

ODA Policy Geared to “Growth Strategy”

Japan to Fund Vietnam’s Satellite, Water Projects

By Hiroshi OKABE

Photo: Kyodo News

The Japanese government is moving to change its policy on overseas development assistance (ODA) to make it compatible with its “growth strategy.” Long aimed at helping developing countries combat poverty, Japanese ODA will also be provided to countries launching satellites, most likely starting with a space project by the Vietnamese government. Japan has also firmed up a plan to resume investment and financing based on ODA, which were terminated in fiscal 2002, and begin by providing investment and lending to a Vietnamese water business project.

Tokyo now considers supporting Japanese companies in winning infrastructure contracts from developing countries and securing natural resources as the pillars of its growth strategy. It intends to aggressively use ODA in such areas through public and private partnerships geared toward the rejuvenation of the Japanese economy.

The Vietnamese government is planning to build an earth observation satellite as well as a space center to keep tabs on floods and other natural disasters. With the total project cost estimated at around 30 billion yen, the Vietnamese side has already asked the Japanese government for financing by yen loans. Japan has not given any firm commitment primarily because yen credits used to be considered a mechanism to provide low-interest, long-term loans to developing countries. However, in view of France and Belgium running ahead of Japan in the race to win a Vietnamese satellite contract by taking advantage of their ODA, Japan has at long last made a policy change to actively support infrastructure-related exports.

Mitsubishi Electric Corp. and NEC Corp. are the only Japanese producers of satellites. Despite high expectations for mounting demand in developing countries, the Japanese companies have so far failed to win overseas orders for satellites built with key proprietary compo-



Former Japanese Prime Minister Yukio Hatoyama takes a firsthand look at a place in Haiphong, Vietnam, where a sewerage facility is to be built.

nents except for a single order from Singapore. In addition to sending public and private missions to Mongolia and Cambodia in February 2011, the Japanese government has taken a number of supportive measures, including a budget earmarked for fiscal 2011 to develop a small-size, high-performance satellite. The government is hoping to win overseas orders at a rate of five to 10 satellites annually in five years from now.

With the final decision made on its resumption, ODA-based investment and financing will now be provided to projects carried out by the public and private sectors in developing countries. Lagging behind advanced Western countries in an international race for the water business, Japan considers the water project in Hanoi as a pilot project for resuming official investment and lending abroad. It seems likely that Japan International Cooperation Agency (JICA) will provide an investment and loan package to a joint venture being planned by Vietnamese companies and Metawater Co., a Japanese water treatment company funded by NGK

Insulators Ltd. and the Fuji Electric Group of companies. Contract negotiations for the water project are in their final stage. The project calls for constructing and managing a water purification plant, eventually selling water to a local waterworks agency in Vietnam. Of the operating cost estimated at 50 billion yen, JICA is expected to invest up to 2 billion yen.

Japan abolished official investment and lending in fiscal 2002 as part of administrative reform involving government-financed corporations. However, Western countries have since been mounting the offensive, with the public and private sectors in unison, to win overseas projects. Under pressure from businesses demanding resumption of ODA investment and financing, the Japanese government decided on resumption in December 2010. Having learned a lesson from huge losses suffered in such investment and lending in the past, JICA will tighten its screening processes, setting up a panel of knowledgeable persons consisting of non-JICA experts.

Fewer Japanese Students Abroad Youth's "Inward Orientation" Worrisome

While the number of students enrolled in Japan from Asia and other regions has been increasing, a declining trend in that of Japanese students abroad has shown no sign of turnaround. As there is a gap of more than double in the number of sending and receiving students, concerns have been mounting over the Japanese youth's "inward orientation."

The number of foreign students in Japan as of May in 2010 totaled a record 141,774, according to the Japan Student Services Organization. By nationality, China topped the list with 86,173, followed by South Korea with 20,202 and Taiwan with 5,297. Students from Asia account for 92% of the total. Notably the number of Chinese students increased by 7,091 from the previous year, accounting for

61% – an apparent reflection of growing enthusiasm in China to studying abroad.

Meanwhile, the number of Japanese students abroad totaled 66,833 in 2008, down 8,323 from the previous year, marking the largest yearly loss, according to data released by the education ministry. Japanese enrollments overseas have been declining since 2004 when it hit a peak of 82,945. Ministry officials attribute the decline to the early start of the job-hunting season, a protracted economic slowdown and students' growing aversion to staying abroad.

Japan's business community is alarmed by the trend because it faces difficulty in recruiting Japanese employees educated abroad at a time when it wants to strengthen operations in

emerging markets such as Asia. The US government is also worried because it thinks Japanese youths' "disinterest in America" could weaken bilateral relations over the longer term.

At a summit meeting in November last year, Japanese Prime Minister Naoto Kan and US President Barack Obama agreed to expand bilateral human exchanges and actively use the JET program, a Japanese government initiative inviting foreign university graduates to teach foreign languages at Japanese schools. The US Embassy in Japan has sponsored an English speech contest by Japanese high school students in Tokyo. In the final, US Ambassador to Japan John Roos sent a video message in an effort to encourage participants.

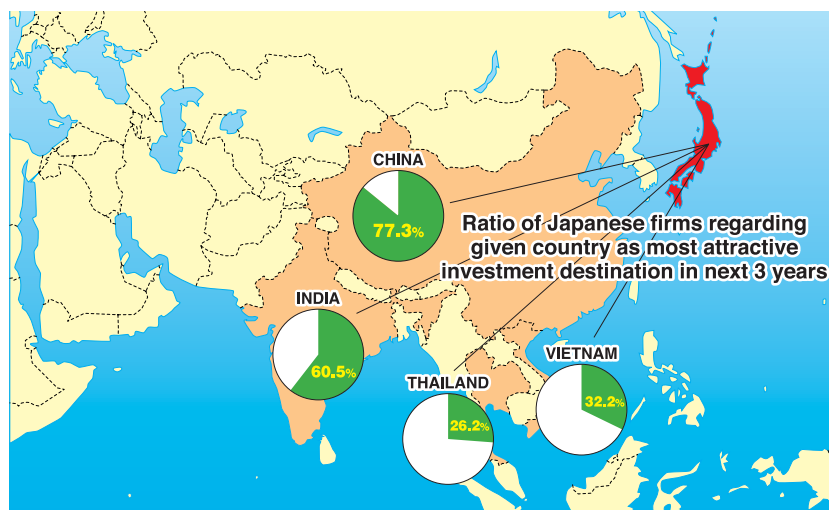
India No. 1 Investment Destination Japanese Firms See China Riskier in Long Run

India has overtaken China for the first time as the most attractive overseas investment destination for Japanese manufacturers amid increased labor costs and political risks in China, according to a survey by Japan Bank for International Cooperation (JBIC).

In the survey conducted in summer 2010, in which multiple responses were allowed, 74.9% of some 600 Japanese manufacturers selected India as their key investment destination over the next 10 years compared with 71.7% that chose China.

China, however, remained the most popular investment destination over the next three years in the survey, having kept the top spot since fiscal 1992 when the state-funded financial institution began conducting the survey. China stayed top at 77.3%, followed by India at 60.5%, Vietnam 32.2%, Thailand 26.2% and Brazil 24.6%.

The companies that chose China and India said they viewed the two markets as having high growth potential. However, a rapidly increasing number of Japanese companies pointed to problems such as



rising personnel costs and labor difficulties in China, apparently reflecting a recent rise in disputes between Japanese firms and Chinese workers seeking wage hikes.

In an additional JBIC survey conducted in November in the wake of bilateral tension over the disputed Senkaku Islands in the East China Sea, 24.8% responded that China was not as attractive as before, while 46.9% said it was

important to reduce their dependence on China and diversify investment risks.

China no longer dominates Japanese foreign investment, and Japanese companies "are increasingly turning their attention to such emerging markets as India and Vietnam," says a senior JBIC economist.

Hiroshi Okabe is chief editor, Economic News Section, Kyodo News.