument

In the postwar era, the U.S. formed an alliance with Japan to maintain security in East Asia. Although the U.S. agreed to carry a heavy defense burden to provide security guarantees for Japan, such defense policies have frequently met severe domestic criticism in the U.S. as they seemed to allow Japan to free-ride on American defense efforts. To circumvent domestic criticisms, U.S. officials constantly urged Japan to share the burden in other issue areas, including foreign aid.⁹ The lack of domestic support for aid programs has also prompted the U.S. government to pressure Japan to share the cost of aid delivery.¹⁰ For instance, the former U.S. Secretary of State Henry Kissinger asserted that Japan should spend more on economic assistance rather than defense expenditures, and former U.S. National Security Advisor Zbigniew Brzezinski articulated that Japan should increase its aid so that the total of both economic assistance and military spending reached 4 percent of GNP (Inada 1989, 400). President Jimmy Carter also urged Japan to expand its aid budget and share the financial burden (Orr 1988, 746).

Despite widespread public loathness to expand aid budget, foreign aid has been a major tool of the U.S. government to advance its political interests. There seem to be at least two overarching objectives the U.S. seeks to attain through aid provision. The first objective is the preservation of its sphere of influence by protecting the governments of strategically important locations from being toppled by anti-U.S. rebels. There are ample historical examples in which the U.S. has disbursed large volumes of aid to assist governments facing communist threats (e.g., Turkey and Greece)

⁹U.S. leaders refrained from pressing Japan to increase military capabilities as it would enhance the regional fear about the resurgence of Japan's militarism.

¹⁰U.S. citizens were not generally supportive of expanding aid budget as foreign aid basically means a transfer of resources from domestic citizens to foreigners (Milner and Tingley 2010). Gilens (2001) attributes citizens' lack of support to their erroneous beliefs about the size of U.S. aid budget.

(Boschini and Olfsgård 2007)¹¹ or combating terrorist groups (e.g., Afghanistan and Iraq).¹² The second objective is to increase U.S. bargaining power vis-à-vis the recipients so that it can facilitate reform of economic institutions (Bearce and Tirone 2010), promote democracy and human rights (Meernik et al. 1998; Apodaca and Stohl 1999; Lai 2003; Dunning 2004), and alter their voting behavior in multilateral institutions (Kuziemko and Werker 2006; Dreher et al. 2009a; 2009b; Carter and Stone 2015). Although there are potentially two directions in which the U.S. government would urge Japan to disburse aid, I argue that the U.S. would press Japan to complement its aid efforts rather than substitute them as it wishes to reduce the risk of moral hazard and retain its influence over the recipients.

If the primary goal was to preserve its sphere of influence, the U.S. would urge others to disburse aid in tandem. Although ideally, the U.S. would let other donors assist pro-U.S. governments on its behalf and reduce or eliminate the necessity for the U.S. to provide aid, there are several reasons for the U.S. not to adopt such a strategy. First, the volume of aid disbursed by other donors may not be sufficient to maintain pro-U.S. regimes because no ally has financial resources comparable to those of the U.S. Second, the U.S. administration would face global criticism if it reduced its aid levels substantially. For instance, when a proposal for reducing U.S. aid by 45 percent was leaked, the Japanese government protested that “in the context of substantially reduced U.S. aid levels, it would be difficult to defend” the new aid budget in the Diet (Orr 1988, 751). Third, the withdrawal of U.S. aid may increase the risk of moral hazard by other donors: once lesser powers find that the U.S. has lost its influence over particular states, they may attempt to enhance their own clout in them. Because a limited U.S. presence would reduce its global influence and future diplomatic and investment opportunities, the U.S. government would not dare focus on a small number of recipients (Bigsten 2006, 21; Knack and Rahman 2007, 195; Frot and Santiso 2011,

¹¹The U.S. has also assisted pro-U.S. groups (e.g., the Contras in Nicaragua) to overthrow anti-U.S. governments.

¹²Anti-terrorist efforts began during the Cold War, and the U.S. has dramatically increased its aid levels since the advent of the War on Terror (Fleck and Kilby 2010; Boutton and Carter 2014).

65). Thus, the U.S. attempts to retain influence on strategically important states and prevent other donors from increasing their clout in them. During the Vietnam War, for example, the U.S. urged Japan to disburse aid to South Korea and Taiwan to make up for a decrease of its aid in them (Orr 1990, 109-110).

If the primary purpose of U.S. aid provision was to alter the behavior or policies of recipients, the U.S. would also urge other donors to provide aid in tandem so that it could enhance its bargaining leverage with recipients while minimizing the risk of moral hazard by other donors. If the U.S. asks other donors to provide aid to a particular state in accordance with the initiation of its aid programs, the recipient may become more inclined to comply with American demand. If the U.S. urges other donors to redirect their aid in accordance with the withdrawal of its aid, recipients are more likely to succumb to U.S. threats because failure to follow U.S. requests would mean the withdrawal of aid from multiple sources. By urging them to withdraw aid simultaneously, the U.S. could also prevent other donors from enhancing their bargaining leverage vis-à-vis recipients. If the U.S. instead focused on fewer recipients and allowed others to advance their interests, such as monopolizing the market of a developing country, the U.S. would find it more difficult to convince them to withdraw aid as their benefits of maintaining relations with the recipient may surpass the costs of circumventing U.S. pressure. For this reason, Washington urged allies to withdraw aid from the Sandinista Nicaragua in tandem with the U.S. (Orr 1990, 144). Similarly, following the Vietnamese invasion of Cambodia in 1978, the U.S. officials pressured Japan to subdue the opinion of continuously providing Japan's aid to Hanoi as they suspected that Japan took this opportunity to advance its commercial interests (Orr 1990, 122). Accordingly, I derive the first hypothesis:

Hypothesis 1. *U.S. aid patterns have a positive impact on the allocation of Japan's ODA, meaning that Japan tends to disburse aid in line with the U.S.*

Although the U.S. has constantly pressured Japan to disburse aid in tandem, Japan's aid flows do not always coincide with U.S. aid patterns because aid allocation is ultimately determined by domestic actors within Japan. Japan has never had an aid ministry, and decisions on aid allocation

to individual recipients are left up to administration after the Diet approves the total aid budget (Yasutomo 1986, 67; Inada 1989, 406; Orr 1990, 24). Participants in the decision-making process differ between grants and loans, and this substantially affects the impact of external pressure on their allocations. Allocation of grants is largely left to the discretion of the MOFA (Orr 1990, 30; Arase 1994, 178),¹³ which is the lead agency in foreign affairs and has close ties with representatives from other countries. Yet, this ministry lacks a strong domestic constituency and needs backing from abroad to preserve its influence within the bureaucracy (Orr 1990, 107; Miyashita 1999, 707). According to Orr (1990, 13), MOFA sometimes urged the U.S. “to apply pressure in order to bolster the Ministry’s position relative to other ministries on many bilateral issues.” MOFA’s sensitivity to global criticism as well as its desire to win bureaucratic turf battles enabled the U.S. to have profound influence on the allocation of Japanese grants.¹⁴

In contrast, the allocation of loans has been determined through consultations among three (previously four) agencies (Orr 1990, 30; Arase 1994, 178). In addition to MOFA, the Ministry for Economy, Trade, and Industry (METI) and the Ministry of Finance participate in allocation decisions.¹⁵ The involvement of multiple agencies reduces MOFA’s influence in the policy-making process and exacerbates the pulling and hauling among various bureaucratic agencies. In particular, METI, which represents the interests of Japanese industry, often seeks to advance the country’s commercial interests.¹⁶ Because Japanese loan programs frequently entailed construction of

¹³Although 16 ministries are, in principle, able to participate in the decision-making process, MOFA coordinates their diverse interests (Arase 1994, 178).

¹⁴MOFA assisted the U.S. as long as *gaiatsu* would help expand its influence vis-à-vis other agencies. Therefore, its primary objective is not necessarily aligned with U.S. interests.

¹⁵Until 2001, the Economic Planning Agency also participated in the policy-making process.

¹⁶Japanese trading companies have assisted local governments with drafting project proposals and sometimes submitted development plans directly to METI (Orr 1990, 36, 60-65). Declining Japanese industries, such as aluminum makers and manufacturing companies, have also asked METI for help to move production overseas through the implementation of loan projects (Arase 1995, 79-91, 129).

large-scale infrastructure in recipient states, they could bring considerable benefits to contractors. Therefore, numerous Japanese business companies, especially construction firms and trading companies, have carried out intense lobbying in Japan (Orr 1990, 28). To protect and promote their interests, METI has been encouraging to direct aid to countries with a high economic potential for Japanese firms. According to Orr (1990, 37), “MITI never opposes extending assistance to communist countries based on political grounds.”¹⁷ Consequently, even during the Cold War, large volumes of yen loans were extended to communist countries, such as China and Laos (Inada 1989, 405). Accordingly, the involvement of multiple agencies in the policy-making process reduces the impact of external pressure on the allocation of yen loans.

I further suspect that the characteristics of Japanese loans may also reduce the impact of U.S. pressure on their allocation. Japanese ministries and agencies tend to become more selective when determining loan recipients. Contrary to grant aid, loans require repayment, and insolvency or even delay in repayment could cause serious financial loss to the lender. Japanese loan programs rely heavily on borrowing from the Fiscal Investment and Loan Program (FILP) and the General Account budget (Arase 1995, 199).¹⁸ Default means the loss of savings and pensions of Japanese citizens, which will immediately provoke domestic repercussions. Therefore, ministries and bureaucratic agencies, including MOFA, become more selective in determining loan recipients to ensure that loans are paid back in full. Orr (1990, 59) states that “[a]id, especially yen loans, demonstrates the government’s confidence in a recipient country’s stability.” The desire to avoid default also seems to reduce the impact of U.S. pressure on the allocation of loans. Accordingly, I derive the second hypothesis:

Hypothesis 2. *The allocation of Japanese grants is more susceptible to U.S. pressure than that of loans.*

¹⁷METI was called the Ministry of International Trade and Industry (MITI) until 2001.

¹⁸FILP includes government pensions and postal savings. Grant aid draws on the General Account budget (i.e., taxpayers’ money).

Research Design

I utilize the following five variables as the dependent variables of this study: the volumes of Japanese grants, technical assistance,¹⁹ grants-tech (i.e., the aggregates of grants and technical assistance), the net disbursement of loans, and the net disbursement of ODA (i.e., the aggregates of grants-tech and loans) to each country in a given year (in constant 2015 U.S. dollars).²⁰ The data come from MOFA's website (MOFA 2016) and the sample covers both developed and developing countries for the period 1971 to 2009.²¹ I take the natural logarithm of these variables (plus one) as they are highly right skewed. Although the bulk of studies on aid allocation use OECD data, I employ MOFA's dataset for the following reasons. First, it contains no missing values from 1969 to 2014.²² A comparison between MOFA and the OECD data reveals that 1,875 observations (28 percent of the total) are missing from the OECD data between 1971 and 2009.²³ Second, MOFA data have a record of aid flows from Japan to countries not on the DAC's list. The OECD defines foreign aid as ODA if it is directed toward states on the DAC list and if it satisfies the condition of a grant element of at least 25 percent.²⁴ However, in reality, donors frequently give aid to countries not placed on the list, especially if the latter suffer catastrophic losses from natural disasters. Indeed, Japan extended its aid even to some OECD countries.²⁵ The use of MOFA data, therefore,

¹⁹Technical assistance includes provision of training and dispatchment of volunteers to recipients. MOFA exerts a significant influence on its allocation, although its influence has been waning recently (Orr 1990, 30).

²⁰I converted the flows into constant 2015 U.S. dollars, using the DAC deflator. Until 2015, the provision of aid for military purposes had been prohibited in Japan (Rafferty 2015).

²¹The data are unbalanced panel data as each country's entry into the international system and the OECD varies.

²²Missing values in MOFA's data denote no transactions. I contacted MOFA and obtained confirmation.

²³Of these, 295 observations contain positive values. The correlation between these two data sets is about 0.94.

²⁴Moreover, during the Cold War, the OECD did not treat aid to communist regimes as ODA. After the end of the Cold War, such countries are categorized as "part II" countries, and part II data are not available until 1993.

²⁵Japan's net ODA to the following OECD countries (and years) takes a positive value: Chile (2010), Czech Republic (1996-2004), Estonia (2010), Greece (1973-1994) Hungary (1996-1998, 2000-2010), Israel (2010), Mexico

helps us avoid sample selection bias. Third, MOFA data contain separate observations of various types of Japanese aid, allowing us to examine the differences across them.²⁶

I utilize U.S. aid as the key independent variable for this analysis. This variable measures the sum of U.S. economic and military assistance, both of which come from the U.S. Agency for International Development (USAID 2016). I take the natural logarithm of this variable (plus one). When estimating OLS regressions, I use this variable in one year lag. If Japanese decision-makers allocate foreign aid based on U.S. aid allocation in the previous year, the use of a lagged variable is justified. When estimating 2SLS regressions, however, I employ the unlagged variable to allow for the possibility that the U.S. and Japan jointly determine their aid levels. I expect that the estimated coefficients have a positive sign, and that the coefficient I obtain when using grants as the dependent variable is greater than the one I obtain when using loans as the dependent variable.

I include a series of control variables found in the literature on the determinants of foreign aid. First, I include three variables that measure recipients' economic need. One is the natural logarithm of per capita gross domestic product (GDP), taken from the United Nations Statistics Division (UNSD 2016). The 1992 ODA Charter of Japan articulates that humanitarian concerns (i.e., poverty reduction) are one of the primary objectives of Japan's ODA (MOFA 1992: Secs. 2.4, 3.2[b]),²⁷ and preceding studies demonstrated that lower income levels are associated with higher aid levels (Chan 1992, 11; Katada 1997; Schraeder et al. 1998; Tuman and Ayoub 2004; Tuman et al. 2009). I expect that grants are more likely to be directed to least developed countries partly because the recipients do not have to repay the debt, and partly because the Japanese government is more selective in loan recipients.

(1994-1997, 2003-2006), Poland (1996-1998), Portugal (1978, 1980-1991), Slovakia (2000-2008), Slovenia (2010), South Korea (2008-2009), Spain (1971-1981), and Turkey (1971-1996, 2000, 2003, 2006-2010).

²⁶Following the practice of previous research (i.e., Kuziemko and Werker 2006), negative values of U.S. and Japanese aid are replaced with zeros.

²⁷The 1992 ODA Charter, adopted by the cabinet, is the first official document articulating Japan's aid philosophy.

Next, I include the natural logarithm of population taken from the UNSD (2016). Although large populations generally enhance economic growth, previous research found a strong negative relationship between population size and Japan's aid volumes (Katada 1997; Tuman et al. 2009) and attributed this outcome to the fact that each country has a vote in the UN General Assembly (UNGA) and the votes of smaller states are less expensive to buy off (Katada 1997, 941; Acharya et al. 2006, 12). Thus, population is expected to have a negative impact on the allocation of grants and loans.

Trade has been regarded as a key determinant of Japanese aid flows as Japan needs to expand its export markets and secure imports of raw materials owing to a small domestic market and the lack of natural resources (Chan 1992, 7). Nevertheless, the findings of past studies are mixed. While some reported that there is a positive relationship between trade and Japan's aid flows (Maizels and Nissanke 1984; Schraeder et al. 1998; Tuman and Ayoub 2004), others found that the ratio of trade to GDP is negatively associated with aid levels (Tuman et al. 2009), and still others found no relationship between them (Chan 1992, 13). I employ the natural logarithm of the sum of exports and imports between Japan and a country (plus one). The original data on trade are taken from the International Monetary Fund (IMF 2016).²⁸ I suspect that trade is positively associated with both grants and loans, albeit more so to loans because wealthier states tend to trade more with Japan and are less likely to go into default.

Second, to control for the effects of the recipients' policy orientation, I introduce democracy, policy distance, and war into the analysis. Democracy is an indicator variable, coded 1 if a country has a democratic government and 0 otherwise. This variable comes from Cheibub et al. (2010). The spread of democracy has been one of the ideological goals of the U.S. (Meernik et al. 1998; Apodaca and Stohl 1999; Lai 2003; Dunning 2004), and previous research found that the U.S. tends to disburse more aid to democratic states (Alesina and Dollar 2000, 49). Japan has historically assisted fledgling democracies to signal its support for this ideological goal of the U.S. For

²⁸I converted the original data into constant 2014 U.S. dollars.

example, during the 1980s, Japan disbursed aid to recently democratized countries such as Jamaica (Brooks and Orr 1985, 333), and the 1992 ODA Charter announced that democratization is one of the determinants of Japan's ODA (MOFA 1992). Preceding studies found that Japan's ODA is associated with democratic regimes (Tuman and Ayoub 2004; Tuman et al. 2009). Therefore, I speculate that democracy has a positive impact on the allocation of Japanese grants and loans.

Previous research found a positive relationship between states' voting patterns at the UNGA and aid flows (Alesina and Dollar 2000, 46). Thus, I introduce policy distance, which measures the absolute distance between the ideal point estimate of Japan and that of each state in a given year. The data on ideal point estimates come from Voeten et al. (2009). The longer the distance between their ideal points, the less likely it is that they vote in tandem. I expect that policy distance has a negative impact on the allocation of Japan's grants and loans.

I also include war, an indicator variable, which takes the value of 1 if the recipient is a primary party to an inter- or intra-state conflict and 0 otherwise. I create this variable based on the UCDP/PRIO Armed Conflict Dataset (Pettersson and Wallensteen 2015). Since 1945, Japan has embraced the idea of "*heiwa kokka*," a peace-loving nation, and used its aid as a tool to signal its pacifist spirit (Yasutomo 1989-1990, 502). The 1992 ODA Charter declares that recipients' military spending and arms exports are determinants of Japan's ODA (MOFA 1992). Japan is particularly reluctant to extend loans to war-torn states partly because they are less likely to repay the debt, and partly because the safety of the personnel, who are to be dispatched if a Japanese corporation wins the bidding, is not ensured.²⁹ For the same reason, Japan seems to refrain from sending technical experts to conflict zones. Accordingly, Japanese aid, especially loans and technical assistance, is less likely to be directed to countries engaged in armed conflicts.

Third, to control for the effects of natural disasters on aid allocations, I include total deaths, a variable that measures the natural logarithm of the number of deaths (plus one) caused by natural disasters that took place in a country in a given year. This variable comes from EM-DAT (CRED

²⁹The bulk of yen loans are allotted to the construction of economic infrastructure in recipients.

2016). Several scholars assert that donors disburse ODA to countries that have recently suffered from natural disasters regardless of their economic development (Frot and Santiso 2011). I expect that as the number of deaths caused by natural disasters increases, Japan is more inclined to disburse aid, especially grant aid, to affected countries.

Fourth, I include attacks on Japanese, a variable that counts the number of terrorist attacks targeting Japanese citizens in a country. The original data are derived from the Global Terrorism Database (GTD) (START 2016), and I take the natural logarithm (plus one). An attack launched against Japanese citizens seems to stimulate a domestic backlash, and the Japanese government is compelled to take measures to prevent the recurrence of such tragic events. I expect that this variable has a positive impact on the allocation of Japan's grants because they seem to work effectively in assisting recipient governments. However, the Japanese government might be reluctant to allow its citizens to be dispatched to countries where their safety is not guaranteed. Thus, I expect that this variable has a negative impact on the allocation of loans and technical assistance.

Fifth, I include UNSC member, an indicator variable, coded 1 if a country is a temporary member of the UNSC and 0 otherwise.³⁰ There has been a growing concern over major powers' vote-buying at the UNSC (Kuziemko and Werker 2006; Dreher et al. 2009a; 2009b). Lim and Vreeland (2013) demonstrated that aid from the Asian Development Bank (AsDB) tends to surge dramatically while the recipient is serving on the UNSC, and they used this finding as evidence for Japan's attempt to influence the Council's resolutions. If Japan also aims to alter voting patterns through bilateral channels, the flows of Japanese grants and loans must have a positive relationship with this variable. Summary statistics are presented in the Supplementary Files.³¹

³⁰Permanent members are treated as missing values.

³¹See Table 3.

Results

Table 1 reports the results of OLS regressions. The dependent variables in columns 1-5 are (Japanese) net disbursement of ODA, loans, grants-tech, grants, and technical assistance (tech assist), respectively. The coefficient estimates of U.S. aid in all columns have a positive sign and statistical significance, supporting Hypothesis 1. It is noteworthy that this result holds even after I control for recipients' economic strength and humanitarian concerns, suggesting that Japan disburses aid in line with the U.S. not simply because they compete over export markets nor because they just care victims of natural disasters. Moreover, the comparison between the coefficients in columns 2-5 reveals that *ceteris paribus*, the allocation of yen loans (0.12 in column 2) is less receptive to U.S. influence than that of grants (0.16, 0.17, and 0.14 in columns 3-5, respectively). The results of Seemingly Unrelated Regressions also suggest that the estimated coefficient for loans is indeed smaller than the ones for grants and grants-tech, supporting Hypothesis 2.³²

[Table 1 about here.]

Table 1 further reveals that Japan allocated grants and loans for different purposes. The estimated coefficients of GDP per capita in columns 1, 3, and 4 are negative, whereas those in columns 2 and 5 are positive. The statistical significance in column 4 means that *ceteris paribus* as a state becomes wealthier, it is less likely to receive grants from Japan. The coefficient estimates of population are negative in columns 1-3, whereas those in columns 4-5 are positive. Only the coefficient in column 2 is statistically significant, suggesting that *ceteris paribus* as a state's population grows, Japan becomes less inclined to extend loans to that state. The estimated coefficients of trade are positive in all columns (except column 4), although only those in columns 2 and 5 are statistically significant. Thus, *ceteris paribus* as the volumes of trade between Japan and a recipient increase, Japan tends to raise the levels of loans and technical assistance to that state.

³²See Table 4 in the Supplementary Files.

A country's policy orientation seems to be associated with the allocation of Japan's ODA. The coefficient estimates of democracy are positive and statistically significant in all columns (except column 2). Therefore, all else equal, Japan tends to increase the levels of grants once a country is democratized. Similarly, the negative significant sign of policy distance (except column 2) suggests that *ceteris paribus* as policy distance between Japan and a country widens, Japan is less inclined to give grant aid to that state. The estimated coefficients of war are negative and statistically significant in all columns, indicating that Japan has a strong disinclination to disburse both loans and grants to the countries at war. Although Japan's ODA has been criticized for its lack of a consistent aid philosophy (Yasutomo 1986, 14; Hook and Zhang 1998), this anti-war orientation has been maintained since the Ohira cabinet (1978-1980), which refused to disburse aid to countries engaging in armed conflict (Yasutomo 1986, 43). The coefficient in column 2, however, is much smaller than the one in column 5, suggesting that even if a country is involved in armed conflict, Japan may not reduce the amount of technical assistance as much as the volume of loans.

The estimated coefficients of natural disasters are positive and statistically significant in all columns (except column 2), although their sizes are relatively small. Therefore, all else equal, Japan tends to increase the levels of grants and technical assistance, albeit slightly, as the number of deaths caused by natural disasters rises. The estimated coefficients of attacks on Japanese are positive in all columns (except column 2) but only coefficient in column 4 is statistically significant. Thus, *ceteris paribus* Japan disburses more grants as the number of attacks targeting Japanese nationals in a country increases, although the relatively large size of standard errors means that uncertainty surrounding the effects of terrorism on Japan's aid disbursements remains high.

Surprisingly, membership of the UNSC does not seem to be associated with the allocation of Japan's ODA. The estimated coefficients of UNSC member are not statistically significant in all columns and their sizes are equally small (except column 2). This result contradicts with the findings of previous research on Japan's aid allocation (Vreeland and Dreher 2014, pp.149–157),

U.S. aid allocation (Kuziemko and Werker 2006), German aid allocation (Dreher et al. 2015), and aid disbursements by multilateral institutions (Dreher et al. 2009a; and 2009b; Lim and Vreeland 2013). To find out why our findings are mixed, I estimate regressions with different specifications and different data sets.³³ The overall results suggest that the inconsistencies stem from the use of different data sets. I also speculate that the outcome misses statistical significance partly because Japan has utilized its aid programs to secure a temporary seat at the UNSC rather than to influence the resolution of the UNSC, and partly because since 1971, Japan has used multilateral channels rather than bilateral ones to conceal its exercise of power over the recipient (Lim and Vreeland 2013).³⁴

Issues of Endogeneity

Although the results of OLS regressions support both Hypotheses 1 and 2, OLS estimates would be biased upward if Japanese aid levels raise U.S. aid volumes, whereas they would be biased downward if Japanese aid levels reduce the supply of U.S. aid. To tackle the issues of reverse causality and joint decision-making, I estimate 2SLS regressions using U.S. attacks as an instrument. This variable counts the number of terrorist attacks targeting U.S. nationals in a potential recipient state in year $t - 1$ (START 2016). I take the natural logarithm of this variable (plus one). One may suspect that there exists a confounder, such as a latent ideology or foreign policy variable, that influences both U.S. and Japanese aid allocation. I use the 2SLS estimation as it allows us to eliminate the omitted variable bias (Wooldridge 2013). **The 2SLS first-stage equation looks like**

$$F_{it} = \alpha Z_{it-1} + \mathbf{X}_{it}\Gamma + \delta_t + \psi_i + \varepsilon_{it}, \quad (1)$$

³³Results are available upon request.

³⁴It is equally plausible that the decisions of the AsDB are mere reflections of the interests of the U.S., another key shareholder of the bank, as Japan is vulnerable to U.S. pressure even at the AsDB.

where F_{it} is the endogenous variable of interest, the volume of U.S. aid disbursed to a particular recipient i in year t . \mathbf{X}_{it} is a vector of country-year covariates, δ_t is year fixed effects, ψ_i is country fixed effects, ε_{it} is the error term, and Z_{it-1} denotes US attacks. In the 2SLS first stage, we estimate the above equation and save the fitted values, \hat{F}_{it} , which is defined as

$$\hat{F}_{it} = \alpha Z_{it-1} + \mathbf{X}_{it}\Gamma + \delta_t + \psi_i. \quad (2)$$

The 2SLS second stage regresses Y_{it} on \hat{F}_{it} and \mathbf{X}_{it} . Thus, the 2SLS second-stage equation is

$$Y_{it} = \beta \hat{F}_{it} + \mathbf{X}_{it}\Gamma + \delta_t + \psi_i + \nu_{it}, \quad (3)$$

where ν_{it} is the disturbance term. The fitted value of first-stage regression excludes the residual of the first-stage regression, which is possibly correlated with ν_{it} . Thus, the 2SLS estimator is consistent even in the presence of omitted variables.

The instrumental variable must satisfy the following two conditions. First, it must be correlated with the endogenous regressor (i.e., U.S. aid). Previous research demonstrated that the U.S. tends to disburse more aid as the number of terrorist attacks targeting Americans increases (Boutton and Carter 2014). I also find that the coefficient of U.S. attacks in the first stage is positive and statistically significant (see column 6 in Table 2). According to Neumayer and Plümper (2011), U.S. citizens frequently fall victim to international terrorism, and they attributed this fact to the extensive presence of U.S. military personnel outside the homeland. Since World War II, the U.S. has formed security alliances with numerous countries and stationed its troops inside their territories to preserve its strategic interests and maintain global stability. For terrorist groups, however, the presence of U.S. troops appears to be both a threat to their existence and a hindrance to the achievement of their political goals. Thus, they often choose U.S. personnel as the primary target of their attacks (Crenshaw 2001, 432). Following attacks, the U.S. government frequently increases its aid levels to assist the government of the targeted state, to restore public order, and to

improve security.

Second, the instrument must be uncorrelated with the structural error term. Previous research on aid allocation and Japanese foreign policy suggests that the second condition also holds. In the postwar era, the general public in Japan tends to think Japan should uphold Article 9 of the Constitution, which strictly prohibits the possession of a military and the use of troops except for defensive purposes. Although the Japanese government attempted to expand the mandate of Self-Defense Forces (SDF) by passing the International Peace Cooperation Law in 1992, the actual participation of SDF in UN peacekeeping missions remained at a low level. Owing to the limited presence of its troops abroad, Japanese nationals have been less susceptible to terrorist attacks than Americans. This means that U.S. attacks and attacks on Japanese are not correlated, and that the instrument is unlikely to have a direct impact on the allocation of Japan's ODA, although it may still affect the latter through U.S. aid allocation. In addition, previous research on aid delivery revealed that the U.S. may not increase its aid levels after observing terrorist attacks against foreign nationals. For example, Boutton and Carter (2014) found no evidence that U.S. aid levels are associated with the number of terrorist attacks targeting non-U.S. nationals, even if the victims are from a formal ally of the U.S. Given that even the U.S., which possesses the interests in maintaining global stability, is reluctant to disburse aid to protect the interests of its allies, the lesser powers, which normally do not possess such interests, are unlikely to voluntarily increase their aid levels following the incidents targeting U.S. nationals. Indeed, Potter and Van Belle (2004) found no evidence that Japan's aid allocation is associated with negative media coverage, such as global terrorist activities. Moreover, even at the onset of the War on Terror, the U.S. government had to urge Japan to disburse aid to neighbouring states of Afghanistan (MOFA 2002).

These findings suggest that in the absence of U.S. pressure, Japan is unlikely to give aid to compensate the damage caused by terrorism or to show its sympathy to foreign victims of terrorist attacks. To determine the validity of this claim, I perform the following placebo tests. First, I estimate OLS regressions including a variable that counts the number of terrorist attacks targeting

British nationals in a country. Second, I estimate OLS regressions with a variable counting the total number of terrorist attacks minus the number of terrorist attacks targeting U.S. and Japanese nationals in a country. I find that neither of these variables has a positive and significant influence on the allocation of Japan's ODA.³⁵ I also estimate 2SLS regressions with another instrumental variable and test for the validity of overidentifying restrictions.³⁶ Hansen's J statistic fails to reject the null hypothesis that all overidentifying restrictions are jointly valid at the 5 percent level.

[Table 2 about here.]

As long as these two conditions are met, Z can be used to estimate the causal effect of U.S. aid on Japan's aid (Morgan and Winship 2015). Table 2 presents results of 2SLS estimation.³⁷ **Given that U.S. attacks influences the volume of Japanese aid only through U.S. aid, I interpret the coefficient of interest, β , in (3) as showing the causal effect of an additional one percent change in U.S. aid, which is induced by the change in U.S. attacks, on the change in Japan's aid.** The estimated coefficients of U.S. aid are positive and statistically significant in columns 1 and 3-5, although the loss of statistical significance in column 2 seems to stem from the increase in standard errors. Because the result in column 2 does not pass the robust regression-based test,³⁸ here I compare the estimate in column 2 in Table 1 and those in columns 1 and 3-5 in Table 2 to see whether the impact of U.S. aid varies across different types of Japan's ODA.³⁹

³⁵See Tables 5-6 in the Supplementary Files.

³⁶I employ U.S. arms exports, a variable that measures the volume of U.S. arms exports to a country, as the second instrumental variable. See Table 7 in the Supplementary Files.

³⁷The Kleibergen-Paap rk Wald F statistic is 18.505 in columns 1-5.

³⁸The robust regression-based test (Wooldridge 1995) checks whether regressors that are treated as endogenous in the model are in fact exogenous. The test statistics of columns 1-5 are $p=0.002, 0.834, 0.015, 0.076,$ and $0.080,$ respectively, meaning that the tested variables in columns 1, 3-5 must be treated as endogenous.

³⁹The estimated coefficient of unlagged U.S. aid using yen loans as the dependent variable is 0.105, which is statistically significant at the 5 percent level.

Table 2 suggests that **1 percent rise in U.S. aid will increase** Japan's net ODA, grants-tech, grants, and technical assistance by 0.79, 0.46, 0.59, and 0.36 percent, respectively. Since the increase in loans is just 0.12 percent (column 2 in Table 1), I conclude that the supply of U.S. aid has a greater impact on the allocation of grants than that of loans, thereby supporting Hypothesis 2. Column 6 reports the results of the first stage.⁴⁰ The estimated coefficient of U.S. attacks has the expected positive sign, meaning that U.S. aid levels tend to rise as the number of terrorist attacks targeting U.S. nationals in a country increases. Although there are several differences between Tables 1 and 2,⁴¹ the central results regarding the impact of U.S. foreign aid on Japan's aid allocation remain intact (i.e., Hypotheses 1 and 2 are supported).

To evaluate the robustness of my empirical results, I conducted a series of additional tests, and reported the results in the Supplementary Files. The central findings remained largely unaffected.

Japan's Foreign Aid

The findings in the previous section suggest that when the strategic interests were threatened by terrorist activities, the U.S. tended to increase the volume of foreign aid and apply pressure on Japan to complement its aid efforts. Yet, combatting terrorism is just one of the many motives that drive U.S. aid provision. To see how other interests prompt the U.S. to apply pressure on Japan, and whether Japan indeed changes its aid programs in the face of U.S.

⁴⁰All exogenous variables in the second stage are included in the first stage as instruments. Thus, trade (policy distance) still measures the amount of trade (the distance of ideal point estimates) between Japan and a potential recipient.

⁴¹The estimated coefficients of GDP per capita in columns 1 and 3 flip sign and the one in column 4 becomes statistically insignificant. The coefficient estimate of population in column 3 flips sign, the ones of policy distance in columns 1 and 4 change sign and become statistically insignificant, and the statistical significance of natural disasters in columns 1, 3-5 disappears. The estimated coefficients of attacks on Japanese in columns 1 and 5 and the one of UNSC member in column 3 flip sign, although they remain statistically insignificant.

pressure, I conduct case studies. I first preset cases in which Japan reacted to U.S. pressure by changing its aid policies, and then offer several examples in which Japan did not alter its aid (mostly loans) programs despite the presence of U.S. pressure. The timing of the change in Japan's aid provision along with the evidence for Japan's commercially oriented aid programs suggests that U.S. and Japanese interests were not identical, and that the U.S. had to apply pressure on Japan to alter the latter's course of action.

***Gaiatsu* and Japan's Aid Policy**

The Japanese aid program originated in war reparations to countries occupied by Japan during World War II.⁴² In response to pressure from U.S. Secretary of State John Foster Dulles, Prime Minister Shigeru Yoshida extended reparation payments to a total of thirteen countries (Arase 1995, 29;Orr 1990, 53).⁴³ In the 1960s, as the U.S. became more heavily involved in the Vietnam War, it sought to let other allies share the burden of foreign aid. In January 1965, President Johnson urged Prime Minister Sato to disburse aid to Taiwan and South Korea to compensate for a decline in U.S. aid to these countries. Japan provided aid to Taiwan in 1965 and South Korea in 1967 (Orr 1990, 109–110). In 1967, Japan also disbursed aid to Indonesia, Malaysia, the Philippines, and Thailand, although U.S. pressure to increase aid continued (Orr 1990, 110). From 1969 to 1973, twenty-eight grant aid projects (out of thirty-five) were extended to Laos, Cambodia, South Vietnam, and Thailand (Arase 1995, 56). Following the end of the Vietnam War, the U.S. commitment to Southeast Asia declined, and President Carter urged Japan to increase aid to ASEAN countries (Orr 1990, 110). This has led to a dramatic increase in Japan's aid to ASEAN since 1978 (Orr 1990, 105). After the Vietnamese invasion of Cambodia, the U.S. further urged Japan to increase

⁴²Reparations are counted as grant aid (Arase 1995, 55).

⁴³Reparations countries were Myanmar, Thailand, the Philippines, Indonesia, Laos, Cambodia, South Vietnam, South Korea, Singapore, Malaysia, Micronesia, Vietnam, and Mongolia. India, the People's Republic of China, and the Republic of China renounced their right to accept war reparations (Arase 1995, 28–29).

aid to Thailand which experienced a massive influx of refugees (Orr 1990, 79; Arase 1995, 214). The amount of Japan's grant aid to Thailand surged from 1.0 billion yen in 1975 to 13.4 billion yen in 1985 (Arase 1995, 99).

Although in the 1950s and 1960s, the U.S. irregularly applied pressure on Japan, since 1978, the U.S. and Japan have periodically held consultations on foreign aid. The U.S. dispatched the USAID Administrator and high-ranking officials from the State Department to these meetings, while the Economic Cooperation Bureau of MOFA led the Japanese delegation. These aid consultations served as fora for the U.S. to press Japan to increase aid to politically important countries (Inada 1989, 402; Orr 1990, 128). Following the Soviet invasion of Afghanistan in 1979, the U.S. pressured Japan to substantially increase aid to Pakistan and Turkey (Orr 1990, 111). According to Inada (1989, 405), "Japanese aid to Turkey and Pakistan has served to fill gaps left by the Americans." After Reagan's inauguration as U.S. President in 1981, the National Security Council drafted guidelines for Japan's aid policy, which urged Japan to increase aid to regions outside of Asia while maintaining its aid levels to Southeast Asia (Orr 1990, 112). In the 1982 aid consultations, the U.S. delegation presented a list of countries to which the U.S. wished Japan to disburse aid (Orr 1990, 129), and in subsequent meetings, the U.S. continually pressed Japan to increase aid to non-Asian regions (Orr 1990, 129–130). Under U.S. pressure, Japan extended aid to frontline states, such as Jamaica, Sudan, Egypt, the Philippines, and the Pacific Islands (Arase 1995, 217; Orr 1990, 112). In the early 1980s, when it became apparent that the Sandinista government of Nicaragua leaned toward communism, the Reagan administration terminated technical assistance to the government and pressed other DAC members to follow suit. Nevertheless, prior to the 1982 aid consultations, several MOFA staff members informed USAID officials of Japan's intention to provide technical assistance to the Sandinista government. During the consultations, USAID Administrator McPherson repeatedly advised the Japanese delegate not to proceed with that plan. As a result, from 1982 through 1989, Japan refrained from disbursing any assistance to Nicaragua (Orr 1990, 123). After the 1985 Plaza Accord, external pressure on Japan to recycle its

trade surpluses rose. In 1987, Japan pledged to disburse grants to sub-Saharan Africa within three years (Arase 1995, 128; Orr 1990, 37, 94). Although MITI opposed this plan, MOFA constantly stressed the presence of American pressure when determining aid projects (Orr 1990, 56). U.S. pressure on Japan continued even in the post-Cold War era. For instance, facing U.S. pressure, Japan decided to offer financial support to Yeltsin's democratic regime despite the presence of a longstanding territorial dispute (Miyashita 1999, 718–725). After the onset of the War on Terror, Prime Minister Koizumi met with U.S. President George W. Bush, and responded to U.S. pressure by agreeing to disburse emergency budgetary assistance to Pakistan (MOFA 2002, 17–18)⁴⁴ and to provide emergency assistance and grant aid to Central Asian countries such as Tajikistan and Uzbekistan, which allowed U.S. forces access to their military bases (MOFA 2002, 22).

MITI and Japan's Commercial Interests

In 1958, under the initiative of MITI, Japan extended the first yen loan to India; between 1959 and 1964, Japan provided loans to Paraguay, South Vietnam, Pakistan, and Brazil. The primary objective of these loans was to develop export markets and raw material sources (Arase 1995, 39–41). The 1973 oil shock prompted Japan, particularly MITI, to use aid to secure access to energy supplies. Japan made ODA commitments (mostly in the form of loans) to countries in the Middle East and North Africa (Arase 1995, 75–76). Japan's provision of loans to Iran represents a particularly distinct departure from U.S. policies. Further, after normalizing diplomatic relations with China in 1972, Japan commenced a bilateral aid program in 1979 because "MITI believed that China would be a potential market for Japan's exports" (Inada 1989, 405). This was in stark contrast to the U.S., which refrained from disbursing aid to China (Orr 1990, 73). Most Japanese ODA to China took the form of concessional loans (Orr 1990, 74). Moreover, Japan opened relations with socialist Vietnam in 1973 and provided grant aid in 1975 and loans in 1978 (Arase

⁴⁴Emergency assistance took the form of non-project grant aid. Japan also agreed to disburse economic assistance in the form of grant aid (MOFA 2002, 21).

1995, 213). After the Vietnamese invasion of Cambodia in 1978, however, the U.S. pressured Japan to suspend aid so that Japan would not take this opportunity to advance its commercial interests. Although some MITI officials wished to maintain assistance, Japan cut its aid to Hanoi (Orr 1990, 37, 122, 142). In January 1987, MITI promoted the New AID Plan to assist Japanese manufacturers, which had become uncompetitive due to yen appreciation, to expand production in Asia (Arase 1995, 129–131).

Although Japan withheld aid to Vietnam after 1978, in other cases, Japan continued providing aid to a country despite U.S. opposition. For instance, after Hun Sen's successful coup attempt in Cambodia in July 1997, international pressure on Japan to suspend ODA to Cambodia rose. Nevertheless, the Japanese government maintained most aid programs on the ground that it received assurances from the Cambodian government that reforms would be implemented soon (Hook and Zhang 1998, 1063). Similarly, in 1988, MOFA, along with other donors, suspended aid to Myanmar for its human rights violations; however, in March 1989, Japan unilaterally resumed aid not only because the government faced pressure from the business community, but also because the Ministry of Finance worried that suspension of aid might cause Myanmar to default on previous yen loans (Orr 1990, 85–86). These cases indicate that Japan's domestic politics certainly played an important role in circumventing U.S. pressure on Japan's aid (particularly loan) programs.

Conclusions

Foreign aid has been an important tool of the U.S. to attain its overarching political objectives. Because the efficacy of aid hinges not only on the volume of aid disbursed by the U.S. but also on the amount of assistance provided by other donors, the U.S. often keeps a watchful eye on the allies' aid flows, and if necessary, exerts pressure on them to disburse aid to particular recipients. Of these allies, states that are heavily dependent on U.S. security guarantees, such as Japan, are deemed particularly vulnerable to American pressure as their perceived risk of U.S. disengagement

is unusually high. Nevertheless, even such countries do not always succumb to U.S. pressure as aid allocation is ultimately determined by domestic actors within them. To explore whether and how the U.S. urges minor powers to disburse aid to achieve its overarching political objectives and how the domestic politics within subordinate states affects the degree to which external pressure shapes their aid policies, I examined both the direction and magnitude of U.S. influence on lesser powers' aid allocation by focusing on the relationship between the U.S. and Japan.

I argued and demonstrated that the U.S. applies pressure on Japan to complement its aid efforts rather than to substitute them in order to prevent Japan from taking opportunistic behavior such as strengthening ties with the recipients and advancing its commercial interests. American efforts to reduce agency slack leads Japan to disburse aid in line with the U.S. However, because aid policies are largely influenced by who participates in decision making, there exist variations in Japan's receptiveness to external pressure. If a bureaucratic agency, which has close ties with foreign representatives but lacks a strong domestic constituency, is in charge of aid allocation, the aid policy is more receptive to U.S. pressure than an aid policy formulated through consultations among multiple agencies including the one with strong domestic support. Accordingly, in Japan, the allocation of grant aid, which is left to the discretion of MOFA, is more receptive to U.S. pressure than that of loans.

The results help us understand a longstanding puzzle of why there has been a discrepancy in criticisms of Japan's ODA; While some scholars argued that Japan's aid policy has been vulnerable to *gaiatsu* (Calder 1988), others asserted that Japan has been seeking its own commercial interests (Schraeder et al. 1998). This seeming discrepancy in the responsiveness of Japan's aid policy might have stemmed from the fact that most existing quantitative studies on Japan's ODA employed aggregated data and did not investigate the impact of U.S. aid on the allocation of different types of Japan's ODA. Given that the share of loans in Japan's ODA varies from year to year, it is not surprising that previous findings are mixed. The outcome of the present study, therefore, suggests the importance of disaggregating ODA especially if donors disburse various types of aid

and different domestic actors are in charge of their allocations.

The findings of this article are further extendable to the literature on aid coordination (or lack thereof).⁴⁵ Recently, a growing number of scholars and policymakers have stressed the importance of aid coordination and encouraged donors to concentrate on fewer recipients as recipients generally lack sufficient administrative skills to absorb aid from multiple channels. For example, Knack and Rahman (2007) asserted that donor proliferation causes excessive recruitment of administrators by donor states, which puts further strain on already scarce resources (i.e., skilled labor) of recipients. Nevertheless, previous empirical studies generally found that donor proliferation remains more prevalent than aid coordination (Aldasoro et al. 2010; Frot and Santiso 2011; Nunnenkamp et al. 2013), although they unfortunately did not provide us much insight into why coordination fails.⁴⁶ The findings of present research indicate that a superpower's incentives to use aid to attain diplomatic objectives and to reduce agency slack also account for coordination failure. Accordingly, if the dominant state could refrain from pressuring others to complement its aid efforts, or if developed countries in general could resist a temptation to prevent others from specializing in a particular country and strengthening political/economic ties with the recipient, we may observe a more efficient delivery of foreign aid.

⁴⁵Aid coordination means here the concentration of aid in recipient countries rather than in specific aid sectors. See, for example, Acharya et al. (2006), Knack and Rahman (2007), Frot and Santiso (2011), and Fuchs et al. (2015).

⁴⁶As an exception, Frot and Santiso (2011) posited that donors cannot coordinate if there is a growing global concern over humanitarian suffering; For instance, when Indian Ocean earthquake and tsunami hit the coasts of Indonesia and other countries in December 2004, herding occurred. Similarly, Fuchs et al. (2015) insisted that coordination fails owing to competition among donors over export markets.

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	1 net ODA	2 loans	3 grants- tech	4 grants	5 tech assist
Constant	20.768 (25.306)	39.192* (22.425)	-4.680 (24.401)	-27.639 (32.958)	-14.813 (23.462)
$\ln(\text{U.S. aid})_{t-1}$	0.194*** (0.034)	0.119*** (0.041)	0.160*** (0.031)	0.168*** (0.035)	0.138*** (0.029)
$\ln(\text{GDPpc})_{t-1}$	-0.958 (0.708)	0.573 (0.860)	-0.233 (0.573)	-1.694** (0.843)	0.333 (0.598)
$\ln(\text{Population})_{t-1}$	-1.121 (1.336)	-3.120*** (1.087)	-0.019 (1.301)	2.290 (1.743)	0.222 (1.239)
$\ln(\text{Trade})_{t-1}$	0.091 (0.066)	0.178** (0.078)	0.081 (0.062)	-0.039 (0.108)	0.121* (0.069)
Democracy $_{t-1}$	1.205** (0.485)	0.223 (0.555)	1.112*** (0.330)	0.912* (0.517)	1.213*** (0.324)
Policy distance $_{t-1}$	-1.567*** (0.390)	-0.438 (0.458)	-1.857*** (0.364)	-0.961** (0.402)	-1.824*** (0.359)
War $_{t-1}$	-1.375*** (0.388)	-1.551** (0.680)	-0.892*** (0.227)	-1.432*** (0.465)	-0.780*** (0.222)
$\ln(\text{Natural disasters})_{t-1}$	0.080** (0.037)	-0.064 (0.060)	0.055** (0.025)	0.111** (0.050)	0.042* (0.023)
$\ln(\text{Attacks on Japanese})_{t-1}$	0.072 (0.830)	-0.998 (1.130)	0.493 (0.332)	1.724* (0.964)	0.169 (0.229)
UNSC member	-0.102 (0.262)	0.326 (0.348)	0.063 (0.169)	0.133 (0.208)	0.080 (0.164)
Country Fixed Effects	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes
Observations	5,477	5,477	5,477	5,477	5,477
R^2	0.667	0.492	0.810	0.675	0.812

Clustered standard errors are reported in parentheses. * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$ (two-tailed).

Table 1: Results of OLS regressions (baseline model)

	1 net ODA	2 loans	3 grants- tech	4 grants	5 tech assist	6 first stage
Constant	-2.691 (25.777)	37.574 (24.461)	-16.824 (23.120)	-44.346 (34.505)	-23.682 (22.698)	42.470 (27.176)
ln(U.S. aid)	0.785*** (0.226)	0.154 (0.240)	0.463*** (0.137)	0.587** (0.238)	0.358** (0.148)	
ln(GDPpc) _{t-1}	0.409 (0.837)	0.668 (1.020)	0.475 (0.615)	-0.720 (1.009)	0.850 (0.641)	-2.257*** (0.572)
ln(Population) _{t-1}	-0.731 (1.328)	-3.098*** (1.091)	0.180 (1.223)	2.567 (1.794)	0.366 (1.166)	-0.880 (1.486)
ln(Trade) _{t-1}	0.114 (0.073)	0.180** (0.077)	0.093 (0.065)	-0.023 (0.108)	0.130* (0.070)	-0.031 (0.055)
Democracy _{t-1}	1.164** (0.493)	0.214 (0.537)	1.088*** (0.327)	0.881* (0.503)	1.194*** (0.319)	-0.031 (0.383)
Policy distance _{t-1}	0.209 (0.757)	-0.347 (0.879)	-0.956* (0.490)	0.295 (0.838)	-1.172** (0.515)	-3.040*** (0.415)
War _{t-1}	-1.237*** (0.413)	-1.565** (0.674)	-0.834*** (0.215)	-1.341*** (0.465)	-0.743*** (0.208)	-0.454 (0.372)
ln(Natural disasters) _{t-1}	0.028 (0.041)	-0.074 (0.059)	0.025 (0.027)	0.073 (0.052)	0.018 (0.025)	0.054 (0.036)
ln(Attacks on Japanese) _{t-1}	-0.491 (0.736)	-1.014 (1.163)	0.215 (0.299)	1.329* (0.718)	-0.030 (0.273)	0.179 (0.582)
UNSC member	-0.227 (0.296)	0.302 (0.341)	-0.011 (0.199)	0.039 (0.230)	0.023 (0.185)	0.214 (0.237)
ln(U.S. attacks) _{t-1}						1.204*** (0.280)
Country Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	5,477	5,477	5,477	5,477	5,477	5,477
R ²	0.563	0.490	0.775	0.629	0.791	0.715

Clustered standard errors are reported in parentheses. * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$ (two-tailed).

The Kleibergen-Paap rk Wald F statistic is 18.505 in columns 1-5.

Table 2: Results of 2SLS regressions