Chapter 8  Summary of Findings and Lessons

This chapter provides a summary of findings, some lessons for further effective assistance and conclusion to the study.

8.1. Summary of Findings

8.1.1. Characteristics

The policy of Japan's ODA has been shifting in its emphasis from "promotion of export" and "natural resources diplomacy" in the 1960s and 1970s to "security of the Asian region", "recycling trade surplus" in the 1980s and "international responsibility" in the 1990s, reflecting the circumstance of the international community. The pressure of the United States can be observed in Japan's strategic aid to Indonesia after the Sukarno era, to Thailand after Vietnam's intervention to Cambodia, and to the Philippines under the Aquino administration. International responsibility is the notion which includes burden sharing for the stability of the region with the US, via Japan's economic influence, e.g. ODA.

Its philosophy became clearer in the ODA Charter of 1990 which defined four principles; 1) Environmental consideration, 2) Avoidance of military purpose, 3) Full scrutiny of military expenditure, development and export of weapons, and 4) Full attention to democratization, market-oriented economy, basic human rights and freedom. Nevertheless, its operation has still been vague concerning who decides to stop or resume ODA, and the
objective standards in applying the charter leaves much to be desired. The next step Japan should take is to secure transparency of its operation.

The amount of Japan's ODA has placed her as the biggest donor of ODA in the world, as a result of a series of ODA doubling plans of the Government of Japan. It occupies a quarter of the total ODA flow to developing countries and 7.2% of the total financial flow to developing countries including ODA, other official flows and private flows. Its ratio against GDP is 0.28% in 1995, which is reaching the average of DAC member countries, i.e. 0.30%. As well as an expansion of its amount, Japan's ODA is, now, required to improve its quality including overcoming problems on its system and administration.

The quality of Japan's ODA is reputed to be poor due to its low grant ratio, i.e. 44%, compared to the average of DAC member countries, 77%. However, Japan's emphasis on loans is reflected in the demand of recipient countries, major portions of which are Southeast Asian countries. They need a large scale fund with long maturity and low interest rate for the development of their infrastructure. The stereotype concept that loan aid is inferior to grant aid cannot be agreed upon if we examine the role which Japan's Yen Loan has played in Southeast Asia in these three decades, i.e. Yen Loan financed 3% of Malaysia's development expenditure and 46% of Malaysia's installed capacity of electric power which led to produce value added amounting to 1.3% of its 1994 GDP.
Tying status is another important criteria to measure the quality of ODA. Japan’s ratio of “untied”, 83% in 1991, is higher than other countries’, 73% for the US, 58% for the UK, 57% for France. This is because Japan’s Yen Loan, occupying a majority of its bilateral ODA, is “untied” for procurement. Despite the fact that Japanese firms or joint ventures have still been awarded in a major portion (55% in the case study) of bidding under Project type Yen Loan to Southeast Asia, the majority of funds (74% in the study in Malaysia) have been used for non Japanese products or engineers. This study confirms the stereotype perception that Japan’s ODA is recycled to Japanese suppliers is out-of-date.

8.1.2. ODA to Southeast Asia

A half of Japan’s ODA went to Southeast Asia in the 1960s and the 1970s. Since the 1980s, yet still a third of it has gone to the region. The importance of the region is still prevalent in Japan’s ODA policy. There are some reasons for the high priority given to this region besides historical and geographical reasons. This study observes the frequent meeting at a high level of executives between Japan and ASEAN countries, and “katagawari” (change of shoulders for the burden) due to US influence in some cases i.e. Indonesia, Thailand and the Philippines.

No matter what the political reasons, Japan’s ODA has been given to Southeast Asia continually and has been stable for more than three decades with a considerable flow of funds. As a consequence, Japan’s ODA has been a crucial financial source for
Southeast Asian countries, as shown in the fact that it finances 11% of the development expenditure of Indonesia, 3% of Malaysia, 33% of the Philippines, and 9% of Thailand.

The role of Japan's ODA differs depending on the circumstances of recipient countries. The most remarkable characteristics in each country can be described as;

- Bail-out for economic crises after Sukarno era and in the mid-1980s for Indonesia,
- A stable financial source for the development of electric power for Malaysia,
- Katagawari (change of shoulders for the burden) from the US to Japan for the Philippines,
- Tool for restructuring trade imbalance for Thailand, and
- Prolonging the life of the socialist government for Burma (The case of Burma showed us a lesson that not all ODA can be used for economic growth.)

As a result of constant flows of Japan's ODA to Southeast Asia, notable achievements have been reported. These are contributions at three different levels. A first is at the individual project level. According to the post evaluation of the Ministry of Foreign Affairs of Japan, 98% of the projects evaluated in 1995 achieved successful results. And OECF survey also reveals 85% of the projects evaluated in 1994 received positive reviews. Almost all projects under Japan's ODA achieved their expected objectives.
Chapter 8  CONCLUSION

A second is at the sector level. As a result of continuous investment in specific sectors, some accumulated contributions are remarkable, such as:

- 46% of installed capacity of electric power in Malaysia was constructed under Yen Loan, and 20% in the case of Indonesia, and 14% in Thailand.
- 51% of railway cars were procured under Yen Loan in Malaysia, while it was 69% in Thailand and 15% of railways constructed in Indonesia.

The third is at a macroeconomic level. Several researches\(^1\) examined the contribution of Japan's ODA to the GDP of each country. Each model has different figures of push up effect of Japan's ODA to GDP in Indonesia, Malaysia, the Philippines and Thailand. The smallest figure is 0.38% and the highest is 11.6%. However each research concluded that Japan's ODA has contributed to the growth of GDP in each recipient country.

8.1.3. Role of Japan's ODA in Malaysia

Japan's ODA has been an important financial source for Malaysia as it has financed between 1.0% and 3.6% of development expenditure and between 5.4% and 76.7% of external borrowing in each five year plan\(^2\).

It has been invested mainly in the development of electrical power in the 1970s and 80s. Japan's Yen Loan has its own role, i.e.

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\(^1\) Refer table 4-8.  
\(^2\) Refer table 5-4.
infrastructure development, with its long maturity an low interest. Malaysian policy is quite fair in investing it in fundamental infrastructure developments such as power. If Yen Loan had been invested for policy oriented projects which were not economically viable, such as heavy industrialization, its impact on the economic growth would have been highly negative. This point is most fundamental in Yen Loan to Burma, a major portion of which was invested in policy oriented projects which were economically distorted.

This study also measures the role of Japan’s ODA in Malaysia’s electric power sector. It shows that Japan’s ODA was invested in the development of power which contributed to 35% of TNB’s installation capacity, 23% of SEB’s (Sabah Electricity Board) and 20% of SESCO’s (Sarawak Electricity Supply Corporation) as of 1996. It has also contributed to an increase of between 10% to 18% of TNB’s revenue. The input-output analysis of this study shows that the value added, amounting to 1.3% of 1994 GDP, was created by the investment of Japan’s ODA to the development of power. It has the same effect in pushing up GDP by this ratio.

Under the Look East Policy Programme, 1,165 Malaysian students have enrolled in Japanese universities, and 662 in Japanese technical colleges. By July 1996, 876 students have graduated. Almost all graduates (88% by ISIS survey and 86% by the writer’s survey) work for Japanese firms in Malaysia. The number has had huge impact on Japanese firms in Malaysia, taking 25.5
into account the fact that the number of Japanese firms in Malaysia was 1,346 as of June 1996. This study reveals that they play a significant role in Japanese firms as a middleman for Japanese and Malaysian staff. Their role is not limited to language interpretation but as a bridge between two countries' cultures and work ethics. Their existence provides favourable circumstances for Japanese investors, and might contribute to spur Japan's investment according to the interview survey. In future, the graduates would penetrate most of the management level of Japanese firms. Then their role and contribution will become greater in the country's development.

Under technical assistance besides the Look East Policy Programme, Japan accepted 13,000 trainees, which is the 4th largest among recipients of Japan's technical assistance, and dispatched 1,400 experts and 900 volunteers, which are the 3rd largest and the 2nd largest respectively. Malaysia is a targeted country for Japan's technical assistance. Their contribution is difficult to measure in financial terms. However, almost all Japanese experts feel technology transfer is going on smoothly despite some are feeling inconvenienced by language.

8.2 Lessons learnt for Future Effective Operation

Japan's ODA has played significant roles in the development of Southeast Asia as mentioned above. However, this study points out some problems of Japan's ODA which are to be solved for future
Chapter 8 CONCLUSION

effective aid. One of the most infamous problems is the burden caused by the appreciation of the Yen. This study examines that a Yen appreciation in the late 1980s created in unexpected burden for Malaysia amounting to RM 8.5 billion from Yen dominated loans, 8.4% of its 1989 GDP, out of which RM 2.3 billion was caused by Yen Loan only. And the case study shows that the original interest rate of Yen Loan, 3.2% in terms of Yen, became 8.3% in the end in terms of US$ by Yen appreciation during the last twenty years. It is a fact that a majority of revenue in developing countries is still dominated by US dollars. This is due to exporting products including natural resources in US dollars. Japan should consider the inconvenience of extending its ODA loan in Japanese Yen which cannot help in the fluctuation against US dollars in the long term. Japan should devise more variations of its ODA which will then truly reflect the needs of recipient countries.

The second lesson is its rigidity. A Yen Loan for the alleviation of burden because of the high Yen is a good example. Responding to Malaysia’s request, the Japanese Government took alleviation measures to the burden caused by Yen appreciation in 1990 and 1992, by extending fresh loans amounting to Yen 52.8 billion equivalent to RM 1,028 million in those days. This amount accounted for 12% (1,028/8,500=12%) of the unexpected burden of whole Yen dominated debt, and 45% (1,028/2,300=45%) of Yen Loan debt. On the assumption that the Malaysian Government used these loans for prepayment of Yen dominated debt, it had the same effect as a refinance from a market loan with an interest rate of 6%, to Yen Loan with an interest rate of 2.9%. However, the Japanese
Government insisted on its rigid system that Yen Loan should be used for projects only and not for refinancing. Therefore, those funds were put into the general account of the Malaysian Government and reported to be used for Poverty Eradication Projects. As a result of this arrangement, the Japanese side did not notice any above alleviation effects, i.e. a refinance of a soft loan. Japan should seek more effective methods of giving, and also advertise its aid impact to the recipient side as well as to the Japanese nation.

A third lesson is that the Japanese system of ODA should encourage more local participation. Up to 1986, Japan's ODA had been extended only to the projects under which Japanese companies were awarded. Some Japanese companies formed joint ventures with local firms, but the involvement of local firms was limited. Since 1987, aid has become fully untied, but the Government of Japan applied procurement guideline for the procurement of equipment, civil works and consultant services. Under the guideline, preference cannot be given to local companies. And a transfer of technology to local partners is not obliged. Then there were some projects implemented only by sole Japanese participation. Little technology transfer was realized during the construction period, or limited training was conducted before commissioning. This was not the fault of only the Japanese side, but the Malaysian side as well, which should have been aware of the necessity of technology transfer and encouraged local involvement, which is not prohibited by OECF guidelines.

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3 OECF Establishment Law prohibits loan for refinance.
A fourth lesson concerns knowledge contribution. The Yen Loan may have contributed to Malaysia as a financial source. But the Malaysian side merely recognizes Japan's ODA as a financial source. It would seem that Japan has provided only money, has neither been involved in the planning nor supervision such as in the cases of Canada, UK, Australia, nor policy consultation such as the World Bank, ADB. The case of the Proton Engine Factory shows this tendency. The Yen Loan was committed for construction of this project in April 1986. At the same time, the Government of Malaysia requested the World Bank to review its industrialization plan. The suspension of this project was suddenly decided based on the recommendation of the World Bank in February 1987, and the Japanese Government was just informed of the suspension afterwards.

Japan should aim at aid that includes planning and organizational aspect, such as policy advice and implementation capacity support. In more specific terms, Japan should increase its services to include the preparation of strategy plans for the development of a recipient country and share the view with the recipient through policy dialogue and advice. This aspect should be encouraged in the future and the capacity to enable such contribution to various recipients should be developed.

Japan's ODA to Southeast Asia has been extended for more than three decades with relatively stable amount of funds. The continuously stable amounts became "built in" into the long term
development plan of recipient countries. This is a most important point for Japan's ODA in Southeast Asia. Indonesia, Malaysia and Thailand are good examples of the countries which achieved the present economic growth through infrastructure development by Japan's ODA.

However, Japan had not emphasized on policy dialogue and political intervention to recipient countries in its policy. It means that Japan's ODA works effectively only when recipient countries provide appropriate policies for ODA. Malaysia, being success in achieving economic growth and graduating from Japan's Yen Loan, is one of the best models and testimony to the efficient use of Japan's ODA.

The amount of Japan's ODA is huge enough in size to give crucial influence to the development of recipient countries. It goes to show that both sides, donors and recipients, should make efforts to produce an appropriate policy to utilize Japan's ODA. At the same time, it is quite important for the development of Southeast Asia that Japan and recipient countries collaborate to improve every aspect of Japan's ODA for more effective and efficient use.

\[\text{\textsuperscript{4} World Bank Report titled "The East Asian Miracle" in 1993 raised four issues for appropriate policy for development based on the study of East Asia's success; 1) high level of domestic saving, 2) broadly based human capital, 3) good macroeconomic management, and 4) limited price distortions.}\]