

Japan's Policy on Economic Cooperation

By Makoto Kuroda

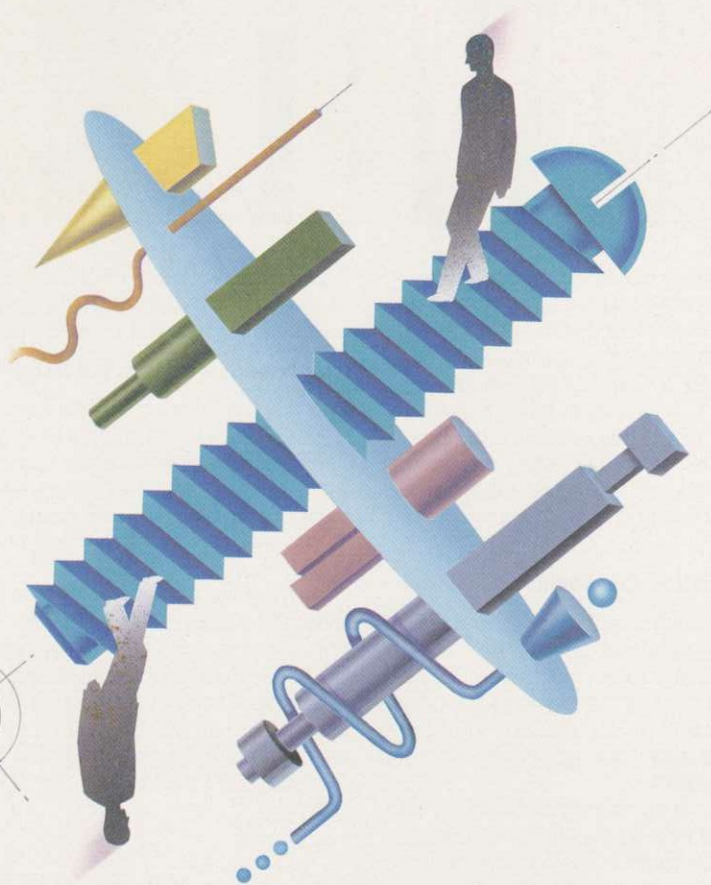
Makoto Kuroda is director general of the International Trade Policy Bureau of the Ministry of International Trade and Industry (MITI). He joined MITI in 1955 and served as a member of the Mission Permanente du Japon auprès des Organisations Internationales à Genève, and director general of the Consumer Goods Industries Bureau before being appointed to his present post in 1984.

Medium-term target for increasing ODA

Today, when developing countries are saddled with many difficult problems and when interdependence between them and Japan has deepened, it has become increasingly important to extend economic cooperation to support their self-help efforts to develop their socio-economies. It is Japan's duty to resolve through vigorous economic cooperation the North-South problem and to contribute to the balanced development of the global economy as well as to the peace and stability of the world. At the same time, this is fundamental to Japan's own stable growth and development.

On the basis of this philosophy, Japan has made economic cooperation one of its top priorities. The "Medium-term Target of Official Development Assistance (ODA)" was established as a guidepost for the implementation of this policy. It was in June 1977 that Japan first announced a target for ODA. At the Conference on International Economic Cooperation (CIEC) in June 1977, the Japanese government disclosed a plan to double its ODA in five years. At the Japan-U.S. Summit in May 1978, this target was advanced to three years. The advanced target was considerably surpassed by 1980, and in January 1981, the current medium-term target was set.

This target calls for the Japanese government to "endeavor to provide ODA in the first five years of the 1980s (1981-85) amounting to more than double the total that it had given during the five years 1976-1980 (approximately \$10.68 billion)." To provide for this, the government "will aim to appropriate in



the national budget for the first five years of the 1980s more than double the total appropriated in the last five years of the 1970s (¥1,244.4 billion) for ODA."

The year 1985 is the final year of the medium-term ODA program. It is difficult at this moment to forecast exactly how much ODA will actually be provided in 1985. However, calculated on the basis of the government's draft budget for fiscal 1985 (beginning April this year), aggregate ODA appropriations in 1981-1985 should amount to ¥2,430.7 billion, which is 98% of the target sum. We think it is no exaggeration to say that the medium-term target has been all but attained at least in terms of budgetary appropriations.

Japan's record in economic cooperation

In promoting economic cooperation, Japan's basic principle is to cooperate with developing countries in their efforts to develop human resources, on the basis of mutual understanding. In line with this principle, Japan is striving positively to expand ODA and comprehensively to promote cooperation in trade and investment by making use of private sector vitality. Recent developments in these fields are as follows:

1. ODA

Japan's ODA on a net disbursement basis amounted to \$3.761 billion in 1983, up 24.4% over the year before. As a result, Japan overtook West Germany to rank third among the 17 advanced

countries affiliated with the Development Assistance Committee (DAC) of OECD, following the United States and France. The ratio of Japan's ODA to GNP (gross national product) rose from 0.28% in 1982 to 0.33% in 1983.

A breakdown of Japan's ODA in 1983 shows that investment in and contributions to international organizations amounted to \$1.336 billion, or an increase of 103.6% over the year before. This is particularly worthy of note. Of bilateral grants, gratis monetary assistance amounted to \$535 million, a sizeable increase of 29.8% over the preceding year, while technical cooperation amounted to \$458 million, also an appreciable increase of 16.6%. In contrast, bilateral loans decreased by 8.3% from the preceding year, coming to \$1.432 billion.

In terms of geographical distribution, 66.5% of Japan's ODA in 1983 went to Asia, particularly to such ASEAN countries as Thailand, Indonesia and the Philippines, and to China. ODA for Asia is gradually decreasing as a share of the total, while that for Africa and Latin America is on the rise. Although the recipient nations of Japan's ODA are becoming increasingly diversified, Japan is expected to maintain its policy of giving priority to helping Asian countries.

A comparison of Japan's ODA with that of other DAC countries reveals the following features:

(1) ODA provided by the DAC countries has slowed since the start of the 1980s due to fiscal difficulties. Aggregate ODA provided by DAC countries in 1983

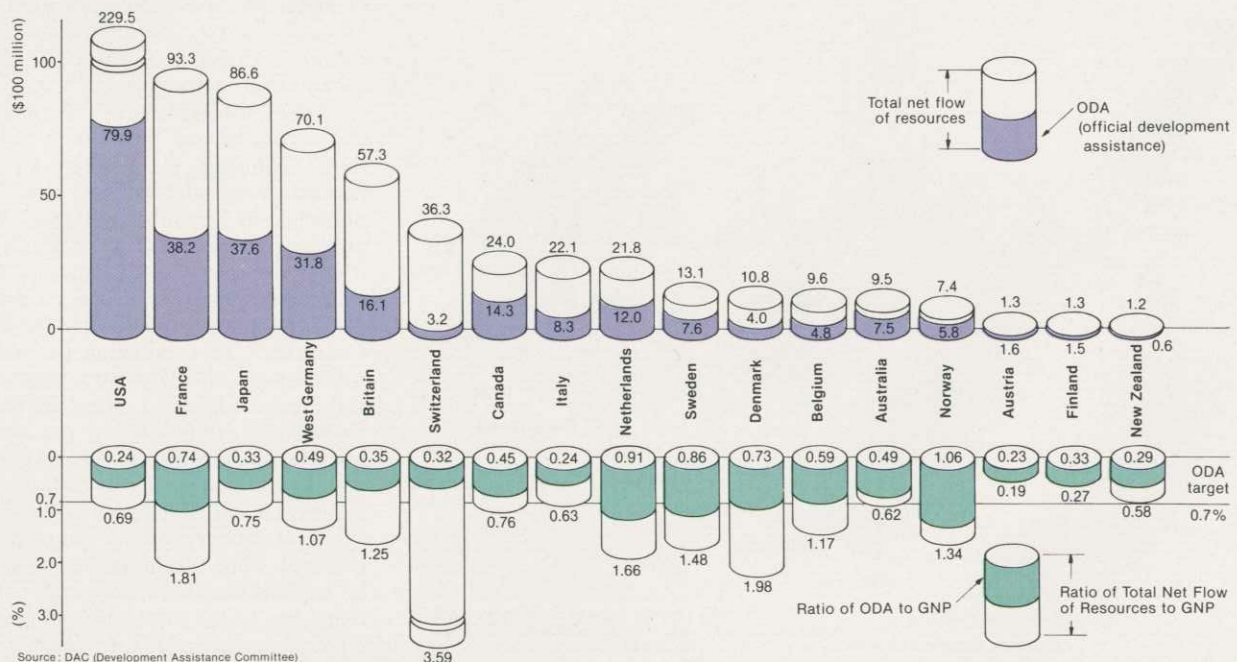
totalled \$27.458 billion, or a drop of 1.0% from 1982. It is noteworthy that while ODA of other countries decreased, that of Japan increased substantially.

(2) The percentage of bilateral loans (popularly known as yen credit) is high. In 1983, though the total amount of yen credit furnished was smaller than in 1982, the ratio to Japan's total bilateral ODA was 59%. Yen credit can satisfy a wide range of needs in developing countries, ranging from the building of social and industrial infrastructure to mining and manufacturing projects. The yen credit form of ODA under which a huge amount of money can be made available on easy terms over a long period of time is expected to remain the major form of economic cooperation in Japan's bilateral ODA.

(3) Concerning the tying status of Japan's bilateral loans, general untied loans are in the majority. In fact, untied loans, including LDC untied loans, account for 96.0% of the total. In contrast, about 50% of the loans furnished by the United States, France and the United Kingdom are tied loans. In view of this, Japanese loans can be said to allow recipient countries flexibility in placing their orders, whether with companies in their own or in other countries.

(4) Technical cooperation provided by Japan is increasing steadily. Compared with technical cooperation provided by France and the United States, however, it is still low. Considering the importance of technical cooperation in development of human resources, it is necessary for Japan

The Total Net Flow of Resources and ODA from DAC Countries and its Ratio to GNP (1983, on net disbursement basis)

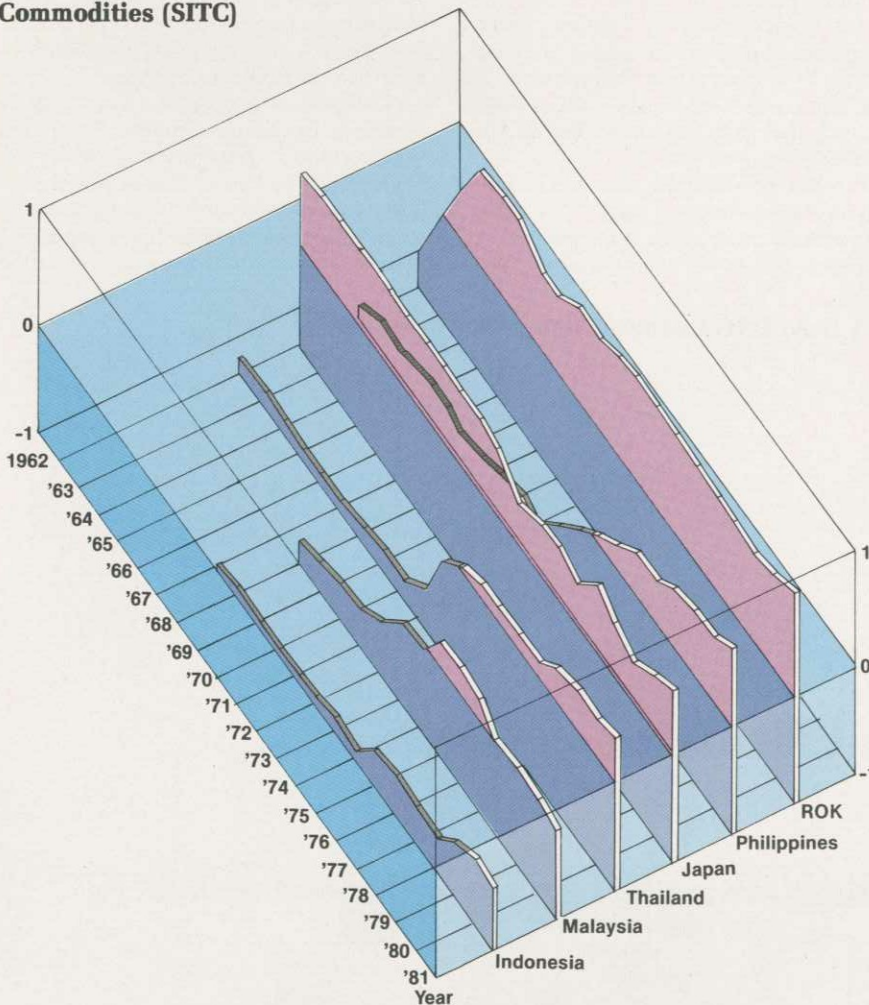


Ratio of Untied Loans Provided by Major Advanced Countries on a Bilateral Basis (on gross disbursement basis)

Country		Year	1979	1980	1981	1982	1983
Japan	General untied loan		32.6	31.6	34.2	62.5	62.3
	Partially tied loan (LDC untied)		35.5	30.9	29.6	25.1	33.7
	Tied		31.9	37.5	36.2	12.4	4.0
	Total		100.0	100.0	100.0	100.0	100.0
USA	General untied loan		26.7	28.7	14.4	29.7	32.5
	Partially tied loan		22.6	14.8	13.2	10.7	10.6
	Tied		50.7	56.5	72.4	59.6	56.9
	Total		100.0	100.0	100.0	100.0	100.0
West Germany	General untied loan		87.8	92.1	83.7	78.3	74.3
	Partially tied loan		—	—	0.0	—	—
	Tied		12.2	7.9	16.3	21.7	25.7
	Total		100.0	100.0	100.0	100.0	100.0
France	General untied loan		25.1	29.8	22.0	28.3	27.6
	Partially tied loan		27.2	28.9	24.6	27.1	31.2
	Tied		47.7	41.2	53.4	44.6	41.2
	Total		100.0	100.0	100.0	100.0	100.0
Britain	General untied loan		13.5	26.3	21.8	22.9	30.6
	Partially tied loan		27.6	3.2	2.9	7.9	2.0
	Tied		58.9	70.5	75.3	69.2	67.4
	Total		100.0	100.0	100.0	100.0	100.0

Source: DAC

Trends in Export Competitiveness Indices of ASEAN Countries, Republic of Korea and Japan in Division Eight of Standard International Trade Commodities (SITC)



Notes: Export Competitiveness Index = $\frac{\text{Value of commodity exports} - \text{Value of commodity imports}}{\text{Value of commodity exports} + \text{Value of commodity imports}}$
The index is minus 1 when there are no exports and 1 when there are no imports.

to improve and increase technical assistance in the future.

2. Direct investment

Direct investment involves the simultaneous transfer of capital and technology. The role which it plays in promoting the growth of developing countries is significant. Japan's direct investment by manufacturing industry in developing countries totaled 390 cases involving \$1.33 billion in fiscal 1983. This was more than half of the total direct investment made by Japan in that year.

3. Trade

Japan's imports from developing countries directly help them to acquire foreign exchange and to develop their industries. Japan's imports from developing countries totaled \$75.483 billion in 1983, accounting for 59.7% of its total imports (\$126.393 billion). Of these imports from developing countries, those of manufactured goods amounted to \$9.678 billion, or 28.2% of Japan's global imports of such goods, which totaled \$34.361 billion.

Developing countries' industrialization strategy

The economic performance of developing countries differs from country to country, mirroring differences in such given economic conditions as available natural resources. However, common to all developing countries is the selection of economic growth as the top priority target of their economic policy management. In order to attain economic growth, the developing countries obviously must promote agricultural development and upgrade their socio-economic infrastructure. Needless to say, industrialization must move forward in coordination with agriculture and improvement of the socio-economic infrastructure.

In the 1984 edition of "Present State and Problems of Economic Cooperation," compiled by Ministry of International Trade and Industry (MITI) and published in December last year, the Republic of Korea (ROK) and ASEAN countries were selected for analysis in the chapter headed; "The Process and Causes of Economic Growth in Developing Countries." In conducting the analysis, MITI proposed a "dual strategy," i.e. to foster export-oriented industries while simultaneously building up industries to manufacture products to replace imported goods. ROK has closely followed this strategy. It has developed its labor-intensive light industry into an export-oriented industry, while promoting the switchover of capital-intensive heavy and chemical industries to the production of goods to replace imports. On the other hand, in

ASEAN countries, domestic conditions conducive to the growth of export-oriented industries are still insufficient compared with conditions for fostering import-substitution industries. However, it should be possible in the future for ASEAN countries to achieve this dual strategy by diversifying export commodities, improving technology for processing primary products for export, and fostering backward linkage industries.

Because economic conditions differ from country to country, it is inconceivable that the industrialization strategy adopted by ROK would prove equally effective in other developing countries. But whatever the case, it should be stressed that the first step toward industrialization is for each developing country to work out its own clear-cut industrialization strategy.

What this means, in general, is as follows:

(1) First, it is important for a country to draw up an industrialization vision based on the industrial options open to it and taking into full consideration the conditions prevailing in the country, such as the availability of resources, the maturity of its industry, and the scale of its domestic market.

(2) In drawing up the vision, the country must bear in mind that the scale of the domestic market of a developing country is limited. Moreover, industries which depend totally on exports are often affected by fluctuations in overseas demand, and are not always stable. Developing countries must therefore expand their domestic market while promoting exports in the world market, thus achieving balanced industrialization. In fostering the growth of import substitution industries in which the scale merit is of fundamental importance, it should be remembered that the domestic market will expand eventually as the development of export-oriented industries leads to increased demand for intermediary goods.

(3) Although it is important to foster industries to produce replacements for imported goods, measures to encourage their development must not be detrimental to the development of export-oriented industries. For example, if, in order to protect the domestic industry, high tariffs are imposed on the parts and components needed by export-oriented industries, the latter will not become internationally competitive because of their high-cost parts and raw materials, and their development prospects will be bleak.

As regards the kind of industrialization strategy each developing country should pursue, MITI's "Present State and Problems of Economic Cooperation" does not offer any concrete suggestions. However, one possible suggestion, though abstract, is that the domestic market be expanded through the development of

agriculture and other traditional sectors, that the assembly industries advance into the export market, that the base of the country's industry be broadened by developing import substitution industries to link the above sectors, and that primary products for export be processed domestically to a higher degree.

The dual strategy seeks the best policy mix formulated in full cognizance of actual conditions in the developing country concerned. It is hoped that developing countries will study this proposal seriously in order to establish their own industrialization strategy.

Promotion of economic cooperation for the self-help efforts of developing countries

It is essential for developing countries to improve their trade balances and obtain development funds in order to attain stable growth. To do this, these countries must vigorously promote industrial development in line with a firmly established, clear-cut vision of industrialization in harmony with the promotion of agriculture and other traditional sectors. Advanced countries' economic cooperation constitutes an important key for promoting the economic development of developing nations.

It is believed that hereafter Japan should promote economic cooperation by taking into full consideration the following points:

(1) The planned expansion of ODA. As stated earlier, the present medium-term target will be attained by the end of 1985. After 1986, however, it will be necessary for Japan to try to increase ODA systematically in view of both the international target of bringing ODA up to 0.7% of each country's GNP and the level of ODA provided by other advanced countries. Government agencies have not yet conducted a thorough study of where to set the ODA target for 1986 and beyond. It must be borne in mind, however, that not only developing countries but also advanced countries acclaim and have great expectations for Japan's stance of systematically increasing ODA.

(2) Effective and efficient execution of economic cooperation. Japan plans to provide yen credit in a suitable manner to help projects that will help developing countries acquire and conserve foreign exchange, such as mining and manufacturing projects which are consistent with industrialization strategy. For rescheduled debtor countries these projects are vital in terms of building up their ability to repay their debts. Japan will consider elastic grants of ODA to debtor nations on a

case-by-case basis. Moreover, in providing economic cooperation, it is considered more necessary than ever for Japan, by holding preliminary consultations with developing countries, to grasp fully what is needed to advance their development. Follow-up care, too, must be improved. It is necessary to provide cooperation for individual projects while keeping the overall picture of development in mind and by organically combining yen credit, grants, technical cooperation and export credit. Coordination with private sector efforts, such as investment, is also necessary to make full use of the sector's vitality.

(3) Promotion of trade and investment. Because trade and investment are undertaken by the private sector, contrived artificial promotion that runs counter to the profit motive of private sector enterprises will have only short-lived and limited effects. It is, therefore, essential to institute a system which will make trade and investment attractive to private corporations.

Though many difficulties are involved, Japan has resolved to step up efforts to open its market further to the outside world. At the same time, government bodies, such as the Japan External Trade Organization (JETRO), will provide information and cooperation on the strength of their experience and know-how in product development and market research. Needless to say, trade and investment cannot be promoted by Japan's efforts alone. It is essential for developing countries themselves to work not only to develop products on their own but also to liberalize trade (abolition of the counter-purchase system and import restrictions, for example), to strive to lessen country risk, and to institute measures to accept foreign investment (including flexible treatment of restraints on foreign capital and relaxation of tax regulations). At the same time, it must be stressed that developing countries need to step up mutual cooperation within their own regions, such as ASEAN, where they are strongly linked economically and socially.

We would like to take this opportunity to stress the need to start a new round of multilateral trade negotiations. In order to revitalize the world economy, head off protectionism in world trade, and strive for economic development through trade expansion, a new round of multilateral trade negotiations of GATT (General Agreement on Tariffs and Trade) is absolutely necessary. In order to promote the new round, it is necessary to create a consensus among as many countries as possible, both advanced and developing, and to bring them to the negotiating table. Japan intends to take every possible opportunity to talk with as many countries as possible in order to mold a consensus in favor of a new round of multilateral trade negotiations. ●