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Furuoka, Fumitaka

Universiti Malaysia Sabah

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Fumitaka Furuoka
School of Business and Economics
Universiti Malaysia Sabah
Locked bag 2073
88999 Kota Kinabalu
Sabah, Malaysia
Tel:60-88-320000, Fax:60-88-320260

Abstract

The introduction of the ODA Charter in 1992 can be seen as Japan's official pledge to pay more attention to political conditions in recipient countries and to impose political conditionalities on them. However, in practice, the Japanese government has continued using foreign aid as a diplomatic tool to pursue own economic interests. In this paper, in order to determine the quality of Japanese foreign aid, Japan's ODA will be compared with the foreign aid of other countries. In term of quantity, the amount of Japan's ODA is impressive. In 1989, Japan topped the US as the biggest donor of foreign aid among all aid donor countries. Despite the impressive quantity of Japanese foreign aid, the ratio of Japan's ODA to GNP in 1999 was 0.27 percent, which was lower than the average ODA ratio to GNP among DAC members (0.39 percent). Denmark was the country with the highest ratio (1.06 percent) followed by the Netherlands (0.82 percent). In term of geographical distribution, a prominent characteristic of Japan's ODA is that Asia, especially East Asian countries, receives the biggest share of Japanese aid. Far East Asia received 54.5 percent of this amount, and South and Centra Asia received 19.2 percent. African countries in South of the Sahara were left far behind receiving only 9.5 percent of total Japanese bilateral aid, while the African countries in North of the Sahara received only 2.1 percent. Furthermore, Grant Share (GS) of Japan's ODA was 39.6 percent, while the DAC's average rate of GS that year was 77.8 percent. Among DAC members, the Scandinavian countries, Australia and New Zealand had a very high GS, almost 100 percent. Germany's and France's GS were nearly 80 percent. These figures show that Japan's GS has been one of the lowest among DAC members. Also, Japan's untied aid ratio became one of the highest of the DAC

Keywords:

Foreign aid, Japan, quality of aid

1. Introduction

The introduction of the ODA Charter in 1992 is seen as Japan's official pledge to pay more attention to political conditions in recipient countries and to impose political conditionalities on them (Furuoka, 2006, 2007a). However, there is still scepticism about Japan's real intentions. In the new aid guidelines, the promotion of "universal values", such as human rights, democracy and freedom are set to become the new principles of Japan's aid policy. In this connection, a number of questions arise: has Japan placed those values in the central theme of its foreign aid policy?

Or, has Japan been using a convenient tactic to create the impression of the willingness to promote "universal values", while in practice the Japanese government has continued using foreign aid as a diplomatic tool to pursue her own economic interests? Before examining Japan's aid policy, a detailed analysis of Japan's ODA flows is necessary. In this paper, in order to determine the quality of Japanese foreign aid, Japan's ODA will be compared with the foreign aid of other countries.

2. Quality of foreign aid and its criticism

The Japanese government makes considerable efforts to maintain Japan's position as a leading donor of foreign aid. However, the quality of Japanese aid is often criticised. Some critics maintain that Japan's ODA is used not so much to help developing countries as to advance Japan's own economic interests.

A specialist on Japan's ODA, Kazuo Sumi (1990: 7-8), agrees with the negative assessments of the quality of Japanese foreign aid. Sumi points out that the government has repeatedly stressed the humanitarian aspects of foreign aid. However, in reality, the allocations of the bigger part of Japan's ODA are motivated by commercial interests so that Japanese foreign aid induces profits for Japanese companies.

The Japanese government refutes these criticisms by maintaining that it has its own approach to aid giving. According to a white paper on Japan's foreign aid, *Japan's ODA 1991*, "Accusations that Japan's ODA loans are commercially motivated or constitute aid with strings attached are groundless". The document demands a better recognition of the usefulness of ODA loans and insists that Japan's aid provides much needed funds for development and that many countries are capable of meeting repayment obligations (MOFA, 1991: 48-49).

There are different criteria to gauge the quality of foreign aid, though some indicators used to measure the quality of aid can be misleading. There is little argument that Japan has made some progress in the direction of improving her foreign aid quality.

As Kusano and Watanabe note, the quality of Japan's ODA has considerably improved in terms of the untied loans ratio.¹ This happened after Japanese companies had gained an international competitive edge and the government did not need to protect them any longer (Kusano and Watanabe, 1997: 15).

¹ The ratio of untied loans is the share of untied loans in the total bilateral loan. The ratio is used to measure the desirability of aid. Tied loans are less desirable because the money has to be spent on the purchase of goods and services from the donor country.

Japan is not the only donor country whose aid policy has been partially motivated by her own economic interests; many other donors tie their foreign aid. Arase (1995: 2-3) claims, “The basic point is that donors have economic and commercial interests besides the simple export of goods and services that is the objective of tied aid procurement.

Non-tied ODA schemes can still serve a donor’s interest in access to vital energy, food, and resource supplies in the developing world (Furuoka, 2006). In order to examine the main characteristics of Japanese foreign aid, the following section will compare Japan’s - ODA with other donors’ foreign aid.

3. The Amount of Japan’s ODA

The amount of Japan’s ODA is impressive. In 1989, Japan topped the US as the biggest donor of foreign aid, though in the following year the US regained the position. In 1991, Japan once again became the biggest donor of foreign aid and remained such for ten consecutive years (1991-2000). This position was lost to the US in 2001, when total ODA given by Japan was the second to the ODA provided by the US (see Figure 1).²

² Ministry of Foreign Affairs, *Japan’s ODA Annual Report*, various issues.

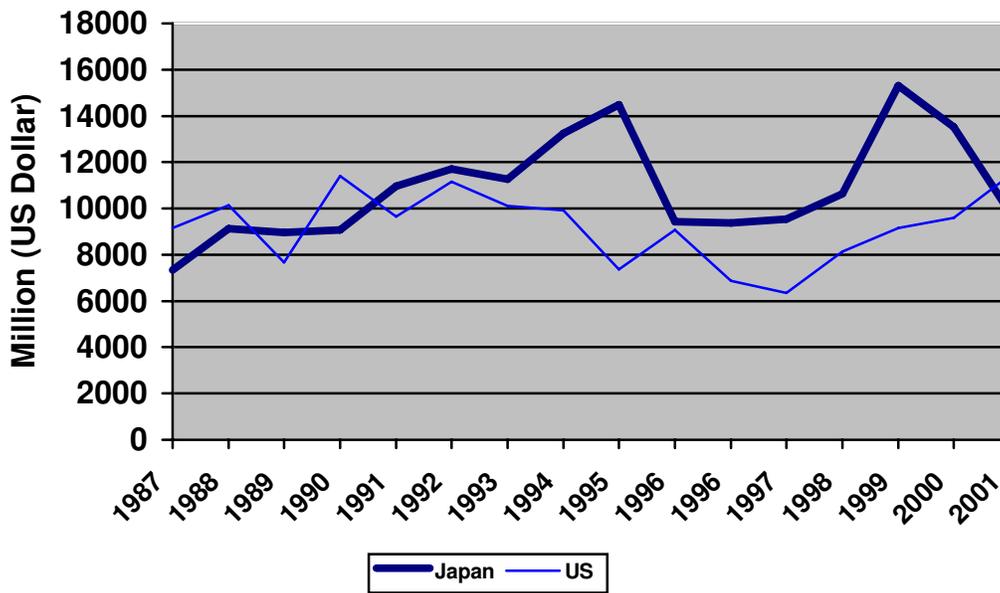


Figure 1 Amounts of US and Japan’s ODA (1987-2001)
 Source: MOFA, *Japan’s ODA Annual Report*, various issues

The fact that Japan could maintain the top donor’s position for several years did not mean that there had been no “aid fatigue”. For instance, the amount of Japan’s ODA decreased from US\$14.70 billion in 1995 to US\$9.58 billion in 1996. A Japanese aid specialist described this decrease as a sign of aid fatigue. According to him, due to the prolonged economic recession in Japan, the government made budget cuts, and “the budget for foreign aid is not an exception” (Kohama, 1997: 21).

The government cut its ODA expenses by 17.9 percent and 15.1 percent in 1999 and 2000, respectively. As a result, Japan’s ODA declined from US\$15.32 billion in 1999 to US\$13.06 billion in 2000. By contrast, the second biggest donor of foreign aid, the US, increased its foreign aid from US\$9.14 in 1999 to US\$9.50 in 2000. Similarly to Japan’s ODA, the total amount of foreign aid provided by DAC decreased from US\$ 56.44

billion in 1999 to US\$53.05 billion in 2000. This decline could be explained by the cut of ODA expenses by two leading aid donors, Japan and France.³

4. ODA Ratio to GNP

An important criterion to gauge the donor country's efforts to increase the amount of foreign is the ratio of the country's ODA to its GNP, or the share of ODA in the donor country's total GNP. Apparently, an aid donor with a bigger economy or GNP can afford to give larger amounts of ODA than aid donors with a smaller economy.

Despite the impressive quantity of Japanese foreign aid, the ratio of Japan's ODA to GNP in 1999 was 0.27 percent, which was lower than the average ODA ratio to GNP among DAC members (0.39 percent). Denmark was the country with the highest ratio (1.06 percent) followed by the Netherlands (0.82 percent).⁴

The Japanese government promised to increase the ratio of the country's ODA to its GNP. As *Japan's ODA 1993* stated, "Japan plans to steadily improve its performance in meeting the other target – the ratio of its ODA spending to GNP – under the fifth ODA target"⁵ (MOFA, 1993: 17). However, the government failed to achieve this aim. In 1992, Japan's ODA ratio to GNP was 0.33 percent. It increased only slightly to 0.35 percent in 1998.⁶

³ Organization for Economic Co-operation and Development, *Net Official Development Assistance Flow in 2000*, from the OECD's Internet Homepage <http://www.oecd.org/>

⁴ Organization for Economic Co-operation and Development, *Net Official Development Assistance Flow in 2000*, from the OECD's Internet Homepage <http://www.oecd.org/>

⁵ The Target covered the years 1993-1998.

⁶ Organization for Economic Co-operation and Development, *Net Official Development Assistance Flow in 2000*, from the OECD's Internet Homepage <http://www.oecd.org/>

It is possible that the plan to improve the ratio was not fulfilled because Japan set this objective *reactively* rather than *voluntarily*. This can be assumed from the following statement in *Japan's ODA 1993*, "The ODA ratio to GNP is used by the international community as a yardstick for measuring burden sharing of different countries. Therefore, we (the Japanese government) have to make further improvements in this area ... sufficient to impress upon the international community that indeed, we are fulfilling our responsibility in terms of both absolute amount and ODA ratio to GNP" (MOFA, 1993a: 17).

5. Geographical Distribution of Japan's ODA

A prominent characteristic of Japan's ODA is that Asia, especially East Asian countries, receives the biggest share of Japanese aid. In 1998-1999, Japanese bilateral foreign aid amounted to US\$11.01 billion. Far East Asia received 54.5 percent of this amount, and South and Central Asia received 19.2 percent. African countries in South of the Sahara were left far behind (Furuoka, 2007b), receiving only 9.5 percent of total Japanese bilateral aid. The African countries in North of the Sahara received only 2.1 percent.⁷

To compare, the US distributed its bilateral foreign aid all over the world more evenly. In 1998-1999, US bilateral foreign aid amounted to US\$4.11 billion of which African countries North of the Sahara received the highest share (18.3 percent) followed by those countries South of the Sahara (17.6 percent). Far East Asia received only 7.8 percent of

⁷ Organization for Economic Co-operation and Development, *Major Recipients of Individual DAC Member's Aid*, from the OECD's Internet Homepage <http://www.oecd.org/>

US bilateral aid and South and Central Asia received 12.9 percent.⁸

Similar to the US, other donors gave more foreign aid to African countries. For example, one of the leading aid donors, France, distributed a total of US\$4.25 billion in bilateral aid in 1998-1999. African countries were the biggest recipients of France's aid. African countries South of the Sahara received 45.4 percent of the total French bilateral aid and those countries North of the Sahara received 17.4 percent.⁹

As another example, in 1998-1999, German bilateral aid amounted to US\$3.75 billion. Again, African countries South of the Sahara were the biggest recipients of aid with a share of the total German bilateral aid of 26.8 percent.¹⁰

6. Grant Share (GS) and Grant Element (GE)

Regarding the quality of foreign aid, bilateral grants are generally considered more favourable for aid recipients than bilateral loans because grants do not require reimbursement. In other words, if the share of grants - Grant Share (GS) - in the total ODA is higher, the quality of foreign aid is better.¹¹

In 1997, GS of Japan's ODA was 39.6 percent, while the DAC's average rate of GS that year was 77.8 percent. Among DAC members, the Scandinavian countries, Australia and

⁸ Organization for Economic Co-operation and Development, *Major Recipients of Individual DAC Member's Aid*, from the OECD's Internet Homepage <http://www.oecd.org/>

⁹ Organization for Economic Co-operation and Development, *Major Recipients of Individual DAC Member's Aid*, from the OECD's Internet Homepage <http://www.oecd.org/>

¹⁰ Organization for Economic Co-operation and Development, *Major Recipients of Individual DAC Member's Aid*, from the OECD's Internet Homepage <http://www.oecd.org/>

¹¹ The majority of Japan's bilateral grants are "tied grants" for which Japanese companies provide goods and services.

New Zealand had a very high GS, almost 100 percent. Germany's and France's GS were nearly 80 percent. These figures show that Japan's GS has been one of the lowest among DAC members.¹²

Another indicator of aid quality is the "Grant Element (GE)" which measures the quality of foreign aid in terms of interest rate, grace period and maturity. A higher GE ratio in the country's foreign aid indicates a better quality aid. A lower ratio of GE in the total ODA makes aid less desirable for recipient countries (Furuoka, 2006).

The GE of Japan's ODA in 1997 was 78.6 percent and one of the lowest of the DAC. Australia and New Zealand give only grants - and no aid loans. Therefore, their GE is usually 100 percent. Foreign aid by Norway, Sweden and Finland also has almost 100 percent GE.¹³

Kusano (1997: 99) mentions that the DAC criticised the low GS and GE of Japan's ODA and urged the Japanese government to improve the condition of foreign aid by providing more bilateral grants. The Japanese government insists that low GS and GE do not mean that contributions bring comparatively little benefit to recipient countries. For example, the absolute value of Japan's grants in 1994 was US\$8.98 billion; this amount surpassed total ODA by France (MOFA, 1996: 24).

¹² Ministry of Foreign Affairs, *Japan's ODA 1999*, from the MOFA's Internet Homepage http://www.mofa.go.jp/policy/oda/summary/1999/ov1_1.html

¹³ Ministry of Foreign Affairs, *Japan's ODA 1999*, from the MOFA's Internet Homepage http://www.mofa.go.jp/policy/oda/summary/1999/ov1_1.html

Kohama (1997: 27) disputes the view that grants are better than loans. He claims that aid recipients tend to waste bilateral grants which they consider “free gifts” while they spend bilateral loans more cautiously because bilateral loans require repayment.

In a similar vein, Kusano (1997: 92) reminds that by providing bilateral loans, as opposed to bilateral grants, Japan exercises aid philosophy that stresses the spirit of “self-help” by aid recipients.

7. Ratio of Untied Aid

Another important criterion for the quality of foreign aid is the ratio of untied aid. While tied aid means that loans or grants have to be spent on the purchase of the donor’s goods and services, untied aid does not have such conditions (Todaro, 2000: 591). Untied aid is more favourable for the recipient countries than tied aid because the latter tends to be commercially motivated and promotes the donor’s interests by depriving local business of the chance to provide goods and services for aid programs.

However, the ratio of untied aid does not always indicate the absence of commercial interest in a donor’s aid program. The French government provides foreign aid to teach the French language and though this aid is classified as tied aid, it is not commercial. On the other hand, a donor can manipulate the bidding procedure for untied aid to ensure the desired outcome (Arase, 1995: 2-3).

The Japanese government has been making efforts to increase the amounts of untied aid. According to *Japan's ODA 1997*, "Since the Japanese government announced its position in the Japan-U.S. joint communiqué in 1978, the untied portion (of Japanese ODA) has increased steadily" (MOFA, 1997a: 103). Subsequently, Japan's untied aid ratio became one of the highest of the DAC (see Table 1).

Table 1 Average Untied Aid Ratio of DAC Members (1995-1999)

Over 90%	50% - 90%	25% - 50%	Under 25%	No data
Japan	Norway	Canada	Belgium	Greece
Sweden	Portugal	Italy	Spain	Ireland
Switzerland	Netherlands	Australia	US	Luxembourg
	Germany	UK		New Zealand
	Finland	France		
	Denmark	Austria		

Source: OECD¹⁴

Though the Japanese government has done a good job and increased the ratio of untied aid in Japan's ODA, apparently, it prefers to give untied loans rather than untied grants. In 1996, 100 percent of Japanese loans were untied loans, while only 47.6 percent of grants were untied.¹⁵

¹⁴ Organization for Economic Co-operation and Development, *Major Recipients of Individual DAC Member's Aid*, from the OECD's Internet Homepage <http://www.oecd.org/>

¹⁵ Ministry of Foreign Affairs, *Japan's Position on Untied Aid*, from the MOFA's Internet Homepage http://www.mofa.go.jp/j_info/japan/opinion/iimura.html

Watanabe and Kusano (1997: 16-17) point out that Japan is not the only donor country with a higher share of tied grants in the total amount of grants, and other aid donors also provide tied grants.

Watanabe and Kusano (1997: 15) state that although Japan's ODA has been criticized for protecting the interests of Japanese companies the reality is misinterpreted. They argue that after Japanese companies acquired the needed competitiveness with international companies, the government stopped favouring Japanese firms and began to give contracts to foreign companies. As a result, the untied loans ratio of Japan's foreign aid increased.

MOFA's attempts to increase the ratio of untied aid met strong opposition from MITI. Apparently, there is an inter-ministry conflict between MOFA, that supports an untied aid policy, and MITI, that prefers giving tied aid. Japanese companies and MITI strongly object to MOFA's "General Untied Aid Policy" which aims to improve the quality of aid (Furuoka, 2007).

The *Japan Economic Institute Report* states that MITI actively promotes tied foreign aid. For example, a MITI-related council recommends that "more tied aid should be considered within OECD rules in order to promote economic co-operation using our (Japanese) technology". MOFA strongly opposes this idea (*Japan Economic Institute Report*, July 11, 1997).

According to the *Report*, “This proposal drew fire from the Foreign Ministry on the grounds that increasing tied aid not only would trigger a backlash in the international community but also would reverse the direction of the post-1988 reform of Japan’s ODA program” (*Japan Economic Institute Report*, July 11, 1997).

Orr (1993: 45) argues that MITI has been reluctant to increase untied aid because it is aware that Japan’s commercial interests would suffer. However, there exists another obstacle of a different nature. According to Orr, after MITI had finally agreed to allow developing countries to join international tenders to bid for aid procurements for untied aid, developing countries could not win the bid because they either had not enough expertise or were unable to provide cheaper goods of better quality.

8. Conclusion

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