

Promotion of the “Japan ODA Model”; The Successful Experience of Japan’s Economic Cooperation

– From the Interim Report of the Subcommittee on
Economic Cooperation, Industrial Structure Council –

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A half century has passed since Japan started to implement official development assistance (ODA). The situations of developing countries vary from one country to another. The Subcommittee on Economic Cooperation, Trade and Economic Cooperation Committee, Industrial Structure Council of the Ministry of Economy, Trade and Industry (METI) reviewed the experience of 50 years and considered the ways that Japanese economic cooperation may operate in the future. The outline of the report is the following.

The situations of developing countries have changed in the last 50 years. Asia has achieved rapid growth, while Africa is still struggling. Even though Asia and Africa have received almost the same amount of ODA from the world, there is a big difference in the amount of foreign direct investment. (See fig.1 and 2)

Japan has mainly focused its economic cooperation on East Asian countries that have relatively good governance with the goal of establishing foundations for the development of hard infrastructure, legal and institutional infrastructure, and industrial human resources, by utilizing yen loans and technical cooperation as its main instruments. As a result, with a substantial amount of private invest-

ment, Japan’s economic cooperation has become one of the major factors in the remarkable economic and social development of the East Asian region. Such an economic cooperation model can be called the “Japan ODA model.”

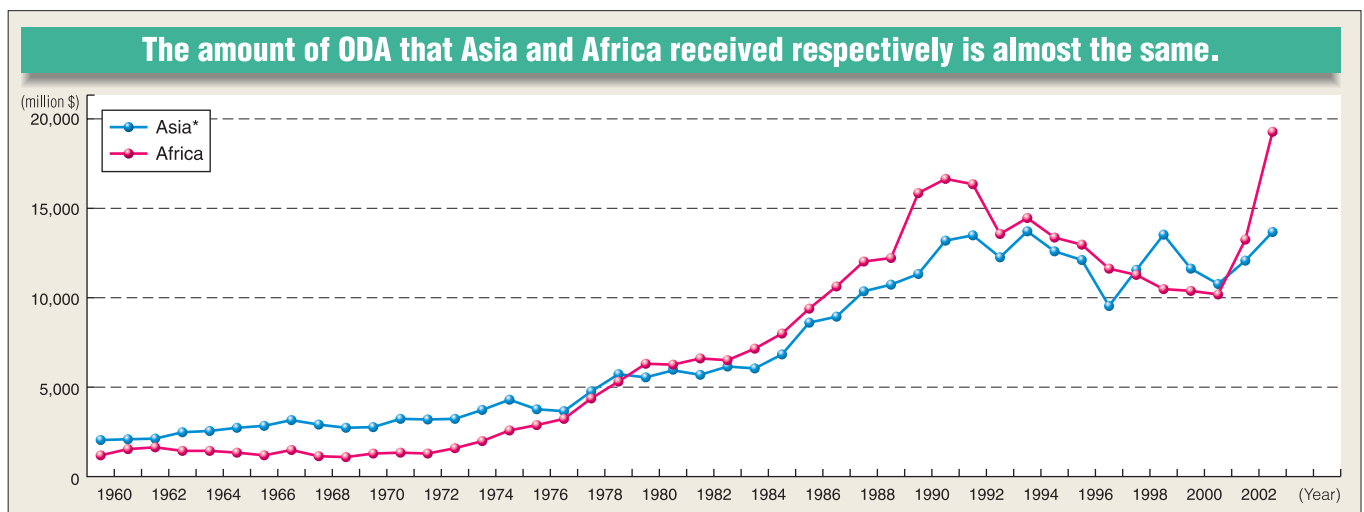
Recent Changes Surrounding Japanese Economic Cooperation

I. Increase and diversification of needs

Enhanced efforts toward development have become hot issues for achieving the Millennium Development Goals, to eliminate terrorism, and to create a peaceful society. With these goals in

Achievements of Japanese Economic Cooperation in the Last 50 Years

Figure 1 Changes in Amount of ODA Received by Asia and Africa



Source : OECD DAC

Notes : *Approximately 40% of them are for East Asia.

The definition of Asia, Africa, etc. is in line with the classification by OECD DAC (Asia includes the Middle East, and Africa includes North Africa).

mind, the United States and European countries have been increasing the amount of ODA. The needs of developing countries for economic corporation are diversified depending on their stages of growth. The needs to develop legal and institutional infrastructure, to enhance governance and to support Operation and Maintenance have also been increased. At the same time, it has become more important to cope with global issues such as the tightening supply of natural resources and energy and global warming.

II. Deepening trade and investment relations with East Asia

Trade and investment between Japan and the East Asian region have further increased. Along with the progress in negotiations for economic partnership agreements (EPAs), requests for economic cooperation have increased.

III. Changes in domestic environments

Although Japan had established its status as the top aid donating country in the world in the first half of the 1990s,

its ODA budget has been decreasing due to severe financial conditions from FY 1997. The Basic Policies for Economic and Fiscal Management and Structural Reform 2005 (the Basic Policies 2005) states that the government shall attain a sufficient level of ODA and realize a strategic expansion of the ODA volume in order to raise its ODA to 0.7% of gross national income (GNI).

Focuses of Japanese Economic Cooperation in Future

I. Three priority areas

Promoting the “Japan ODA Model” will contribute to the stability and prosperity of developing countries, and will help to ensure Japan’s security and benefit. This, in the end, embodies the objective of Japan’s economic cooperation. Japan should promote economic cooperation focused on three areas: improving trade and investment infrastructure to utilize the private-sector’s vitality, strengthening economic partnerships with East Asian countries and contributing to the solution of global issues. While centering support on Asian countries, Japan should adopt

region-by-region strategies and deploy “Japan’s ODA Model,” by constantly improving the economic cooperation methods.

i Improvement of trade and investment climates to adopt private-sector vitality

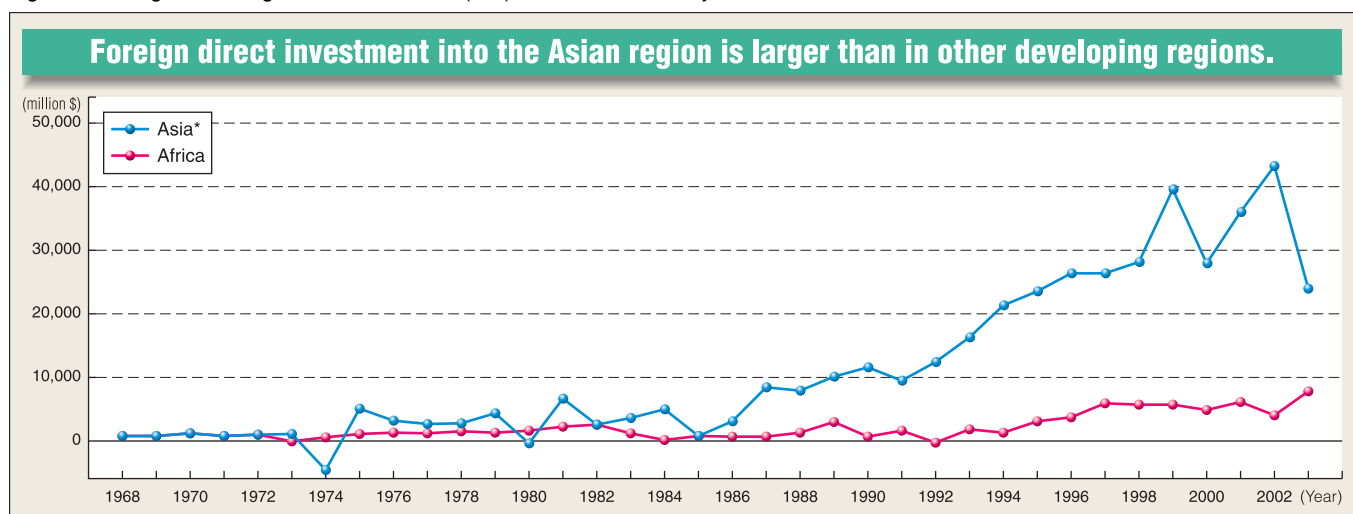
In order to vitalize the private sector in developing countries, it is important to develop infrastructure to promote trade and to invite private investment. It is necessary to take into account the needs of up-and-coming local and foreign corporations operating there, including Japanese companies.

(1) Support for the development of hard infrastructure

The development of hard infrastructure, such as roads, harbors and electricity, often invites private investment. It is important to support it with public funds and to cooperate with private capital.

(2) Support for the development of soft infrastructure: legal and institutional infrastructure and industrial human resources

Figure 2 Changes in Foreign Direct Investment (FDI) in Asia and Africa by DAC Member Countries



Source : OECD DAC

Notes : *East Asia accounts for approximately 80% of the total.

The definition of Asia, Africa, etc. is in line with the classification by OECD DAC (Asia includes the Middle East, and Africa includes North Africa).

Photo: Japan Bank for International Cooperation (JBIC)



Kuala Lumpur International Airport was constructed with the help of Japanese ODA (Malaysia, FY 1994)

It is important to offer economic cooperation in such field as the protection of intellectual property, the establishment of standardization and certification systems, and the promotion of efficient distribution logistics. Environment and energy conservation, and the development of industrial human resources are at the forefront of economic cooperation as well. Support for the development of IT and O&M infrastructure is also significant.

(3) Support for the enhancement of policy-making capacity of governments of developing countries

Japan should support enhancing the developing countries' capacity of governance so that these governments can build institutions and industrial infrastructure by themselves.

ii Promotion of economic cooperation to make economic partnerships stronger with East Asian countries

It is necessary to promote economic development of developing countries and enhance the international competitiveness of East Asia by implementing economic cooperation that will promote stronger economic partnerships and enhance the advantage of those partnerships.

iii Contribution to the solution of global issues

(1) Economic cooperation to help ensure the stable supply of demand for natural resources and energy

Japan should provide economic cooperation in such fields like infrastructure building, energy saving, human resource development and environmental measures to remove bottlenecks to develop resources and energy. In this regard, it is necessary to offer economic cooperation in combination with private capital.

(2) Contribution to the solution for global warming

In order to achieve the targets of the Kyoto Protocol, measures to utilize the clean development mechanism (CDM) should be studied by making the best use of economic cooperation while following international rules.

(3) Efforts to ensure safety and security

It is necessary to reduce poverty and promote self-sustaining growth in order to build a safe and secure society. It is also important to extend cooperation in such fields as disaster-prevention and disaster-control measures, trade control and safety measures for the Strait of Malacca, by taking advantage of Japan's excellent technologies and knowledge.

II. Region-by-region responses for the situations of each developing country

Photo: The Association for Overseas Technical Scholarship (AOTS)



The training course for the production management system of automobile parts (Thailand, FY 2003)

The "Japan ODA Model" that has been mainly implemented in East Asia should be applied to Africa and other regions in accordance with the circumstances of each region, while keeping Asia as the priority area.

i Asia

Cooperation with East Asian countries, especially ASEAN countries, will be further promoted. Economic cooperation should consider the level of economic development of recipient countries. For instance, cooperation with advanced ASEAN countries (such as Thailand and Malaysia), should focus on building infrastructures in combination with private capital and developing highly specialized human resources. For the medium-developed ASEAN countries (such as Indonesia, the Philippines, and Vietnam), focuses on trade and investment climate improvement and human resources development to develop small and medium-sized enterprises are important. The developing ASEAN countries (such as Cambodia, Laos and Myanmar) need to develop basic infrastructure and rectify disparities in the region.

ii Others

As for Africa, it is also important to extend economic cooperation to improve trade and investment climates that can attract private capital using the experiences in Asia. It is necessary to study

such cooperation as; productivity enhancement to help technologies take root in the countries, assistance for the “one village, one product” movement, utilization of Nippon Export and Investment Insurance (NEXI) and the Japan Bank for International Cooperation (JBIC), support for export promotion through business matching and agricultural support.

As for the Middle East, an area important for its natural resources and energy policies, in order to develop a close and friendly relationship between Japan and the Middle East, highly specialized human resource development assistance is crucial. As for Central and Latin America, it is important to promote trade and investment climate improvement and poverty programs to narrow income gap.

III. Improvement of economic cooperation methods to enhance effects and efficiency

i Effective combination of economic cooperation methods and development of new systems

(1) Effective combination of yen loans, grant aid and technical cooperation

It is necessary to establish a consultation system to ensure an effective combination of various support methods. It is vital that relevant ministries and agencies establish a forum to consult with local ODA taskforces, and sort out specific project needs. In addition, it is also important to organize an effective combination from the early stages and to formulate a medium-term plan, and then to proceed with the processes of request and examination based on this plan.

(2) Development of flexible methods of yen loans

It is necessary to provide yen loans flexibly for such infrastructure development fields as IT and industrial human resources development.

Studies should be carried out to make it possible to provide yen loans to highly creditworthy and repayable sub-sovereigns.

(3) Combination of public and private capital based on appropriate division of roles

It is important to establish infrastructure and an administrative services system in an efficient manner by appropriately sharing roles between public and private sectors through the promotion of a public-private partnership (PPP). It is necessary to promote an approach for the establishment of industry platforms, the promotion of bilateral policy dialogues, a coalition of public and private funds, and the creation of new trade financing tools such as new revenue bonds, in promising areas such as electric power, urban transportation, water supply and sewerage systems and administrative services including IT utilization.

(4) Promoting the linkage of economic cooperation policies and implementation systems

Based on the revised ODA Charter, efforts have been made to strengthen wide-ranging collaboration. Particularly, in terms of economic and industrial fields, the “Basic Policy on Economic and Industrial Technology Cooperation” has been published and meetings between the Economic and Industrial Technology Cooperation Coordination Council and local liaison conferences are being held. In addition, Japan has been supporting cooperation among developing countries and cross-regional cooperation. The continued cooperation with international organizations and other developed countries will be needed to promote the support.

(5) Linkage with private sectors, such as corporations, NPOs and universities

It is important to strengthen ties with private enterprises' activities based on

corporate social responsibility (CSR) and collaboration with NPOs and universities. It is also urgent to utilize Japan's human resources, including retired business persons and staff of NPOs who have knowledge of and experience in developing countries.

(6) Utilization of Japan's excellent technologies and experiences

On the premise of maintaining and enhancing the international competitiveness of Japanese corporations, it is important to promote the Special Terms for Economic Partnership (STEP) scheme, under which Japan can contribute its excellent technologies and the developing countries can utilize yen loans with concessional terms. It is also necessary to apply matching in accordance with the competitive financing conditions proposed by other countries in order to secure a level playing field.

ii Improvement of economic cooperation evaluation and promotion of understanding at home and abroad

(1) Improvement of economic cooperation evaluation

The Japanese Government stated in the Basic Policies 2005 to review the achievements of ODA carefully and promote efficiency. It is necessary to develop evaluation methods and to reflect the results more adequately in policies. METI should strive for effective evaluation with the cooperation of third parties, including this Council.

(2) Dissemination of ODA information

It is necessary to make Japanese and people of developing countries understand Japan's economic cooperation by holding seminars on economic cooperation at local chambers of commerce or other venues in addition to ODA town meetings. It is important to actively promote the “Japan ODA Model” across the world. **JS**