

Japanese Official Development Assistance to Sri Lanka: An Analysis of Perceptions of the Recipient

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1. Introduction

The concept of foreign aid that has been prevailing as a major factor in growth and development in developing countries is a new phenomenon in the field of development economics. It is believed that this notion came into practice mainly after the Marshall Aid success in Europe¹. The capital inflows in the form of foreign aid from rich to poor countries of the world were optimistically seen as likely to fill the resource gaps which were seen as standing in the way of growth and development in the latter group (Lakshman, 1999: 1). This phenomenon, further strengthened by the world development institutions such as World Bank (WB), International Monetary Fund (IMF) etc. came into use as an essential factor in most of the socioeconomic development programs of the poor countries. In the last few decades, this optimistic attitude towards foreign aid has

¹ The European recovery program, better known as the Marshall Plan (named after General George C. Marshall), provided \$497 million in reconstruction loans in 1947 and disbursed more than \$13 billion by 1952, 89 percent of which went to Europe. Other recipients included non-European states such as Korea, the Philippines, Taiwan and Turkey. By all accounts the Plan was a great success, and was largely credited for the rapid economic growth rates of Western European economies by the early 1950s. As the Marshall Plan ended, the 1953 Mutual Security Act established a new US foreign aid program, though the US commitment to assisting less developed countries came earlier in the *Fourth Point* of President Harry S. Truman's 1949 inaugural speech (Bowen, 1998: 4-5).

made a great impact on the policy makers in developing countries, making these countries strictly short- or long-term dependents, mostly long-term dependents on developed countries. The strong emphasis on the role of foreign aid in development plans and in annual budget preparations in developing countries shows how the strength of the people's expectations and confidence in this aid. At the same time, it is interesting to note that this favorable expectation of foreign aid in recipient countries has given an opportunity to donor countries to control them in many ways. For example, *there are two methods of using economic aid as a political and diplomatic measure. One is to use it as a carrot and one is to use it as a stick. In the former case, a donor says if you do this, we will give you aid or we will give you aid, so do this. In the latter case, a donor says, if you do this (or because you did this), we will not give you aid* (Inada, 1993: 16). This type of argument is very common in the annual aid conference in Geneva, specifically in multilateral institutions such as the WD and IMF. Thus, today the foreign aid has become one of the major policy issues among donors as well as recipients.

The major question which has emerged from these arguments on foreign aid is how and how far has it contributed to the promotion of economic growth and development in developing countries. According to Bowen (1998: 84), despite more than forty years and nearly a trillion dollars of foreign aid, surprisingly little is known about the impact of aid on economic growth in recipient countries. Whether reviewing theoretical literature, or previous empirical research, the aid-growth relationship remains controversial. Although it is difficult to determine the type of role, if any, foreign aid has played in the growth and development, most empirical surveys on the subject have emphasized that contribution of aid to economic growth or development in recipient countries is highly dependent not only on the quality, quantity or type of foreign aid the country receives, but also on the quality of the developing country's

government, its administration and the economic policies it pursues (CBO, 1997: vi). However, these factors have been largely neglected in many analyses on aid and development conducted in the last few decades in developing countries. Nevertheless, even today the aid recipients, donors as well as researchers who have a strong confidence on the correlation between aid and development, believe that the injection of foreign resources as a major input to fill the resource gap in poor countries will lead to a temporary or short-term dependence in achieving a long-term, self-reliant development. The present study aims at investigating the principal factors, which have been largely influential in seeking foreign aid for various development activities in Sri Lanka in general, while examining the major determinants that increased Japanese aid to Sri Lanka in particular.

2. Japanese Aid to Sri Lanka

The capital of Ceylon (now Sri Lanka) is the place where the modern aid policy of transferring technical and financial resources from developed countries to developing countries in Asia was launched under the name of the Colombo Plan². This plan was well known for the initiation of Japanese economic assistance towards Asia. Japan joined the Institution on 6 October 1954 with a contribution of \$ 50,000³ while it was still receiving economic assistance from WB and the US.

² The Colombo Plan was launched in 1951 and takes its name from the capital of Ceylon (now Sri Lanka) where the plan was worked out and established. Originally called the Colombo Plan for Cooperative Economic Development in South and Southeast Asia, it changed its name in 1977 to the Colombo Plan for Cooperative Economic and Social Development in Asia and the Pacific (Arnold, 1996: 35).

³ The following year, Japan was provided \$10.6 million to finance its technical cooperation with Asian countries by receiving trainees from, and dispatching experts to Asian countries (ODA Annual Report, 1994: 12).

An Overall Trend: Japan's economic assistance to Sri Lanka, both technical and financial also commenced under this plan. According to available data, although Japan initiated its aid to developing countries, particularly to Asia by the end of 1950s, mainly under the war reparation program, its first economic assistance to Sri Lanka commenced in mid 1960s. The first such economic assistance from Japan to Sri Lanka was a \$ 5 million (¥ 1,800 million) Yen-loan (*enshakkan*). It was provided as a commodity aid (*shohin-enjo*) under the label of technical cooperation (*gijutsu kyoryoku*) in 1965 (Ministry of International Trade and Industry (MITI)). This *shohin-enshakkan* was aimed to provide a market for surplus products of fertilizer, agricultural equipment etc. produced by the Japanese firms at home (Nakamura, 1999: 140). The Japanese aid, which commenced in this way, was increased up to \$ 118.02 million or by about 24 times in 1999, making Japan one of the major donors of Sri Lanka. Moreover, Sri Lanka is the 8th largest recipient of Japanese aid, both grant and loans in the last decade. Japanese grant aid, characterized by the absence of repayment obligation, was also started in 1969, furnishing *food aid* worth \$ 5 million (¥ 180 million). This type of aid also surged at an unexpected rate accounting for \$48.02 million or by about 96 times in 1999. The composition and overall trend of the Japanese bilateral aid to Sri Lanka in the last three and half decades has been summarized in the Table 1 and the Figure 1.

Overall, the Japanese aid to Sri Lanka shows an upward trend throughout the period except for some intermittent declines in some particular years. For example, there was no financial assistance in 1972 except for some small grant, most probably due to the political unrest in 1971 which claimed about 20,000 lives⁴. Except for this particular year,

⁴ In 1971, nearly 20,000 young people have died or disappeared in Sri Lanka when a group of Sinhala militants known as the Janatha Vimukthi Peramuna (JVP or People's Liberation Front) rioted against the government. Although the rebel was

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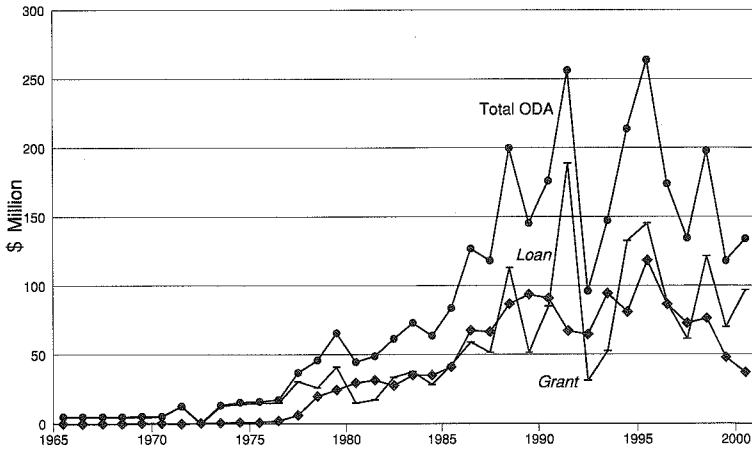
Table 1: The Trend of Japanese ODA to Sri Lanka, 1965-1999

Unit: US \$ million

Year	Bilateral Assistance						
	GRANT (A)			LOANS (B)	TOTAL ODA	Grant %	Loan %
	Grant Aid	Tech. Aid	Total Grant	(B)	(A) + (B)		
1965	0	0	0	5	5	0	100.00
1966	0	0	0	5	5	0	100.00
1967	0	0	0	5	5	0	100.00
1968	0	0	0	5	5	0	100.00
1969	0.5	0	0.5	5	5.5	9.09	90.91
1970	0.3	0	0.3	5	5.3	5.66	94.34
1971	0	0	0	12.7	12.7	0.00	100.00
1972	0.5	0	0.5	0	0.5	100.00	0.00
1973	0.6	0	0.6	12.8	13.4	4.48	95.52
1974	1.1	0	1.1	14.4	15.5	7.10	92.90
1975	1	0	1	15.1	16.1	6.21	93.79
1976	2.2	0	2.2	15.2	17.4	12.64	87.36
1977	6.3	0	6.3	30.7	37	17.03	82.97
1978	19.9	0	19.9	26.1	46	43.26	56.74
1979	24.6	0	24.6	41.1	65.7	37.44	62.56
1980	26.6	3.1	29.7	15.1	44.8	66.29	33.71
1981	27.5	4.1	31.6	17.4	49	64.49	35.51
1982	23.9	3.9	27.8	33.8	61.6	45.13	54.87
1983	29.5	5.8	35.3	37.8	73.1	48.29	51.71
1984	29.4	5.8	35.2	28.5	63.7	55.26	44.74
1985	33.4	7.7	41.1	42.7	83.8	49.05	50.95
1986	56.61	11.09	67.7	59.2	126.9	53.35	46.65
1987	54.16	12.47	66.63	51.63	118.26	56.34	43.66
1988	65.68	21.18	86.86	112.97	199.83	43.47	56.53
1989	75.89	17.79	93.68	51.57	145.25	64.50	35.50
1990	74.39	16.58	90.97	85.1	176.07	51.67	48.33
1991	48.05	19.23	67.28	188.86	256.14	26.27	73.73
1992	43.78	20.97	64.75	31.31	96.06	67.41	32.59
1993	71.7	22.74	94.44	52.76	147.2	64.16	35.84
1994	53.59	27.51	81.1	132.66	213.76	37.94	62.06
1995	82.06	36.37	118.43	145.28	263.71	44.91	55.09
1996	52.39	34.16	86.55	87.39	173.94	49.76	50.24
1997	44.08	28.79	72.87	61.69	134.56	54.15	45.85
1998	52.06	24.32	76.38	121.47	197.85	38.61	61.39
1999	n.a	n.a	48.02	70	118.02	40.69	59.31
2000*	n.a	n.a	37.2	96.8	134.00	27.76	72.24
1965-2000	1001.74	323.6	1410.56	1722.09	3132.65	45.03	54.97

Source: The Economic Cooperation Bureau, Ministry of Foreign Affairs, *Wagakuni no Seifu Kaihatsu Enjo*; MITI, *Keizaikyoryoku no Genjo to Mondaiten*, 1985-2000, Japan (*Provisional)

Figure 1: The Trend of Japanese Bilateral Assistance to Sri Lanka, 1965-2000



Japan has continuously increased its assistance to Sri Lanka. This constant provision of Japanese aid to Sri Lanka can be analyzed under two major periods in accordance with the pattern of its increase which closely correlates with the perception of policy makers in Sri Lanka and the motivation of Japan: first, 1965-1976; and second, 1977-to date. The policy of Sri Lanka in the first period, specifically during the period 1970-76 is popularly known as autarkic self-reliance policy (inward-looking policy) or so-called Import-Substitution (ISI) strategy. However, the new government, which came into power in 1977, reverted back the previous inward-looking policy to an outward-looking policy or so-called Export-Oriented Industrialization (EOI) policy. Thus, the norm of economic policies, domestic socioeconomic environment, and political beliefs prevailed in Sri Lanka as well as in Japan during these two periods have strongly correlated with supply and demand of economic assistance.

suppressed within a few months, it was again appeared in 1987. According to European Human Rights Team, 60,000 people have disappeared in Sri Lanka, mainly southern part of the country since 1987, when security forces responded to a campaign of terror by JVP rebels (The Japan Times, 1990: 16).

Japanese Aid under ISI Policy: The economic policy implemented in this period can be divided into two major sub-periods according to their specific nature: first, 1965–69; and second, 1970–76. The first sub-period 1965–69, or the first phase is marked with a surge of foreign assistance to Sri Lanka. The development strategies implemented in this sub-period strongly emphasized the necessity of the development of export-oriented industries through the increase of foreign investment. There was also an attempt of liberalization of trade, devaluation of currency and provision of various incentives to investors to create a friendly environment to attract domestic and foreign investment. Although these policy efforts achieved a limited success, they have contributed to an increase in foreign assistance to an unexpected rate in order to fill the resource gap during the period. For example, the total foreign aid (including loans and grants of Japan) increased from Rs. 100 million or 1.5 per cent of GNP in 1965 to Rs. 10,725 million or 3.3 per cent of GNP in 1969, revealing 107 times increase within a four-year period. Similarly, the percentage of foreign assistance in the total import of the same duration also surged from 6.8 to 13.9 per cent (Central Bank of Sri Lanka, 1998: 286). This reveals that obtaining sufficient amount of foreign aid has emerged as a principal subject of intense policy debate among the policy makers in this period.

However, the pattern of Japanese aid provided to Sri Lanka in this sub-period does not reveal any significant enhancement along with the recipient's policy change and its active search for foreign aid. Japan has provided only \$ 5 million (¥ 1,800 million) worth shohin-enshakkan per year accumulating \$ 25 million in the four-year period. This implies donor's motivation as well as its domestic socioeconomic environment. It is a well-known fact that Japan during this period was struggling to reconstruct its economy, which was destroyed in the WWII. Therefore, it is often noted that Japan has used its ODA programme skillfully to

achieve this purpose in various ways. For example, the *shohin-enshakan*, which was defined as economic assistance to Sri Lanka was mainly aimed at securing markets for fertilizer, agricultural equipment, automobile parts, machinery, textiles, fishing equipment produced at home. This is natural because Japan lost its markets in the East Asian countries after the war and urgently needed to find new market for growing industrial products as much as possible in this period. Therefore, it can be noted that the pattern of Japanese aid to Sri Lanka in this sub-period was largely influenced by the donor's motivation rather than the recipient's intensive effort in search for foreign assistance.

In the next sub-period, 1970-76, the total foreign aid surged by about six-fold, of which Japanese bilateral aid also increased by three times in spite of the new economic policy, or so-called Import-Substitution Industrialization (ISI), which aimed at reducing the dependence of the economy on foreign assistance. In 1970, the half-hearted liberalization measures of 1965-69 were abandoned and the period 1970-76 witnessed a reverting back to a stronger version of autarkic self-reliance of the 1956-65 period. Whether this was a deliberate move on the part of the regime due to ideological factors, or forced upon it by a virtual boycott of foreign capital in the face of growing trade and payments difficulties, the fact is that the period was characterized by economic controls, heavy dependence on state capital and a restriction of the permitted areas of operation for the private sector (Lakshman, 1999). Thus, although this policy aimed at minimizing foreign dependence implementing various restrictions on imports, the Five Year Plan⁵ of the government emphasized the necessity of Rs. 148 billion or about 10 per cent of foreign capital to fill the resource gap of its total investment of Rs. 1,481.7 billion for the period 1972-76 (Five Year Plan, 1971: 26). The government expected to furnish

⁵ See Five Year Plan (1972-76) for further information.

this resource gap by using foreign loans, foreign investment and investment goods such as machinery and related equipment from Japan and other industrialized countries. A significant step in the procurement of Japanese ODA to Sri Lanka in this period was the expansion of the provision of grant aid⁶ along with *shohin-enshakkan*. According to MITI's Annual Report of Economic Cooperation, Japan provided \$ 12 million worth grant under three major categories in this sub-period, 1970-77: first, a general grant comprised of provision of training to Sri Lankan people on deep-sea fishing, assisting Peradeniya Teaching Hospital and furnishing construction materials (small steel slabs and small-type bar steel) to 100,000 Housing Projects initiated by the government; second, Japanese Food Aid Counterpart Fund (KR), which provided agricultural products, particularly rice from Thailand and Myanmar; and the third, aid to increase agricultural products and food production which mainly comprised of chemical fertilizer produced in Japan. Although there were a number of criticisms and negative attitudes among international community towards the Japanese ODA programme due to its poor quality and tide aid nature, the supply of grant aid to Peradeniya Teaching Hospital was a successful project in terms of long-term benefits for sustainability and self-sufficiency in the field of health and education in Sri Lanka.

Japanese Aid under EOI Policy: The period since 1977 witnessed (See Table 1 and Figure 1) a dramatic surge of total ODA towards Sri Lanka in general, and Japanese aid in particular. During this period, both

⁶ Until 1969, Japan has trained 440 Sri Lankans (69 trainees in 1969) in the field of agriculture, administration etc. under the assistance of Japan Overseas Technical Cooperation Agency. It also accepted 120 students (4 student in 1969) and 28 agricultural inspectors (6 person in 1969) through Asia Productivity Organization from Sri Lanka in the same period. In addition, Japan also dispatched 119 technical advisers and 6 experts in the field of agriculture and light industries.

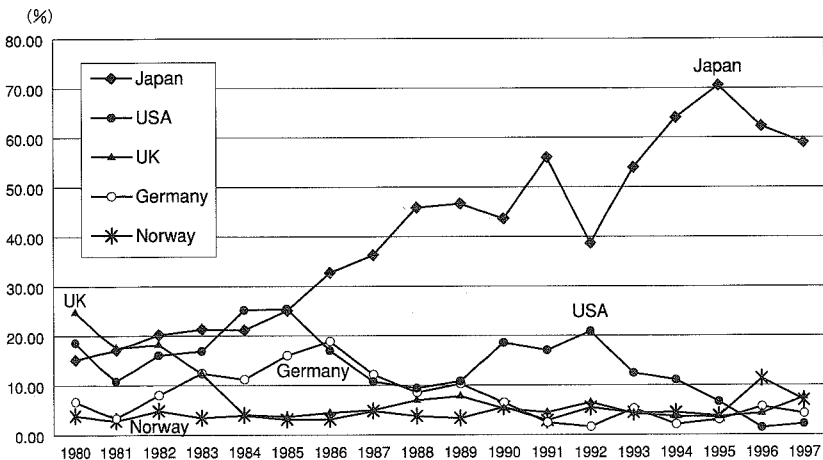
grant and loan assistance from Japan increased significantly. The Japanese cumulated ODA disbursement to Sri Lanka (1977-99) staged at \$2,892.25 million in this period, comprising about 33 per cent of the total ODA received by Sri Lanka from the international donor countries and world development institutions. The most significant aspect of this Japanese aid flows in this period (1977-99) is that it covered by about 97 per cent of the total cumulated aid in the total period 1965-99. This means that most of the Japanese assistance inflows to Sri Lanka took place in this EOI regime. Moreover, Japan's total bilateral assistance (both grant and loan) to Sri Lanka increased more than three times in this period. Thus, Japan surpassed the traditional aid allies of Sri Lanka and remained as a top donor of the country in the last two decades.

It is popularly known that the United Kingdom and the United States of America were the traditional allies of foreign aid to Sri Lanka in the first three decades of post WWII period. These two donors, particularly the UK was disposed to assist Sri Lanka in various ways as the head of the Commonwealth. In addition to that the UK had a close friendship with Sri Lanka that goes back more than a hundred years due to the colonial relationship with the country. For example, the UK disbursed about one-fourth of the total foreign aid receipts or \$ 73.25 million of the country in 1980, thus becoming a top donor of the country (see Appendix Table 1 for further information). However, its position as a traditional donor of the country declined to an unexpected level in the last two decades (see Figure 2). The major reason for this significant decline is not only the economic recessions confronted by the UK, but also the emergence of Japan as a second economic power in the world. It is a well known fact that European countries and the USA have given responsibility to Japan to play the role of a major contributor in socioeconomic development of the Asia Pacific region while they were transferring their resources to other developing regions like Africa and Latin America.

According to the Japanese ODA Annual Report (1994: 14-15), Japan has given first priority to its economic assistance to Asian countries to supplement the insufficiency of aid from other industrial countries to the region. In 1969, it decided to double its ODA to the region in the following five years. As a result, Japan has come into the position of a top donor of Sri Lanka since 1982 (except for 1984). The composition of major donors of Sri Lanka for the last two decades has been demonstrated in the Figure 2.

A significant feature of this Figure is that it reveals a continuous upsurge of Japan's ODA share in the total ODA in Sri Lanka since 1980. In cumulative value, it has provided 29 per cent and 56 per cent of total bilateral aid in the period 1980-89 and 1990-97 respectively. This rapid increase of Japan's economic assistance to Sri Lanka is more significant when it compared with the other top Japanese aid recipients in Asia: Sri Lanka remains among the top ten recipients of Japanese aid since 1980 (except some years in the 1980s). According to Japanese Foreign

Figure 2: The Composition of ODA Receipts of Sri Lanka (percentage of total ODA)



Source: Kaigai Kyoryoku Kikin, *Kaigaiheizai Kyoryoku Binwan; Kokusai Kyoryoku Binwan*, Tokyo, Various Years

Ministry official Tomokatsu Watanabe, Sri Lanka is the largest per capita recipient of Japan's bilateral aid, the ninth in terms of total funds received. Moreover, Japan has been the biggest donor to Sri Lanka since 1986 and provides almost 40 per cent of total foreign aid received by Sri Lanka and about 60 per cent of all bilateral aid to the island (Daily News, Sri Lanka, 28 January 2000). This implies Japan's increasing role in fulfilling the resource gap needed for socioeconomic development of Sri Lanka in the last two decades.

Nevertheless, some people argue that the rapid surge of foreign aid disbursements to Sri Lanka, specifically a large share from a single country like Japan leads to prolonged dependence of the economy. Change in economic policy along with the political change in 1977 and the influence of international development institutions such as IMF and WB can be seen as prominent factors for this dependence. As noted in the previous analysis, in 1977, the newly elected government introduced Export-Oriented Industrialization (EOI) strategy under a far-reaching liberal macroeconomic policy. These policy changes (reverting back from ISI to EOI) have gradually made Sri Lanka a heavily and critically dependent country on foreign aid (this will be discussed later in detail). At the same time, the level of economic relationship with donor countries, world development institutions also contributed to increase foreign aid dependence indirectly. This is natural because the EOI strategy required a huge amount of investment capital to make a suitable industrial environment for the process of implementation of its various development activities. In particular, improvement of infrastructure facilities such as transport, sea ports, airports, communication, electricity, training institutions etc. was a necessary pre-condition for accelerating foreign investment and foreign trade which were the backbone of the EOI policy. This can be further clarified according to distribution pattern of Japanese aid during the ISI and EOI policy regimes.

3. Sectoral Distribution of Japanese ODA

Sector-wise examination of Japanese economic assistance to Sri Lanka will facilitate further recognition of the motivation factors of donors as well as perception factors of the recipient. As noted in the foregoing analysis, Japan's aid to Sri Lanka largely depends on the domestic economic environment of the donor and the recipient's economic policy change that encourage international trade and investment. Table 2 and 3 depict how Japan's Yen Loan (*enshakkan*) and Grants by sector changed in accordance with the economic policy change in Sri Lanka. These analyses have also revealed that the turning point of Japanese assistance to Sri Lanka was 1977. This year is commonly known as the year of change from ISI to EOI policy.

ISI Period: Both the *enshakkan* and grants were insignificant in the first two sub-periods (1965-69 and 1970-76), probably as a result of the following two factors prevailed in the recipient and donor side at the time.

Table 2: Japanese Yen Loan to Sri Lanka by Sector

Unit: ¥ billion, %

Sector	1965-1969		1970-1976		1977-1999		1965-1999	
	Amount	Share	Amount	Share	Amount	Share	Amount	Share
Commodity Loan	9	100	23.08	100	47.43	9.87	79.51	15.51
Transportation	0	0	0	0	157.49	32.77	157.49	30.72
Telecommunication	0	0	0	0	60.75	12.64	60.75	11.85
Electricity Power	0	0	0	0	80.11	16.67	80.11	15.63
Irrigation	0	0	0	0	15.99	3.33	15.99	3.12
Agriculture, Forestry & Fishery	0	0	0	0	22.78	4.74	22.78	4.44
Water Supply/ Drainage/Environment	0	0	0	0	40.02	8.33	40.02	7.81
Industry	0	0	0	0	12.74	2.65	12.74	2.49
Other	0	0	0	0	43.22	8.99	43.22	8.43
Total	9	100	23.08	100	480.54	100.00	512.62	100.00

Source: Ministry of Foreign Affairs, *Waga Koku no Seifu Kaihatsu Enjo*, Tokyo, Various Issues

Table 3: Japanese Grant Aid (except technical cooperation) to Sri Lanka by Sector
Unit: ¥ billion, %

Sector	1965-1969		1970-1976		1977-1999		1965-1999	
	Amount	Share	Amount	Share	Amount	Share	Amount	Share
Food Aid	0.18	100	1.57	90.99	0.33	0.22	2.08	1.34
Aid for Increase Food Production	0		0	0	46.09	30.18	46.09	29.84
Agriculture, Forestry & Fishery			0.15	9.01	21.13	13.84	21.28	13.78
Education	0		0	0	31.54	20.66	31.54	20.42
Health	0		0	0	15.73	10.30	15.73	10.19
Housing	0		0	0	4.25	2.79	4.25	2.75
TV/Radio & Film	0		0	0	10.75	7.04	10.75	6.96
Road/Bridge & Water	0		0	0	10.01	6.55	10.01	6.48
Debt Relief	0		0	0	3.58	2.34	3.58	2.32
Other	0		0	0	9.13	5.98	9.13	5.91
Total	0.18	100	1.72	100	152.54	100	154.44	100

Source: Same as Table 2

In the recipient's side, Sri Lanka was a closed economy, particularly in the second sub-period (1970-76) which principally prevented or discouraged free flow of market forces and expansion of economic relation (international trade and investment) with the world economy; in the donor's side, Japan was looking for new markets to support for its growing industrial products at home rather than helping foreign countries' development efforts. The distribution pattern of aid by sector further confirms this behaviour of Japanese bilateral assistance in these two sub-periods.

A significant characteristic of Japan's ¥32.08 billion Yen-loan (*enshakkan*) to Sri Lanka during these two-sub periods is that all of the 11-Yen-Credit Projects comprised only of a commodity loan. In particular, under this loan assistance Japan has provided mainly chemical fertilizer, commercial vehicles, automobile parts & tubes, textiles, industrial raw materials & machinery, fishing nets, two-wheel tractors, motor cycles, chemical goods and radio parts etc. to Sri Lanka. Although the

descriptions of the loan have clearly revealed Japan's motivation to expand its market for domestic products, MITI emphasized that Japan has provided these loans to relieve Sri Lanka of its worsening balance of payment conditions. According to annual report of *keizai kyoryoku no genjo to mondaiten* (Problems and Prospects of Economic Cooperation, 1969: 340), the balance of payment was deteriorating as a result of propulsion of social welfare policy and worsening of terms of trade etc. since 1965. As a result, the World Bank held five meetings with industrialized countries to request world donors to assist Sri Lanka to resolve its foreign exchange crisis in the period 1965-69. Japan agreed to provide US\$ 25 million (¥ 9 billion) under five installments commencing from 1966. The condition of these credits assistance, especially the level of repayment facilities, interest rate, and grace period are described in Table 4.

Table 4: Japanese Loan Assistance to Sri Lanka, 1966-1976

Unit: ¥ million

Date of Agreement	Project *	Amount of Loan	Interest Rate (%)	Maturity (Years)	Grace Period
1966(Jan.)	First Yen Credit	1,800	5.50	7	2
1966(Sep.)	Second Yen Credit	1,800	5.50	7	2
1967	Third Yen Credit	1,800	5.25	10	4
1968	Fourth Yen Credit	1,800	5.25	18	5
1969	Fifth Yen Credit	1,800	5.25	18	5
1971	Sixth Yen Credit	2,880	5.00	20	7
1972	Seventh Yen Credit	3,500	4.75	20	7
1973	Eighth Yen Credit	3,500	4.50	25	7
1974	Ninth Yen Credit	4,200	4.00	25	7
1975	Tenth Yen Credit	4,500	4.00	25	7
1976	Eleventh Yen Credit	4,500	3.50	30	10
1965-1976	-----	32,080	---	---	---

* Commodity Loan only

Source: MITI, Problems and Prospects of Economic Cooperation (*Keizai Kyoryoku no Genjo to Mondaiten*), Tokyo, Various Issues

Although the data reveals a gradual decline of interest rate, increase of repayment years and grace periods as major relief for Sri Lanka, appreciation of the Yen after shifting⁷ from fixed to floating exchange rate and depreciation of Rupees against Yen have caused an increase of the total amount of repayment. On the other hand, a commodity loan does not generate income through direct involvement in the production, enabling the recipient to make repayment easily in the long run. Thus, the credit provided merely as a commodity loan may pose difficulty to Sri Lanka in terms of repayment. This is natural because the economic policy in Sri Lanka in this period mainly concentrated on self-reliance development rather than integrating domestic economy with the world economy.

EOI Period: However, this situation of Japanese loan structure was changed significantly under EOI policy, which has been functioning since 1977. Table 2 reveals diversification of Japan's Yen Loan to Sri Lanka in this period. The main distinctive aspects of Yen-loan provision of Japan to Sri Lanka in this period was that it attempted to contribute to the development of infrastructure facilities which were urgently needed to implement EOI policy. One can argue that this was a major attempt of Japan's ODA to encourage Sri Lanka's development process based on free play of market economy. This can be substantiated according to the sudden change of Yen-loan structure after 1977: the commodity loan which used to play the major role in Yen-loan, declined from 100 per cent in 1965-76 to 10 per cent in 1977-99. Thus, during EOI policy regime 90 per cent of Yen-loan was diverted to development of social and economic sectors, specifically for the improvement of the transportation, telecommunication and electric power. These three sectors alone covered nearly

⁷ See Appendix Table 2 for detail in changing pattern of Japan's Yen-Dollar exchange rate since 1970.

two-third of the total *enshakkan* in the period 1977-99. The rest one-third of *enshakkan* was directed to the improvement of various sectors such as irrigation, agriculture, fishery & forestry, water supply, drainage etc. In particular, the Colombo fort extension project, Mahaweli development project, Samanalawewa and Kukule Ganga hydro power project, Colombo Airport, telecommunication network improvement project, Railway and other road rehabilitation projects, greater Colombo flood control and environment improvement project remain as major projects which received greater financial assistance from Japan.

This diversified loan structure, particularly high proportion of loans for power, road and communication implies the recipient's major attempt to achieve its principal goals of the EOI strategy. However, despite the augmentation of these three principal infrastructure facilities, it was unable to promote foreign investment and international trade, which were the main policy instruments to be employed in achieving economic prosperity under EOI policy. From the donor's side, it used this opportunity to make a positive contribution to the recipient's economic process with the anticipation of making further economic relations in the long run. Table 5 reveals not only the increase of *enshakkan* to diversified sectors in Sri Lanka, but also major relief on loans such as low level of interest rate, increase of maturity and grace period. However, one can argue that these reliefs may not at a significant level be compared to the appreciation level of Yen and depreciation rate of Rupees in this period.

Japan's positive response to the development effort of Sri Lanka can be further authenticated from its provision of grants, with no repayment obligations. A distinctive aspect of Japanese grants aid to Sri Lanka is that it largely changed in accordance with the change of economic policy in Sri Lanka (see Table 3). For example, in the first two sub-periods (1965-69 and 1970-76) of inward-looking policy, Sri Lanka, received only *food aid* (except ¥0.15 billion in the second sub-period). As discussed in

Table 5: Japanese Loan Assistance to Sri Lanka, 1977-1999

Unit: ¥ million

Date of Agreement	Project	Amount of Loan	Interest Rate (%)	Maturity (Years)	Grass Period
1977/1978	Twelfth Yen Credit	8,240	3.50	30	10
1978	Thirteenth Yen Credit	5,500	3.00	30	10
1979	Fourteenth Yen Credit	9,000	2.75/3.25	30	10
1980	Fifteenth Yen Credit	11,000	2.75	30	10
1981	Sixteenth Yen Credit	13,500	2.75	30	10
1982	Seventeenth Yen Credit	16,000	2.75	30	10
1984	Eighteenth Yen Credit	12,162	3.25	30	10
1985	Nineteenth Yen Credit	15,370	3.25	30	10
1986	Twentieth Yen Credit	17,000	3.25	25/30	7/10
1987	Twenty One Yen Credit	19,375	2.75	25/30	7/10
1988	Twenty Two Yen Credit	39,608	2.50/2.75	25/30	7/10
1990	Twenty Three Yen Credit	30,128	2.50	25/30	7/10
1991	Twenty Four Yen Credit	38,353	2.50	25/30	7/10
1992	Twenty Fifth Yen Credit	33,725	2.60	30	10
1993	Twenty Sixth Yen Credit	30,550	2.60	30	10
1994	Twenty Seventh Yen Credit	36,415	2.60	30	10
1995	Twenty Eighth Yen Credit	20,559	2.60	30	10
1996	Twenty Ninth Yen Credit	38,438	2.60	30	10
1997	Thirtieth Yen Credit	35,926	2.30	30	10
1998/1999	Thirty One Credit	49,578	0.75/1.80	30/40	10
1977-1999	-----	480,427	-----	-----	-----

Source: Same as Table 4

the foregoing analysis, this is quite natural as per the donor's motivation as well as the recipient's perceptions. From the donor's side, besides its development efforts on reconstruction of its war damaged economy, it may not have been willing to provide grant aid to a country which employed a self-reliance policy based on less reliance strategy of foreign resources. This may have caused the concentration of grants mainly on food assistance on humanitarian grounds rather than other areas of development necessities.

However, the change of government policy from inward to outward-

looking since 1977 has made a far-reaching effect on diversification of Japanese grant aid towards Sri Lanka. The total amount of grant increased dramatically from ¥1.9 billion in 1965-76 to ¥152.54 billion or 81 times in the period 1977-99. A notable feature of this huge amount of aid flow is that its contribution to food aid declined from 100 per cent to less than one per cent during this new economic policy era. One can argue that this change is not only the result of policy change in Sri Lanka, but also the gradual augmentation of food, specifically rice-self sufficiency at home. This may have resulted in directing the grants to other sectors, which urgently needed to improve for the implementation of industrial policy under EOI strategy.

The most popular areas of grant aid that consumed more than three-fourth of the total value were agriculture, education, health and communication. The most acclaimed projects among the people of Sri Lanka in these two decades have been summarized in Table 6. The data in the Table implies that nearly half of the total grant aid provided to Sri Lanka by Japan in these two decades was channeled to improve health, education, communication and infrastructure facilities. Among these four areas, 49 per cent was used for the development of educational institutions, including primary, secondary and tertiary education. Although Sri Lanka has long been enjoying a high literacy rate compared to any other country in Asia, literacy itself was inadequate to match labour skills demanded by the ongoing development activities of the country. It is commonly known that the Japanese grant has contributed largely in modernization of educational facilities, specifically in the major universities, to produce the most necessary human capital. In health and education, the most acclaimed projects were Peradeniya Teaching Hospital, Faculty of Dental Sciences in the University of Peradeniya, Sri Jayawardanapura Hospital, Computer Centre in University of Colombo, improvement of facilities (equipment and building etc.) in the Univer-

Table 6: Selected Popular Projects Commenced under Japanese Grant Aid, 1977-1999

Unit: ¥ billion

Name of the Project	Grant
Health:	
1. Peradeniya Teaching Hospital	1.90
2. Improvement of the Faculty of Dental Sciences in University Peradeniya	2.36
3. Sri Jayawardanapura Hospital	8.50
4. Medical Research Institute (equipment)	2.88
5. Sri Jayawardanapura Nursing School	1.54
6. Faculty of Medical Sciences in Sri Jayawardanapura University (medical equipment)	.94
7. Ratnapura General Hospital (equipment)	.55
8. Pharmaceutical Formulation Centre	2.56
Education:	
1. Faculty of Engineering in University of Peradeniya (equipment)	1.27
2. Matara Teachers' Training Collage	3.34
3. Ruhuna University (equipment)	.62
4. Youth Educational Training Centre	2.84
5. Moratuwa University (equipment)	.91
6. Expanding the National Institute of Education	2.00
7. Audio-Visual Education Centre in the Open University	1.35
8. University of Colombo (equipment)	.87
9. Faculty of Agriculture in University of Peradeniya (equipment)	.66
10. Plant Genetic Resource Centre	1.99
11. National Training Centre for Automobile Engineering	2.14
12. Training Centre for Construction Equipment	2.56
Communication:	
1. Television (Rupavahini) Centre	6.52
2. Radio Station (equipment)	4.74
Other:	
1. Kirinda Port/ Fisheries Harbour	3.60
2. Victoria Bridge	2.02
3. Rehabilitation of Kandy Water Supply Scheme	1.61
4. Establishment of National Plant Quarantine Service	2.09
5. Construction of the Mahaweli Road Bridge	2.28
Total	64.64

Source: Same as Table 2

sities of Peradeniya, Colombo, Matara, Ruhuna, Sri Jayawadanapur and Katubedda, and the Television Centre. Although it is difficult to quantify the rate of contribution of these grants to the national economy of Sri Lanka, it is reasonable to state that the rate of contribution is substantial.

In addition to these popular projects, there are large numbers of small-scale support schemes undertaken by these grants. In particular, the supply of various equipment and materials for development of the agricultural sector, improvement of housing for low-income people at grassroots level, poverty alleviation, rehabilitation of irrigation tanks, channels, roads, bridges, rural hospitals, and many kind of grassroots level projects. However, most of these projects are limited to short-term benefits to a selected group or a region and not directed to achieve long-term benefits.

In addition to these project-wise grant aid, Japan also procured a large sum of non-repayment grants as Technical Cooperation. This aid mainly deals with the provision of training to people in Sri Lanka and dispatching Japanese experts and young volunteers to various fields to Sri Lanka. During the period 1965-99, Japan has provided ¥40.51 billion to train 4,640 people in Sri Lanka while dispatching 3,974 Japanese experts, researchers and volunteers to Sri Lanka. The details of this technical cooperation has been summarized in Table 7.

Table 7: Japan's Technical Cooperation, 1965-99 (Cumulative Values)

Item	No/ Value
1. Acceptance of Trainees (No of people)	4,640
2. Dispatched of Japanese Experts (No of people)	930
3. Dispatched of Research Team (No of people)	2,534
4. Japanese Overseas Cooperation Volunteers (No of people)	510
5. Machine Parts (¥ million)	5,853.2
6. Project Cooperation (no of cases)	22
7. Development Survey (no of cases)	66
Total Cost (¥ billion)	40.51

Source: Same as Table 2

Thus, Japan has attempted to help Sri Lanka's development efforts under three major steps: first, provision of direct financial assistance to improve the most necessary infrastructure facilities which have not been considered under *enshakkan*, but urgently needed for ongoing modernization activities; second, helping to meet basic human needs of the poor people who are not benefiting directly from the process of industrialization strategy; and third, transfer of modern technology to people in Sri Lanka to carry out their modern development activities.

4. Problems and Prospects

Japanese economic assistance or so-called ODA has been criticized by various domestic and international studies⁸ emphasizing that it has been used to buildup the donor's own economy and society rather than using it as a means for correcting economic imbalance existing between South and North. As a result, many studies have defined Japanese aid as trade or commercial-oriented aid/ investment-oriented aid, resource-oriented aid, boomerang aid, aid for development of Japanese firms at home and recipient countries and so on. All these definitions demonstrate a poor quality level or prevalence of negative attitudes on Japan's ODA programme in recipient countries even though Japanese foreign aid remained quantitatively the highest, making Japan the top donor of the world.

However, aid officials in Colombo and Tokyo have emphasized, that Japan's economic assistance to Sri Lanka did not expect any social or economic benefit to Japan as it did in other Southeast Asian region or in the Central Asian countries. Nevertheless, ODA *Hakusho* (white paper)

⁸ See Sumi, 1989, 1990; Yokoyama, 1990; Bowen, 1998; Rix, 1986, 1993; Burnel, 1997; Yasutomo, 1986; Koppel and Orr. Jr., 1993; Alen, Kingston, Takahashi, 1993; Chittiwatanapong, 1995; Murai, 1997; Fuke and Fujibayashi, 1999.

often indicated the following factors as major reasons for providing economic assistance to Sri Lanka: (a) strategically or geographical importance; (b) traditional friendship; (c) high literacy rate which reflects the high standard of education level; and (d) strong possibility of economic development.

The first is a well known fact that Sri Lanka is situated at the center of Indian ocean, making it strategically important in various aspects, particularly in trade. From ancient times harbours of Sri Lanka functioned as a trade hub of the so-called sea-silk-road. At present, the country has a strong possibility to develop as a trade center in the Indian sub-continent which is home to 1,292 million people (1999) or about 22 per cent of the world population. As such, Japan can achieve economic benefits in the long run if it makes a strong socioeconomic relationship with Sri Lanka.

The second (traditional friendship) will also pave the way for Japan to gain economic benefits from its aid to Sri Lanka. Although both countries commenced their modern diplomatic relationship in 1951⁹, Sri Lanka's friendship with Japan goes back to more than a hundred years of cultural and social relations rather than economics. This is true because the people in both countries have enjoyed a similar sociocultural practice, pivoted on Buddhism and paddy culture. Therefore, it is reasonable to

⁹ In 1951, the Minister of Finance in Sri Lanka, Junius Richard Jayawardene who represented Sri Lanka at the San Francisco Peace Summit appealed the world community to abandon their claims for reparation from Japan by quoting a Buddha's teaching, "Hatred cannot be eliminated by hatred, only charity can clean out antipathy". He stressed that a free and independent Japan is essential for the future of Asia. Although very few people in Japan know this at present, most people in Sri Lanka believe that Japan is providing economic aid as a result of this favor, which made close friendship between the two countries. In 1991 (40th anniversary), the Kotokuin Temple of the Jodo sect famous for its Kamakura Daibutsu (Great Buddha), the second largest in the country established 2-meter-high stone monument of Jayawardene to honor his role in the San Francisco Peace Treaty.

argue that this traditional friendship has been more influential on aid flows from Japan to Sri Lanka.

The third, the high level of literacy rate is also cited in Japanese aid literature as another influential factor for the provision of aid to Sri Lanka. The main reason for this is that Japan was aware of the fact that economic development in any country will never be possible unless its education standard is improved. This has been an authentic phenomenon in the economic prosperity of Japan. There is no doubt that this experience has strongly influenced Japanese aid policy to channel a large proportion of its economic assistance to the development of human capital or so-called education in Asia. Thus, Japan has taken into consideration all these factors when providing assistance to the development effort of Sri Lanka to overcome the resource gap as much as possible.

Although the above factors might have motivated Japan to provide about \$2,998.65 million of aid (both loan and grant) to Sri Lanka in the last 35 year-period, it is surprising to note that this has not made a far-reaching effect on economic growth or economic prosperity of the people. One can argue that this as a result of the Japanese aid policy which used ODA as an instrument along with other policies to build up international economic relationships and to encourage domestic economic expansion rather than the eradication of poverty in recipient countries. For example, Takayanagi (1990: 33-93), noted Japanese ODA does not always bring about benefits to the lowest income groups in recipient countries in their efforts towards the improvement of life and self-reliance. The aid-giving and actual implementation is incompatible with the goal of eradicating poverty or encouraging development in recipient countries. However, on the other hand, it is difficult to deny that those Asian NIEs and some of the countries in the ASEAN region have overcome these constraints and achieved economic prosperity by careful utilization of

massive foreign aid, specifically Japanese aid. This implies that the success or failure of the development process under foreign assistance depends not only on the donor's aid policy but also largely on quality of economic management in the recipient country. Therefore, in the case of Sri Lanka, failure of the development process receiving foreign aid is not only due to the Japanese aid policy, but also to the overall socio-economic environment of the recipient country. Although it is very common that people often blame the 18-year old civil war in the North and East for the failure of the development process of the country, the poor quality of the governments and their politicized administrative structure characterized by economic mismanagement should be responsible for the ineffective utilization of resources.

However, the findings of some studies on Japanese Grant Aid have revealed that there are infirmities of Japan's aid policy even today. These studies have criticized¹⁰ grant aid emphasizing two major reasons: (a) although grant aid is aimed to help to meet the basic needs of poverty stricken people, it helps people in the upper-strata of the community; and (b) Japan has created a prolonged stable market for Japanese industrial goods in Sri Lanka, making the country a long-term dependent on Japan. Perhaps, it may be possible to justify such negative attitudes on Japanese grants, especially as those directed towards socioeconomic infrastructure building, if we considered them on a short-term basis. However, a long-term view would prove that these grants have made a substantial contribution to Sri Lankan society. For example, Sri Jayawardanapura Hospital, Television Station, Peradeniya Teaching Hospital, Computer Centre in the Colombo University and all other similar assistance to educational institutions have contributed to the national economy and society enormously though it is difficult to estimate this contribution in

¹⁰ See Takayanagi, 1990: 29-34

numerical terms. Although the grant aid has been completely tied to Japanese firms or Japanese suppliers in various ways when it was used for implementation of such specific projects, Sri Lanka does not have any burden because there is no obligation of repayment of this assistance. The maintenance cost of such facilities in future can be minimized if Sri Lanka attempts to develop the necessary components for the purpose at home as much as possible.

Moreover, dispatch of Japanese experts and Japanese Overseas Cooperation Volunteers (JOCV) is another important field mainly aimed at transferring technology from Japan to Sri Lanka. However, most studies¹¹ pertaining to these assistances, particularly to the dispatch of Japanese Experts and JOCVs in the field of social sciences reveal that these experts and volunteers do not receive any positive response for their activities in Sri Lanka. During a survey on the role of Japanese experts in participatory rural development in Sri Lanka it was found that their knowledge on the subject remained at an insufficient level. For example, during the survey period in Sri Lanka, the author had the following conversation with one of the prestigious scholars of the country regarding these experts:

Scholar: *Is it correct to translate the Japanese term, "Senmonka" to English as "Expert"?*

Author : *Yes, it is correct. But, what made you to ask that question?*

Scholar: *Well, those Japanese experts when compared to similar people from other developed countries to Sri Lanka are really not experts on the subject and instead of receiving advice from them, we always have to teach them. Therefore, I believe that*

¹¹ See A Survey Report on "The UC-JICA Joint Study Project on Participatory Rural Development," 2001, PP. 346-366 for detail analysis on people's attitudes on JICA experts.

“Senmonka” has to be translated into English as “Administrator” because Japanese “experts” are very competent on administration.

Furthermore, in a survey conducted by the author himself it was found that insufficient knowledge of long-term experts on the following areas have caused a severe set back or stagnation of the project: (a) participatory development; (b) main problems of rural development in Sri Lanka; (c) decision-making in group-work; (d) utilization of financial resources productively; and (e) mutual understanding of the provision of ODA¹².

In addition, the same field survey identified Japanese expert's enthusiasm to work with government officials or politicians rather than villagers in the implementation of project activities. It is a well-known fact that most of the rural development projects have failed to achieve the expected objectives as a result of bureaucratic and political influences. However, the JICA experts mainly depend on the politicized-bureaucratic structure when they are implementing a specific project in a village. It was difficult for the author to understand why the project under investigation was supplying various facilities like office equipment, a vehicle and training programs to politicized government officials and its related institutions. The economic assistance provided by the JICA or Japanese Food Aid Counterpart Fund must be of benefit to villagers and not to government officials. The people in the study villages and facilitators have strongly requested to change this politicized-bureaucratic procedure for a fruitful result from the project. However, this has not been realized by the JICA experts or related people of the project yet.

¹² See The UC-JICA Joint Study Project on Participatory Rural Development, 2001: 346-366 for further detail.

The above circumstances are natural because these experts have received these positions after working as a volunteer in a developing country for about 2-3 years. This reveals their insufficient knowledge, both theoretical and practical, on the subject. However, Japanese tax payers have spent about ¥20 million per annum to dispatch an expert to Sri Lanka. It is interesting to note that this cost is higher than the salaries of most of the highest-ranking officials in Japan and even the president's salary in Sri Lanka.

The similar opinions on JOCV activities have also found in the author's 3-year field¹³ survey on the Role of JOCVs in Alleviation of Rural Poverty in Sri Lanka. The counterparts or host institutions of these volunteers emphasized that the language problem and poor theoretical and practical knowledge as well as experience of them have become severe constraints in achieving their objectives, i.e., imparting expected benefits to Sri Lanka. The counterparts further stressed that these young Japanese volunteers are largely interested in community development rather than introducing new cultivation methods or new technologies for the improvement of productivity in the agricultural sector. According to counterparts, Sri Lanka has not only sufficient experience but also knowledgeable human capital on community development compared to other developing countries of Asia. Therefore, Sri Lanka needs volunteers who have sufficient knowledge on utilization of new technologies in the process of agricultural development rather than community development. However, the JICA office in Colombo described that it is very difficult to find such volunteers as a result of declining agriculture and its popularity among the young people in Japan. In addition, a few JOCVs who have been working as agricultural technicians emphasized that their knowledge is not sufficient to make a fruitful contribution to Sri Lanka

¹³ This survey was conducted during the period 1999-2001 under assistance of the Ministry of Higher Education in Japan.

because they are recent graduates from Japanese universities who do not have sufficient experience. Meanwhile their Sri Lankan counterparts have expressed that they do not achieve the expected aims by accepting JOCVs because their practical knowledge is not sufficient to fulfill Sri Lanka's expectation. However, one of the officials in JICA office in Tokyo emphasized, dispatch of JOCVs aims at educating Japanese young people to work with the people in developing countries rather than the transfer of technology. This contradiction between donor's perception and recipient's expectation has not been realized yet.

In addition to these arguments, the prolonged dependency on foreign aid is another dilemma of the country's development strategy over the last two decades. This can be illustrated from the dependency rate of the external resource gap on foreign aid, per capita foreign aid and its import capacity in the EOI period. The data in Table 8 reveals how Sri Lanka is continuing its dependency on foreign aid in general and Japanese aid in particular. During the period after the tea boom year of 1984, however, in most of the years, except 1994, 1997 and 1999, foreign aid has come to contribute between 43-63 per cent of the financing needs of the country (Lakshman, 1999: 16). In the same period, Japan alone contributed around 10-17 per cent to solve the external resource gap of the country. This reveals the economic instability and failure of the country's EOI policy, which is based on enormous capital expenditure activities. On the other hand, as successful countries in Asian NIEs and ASEAN region have done, Sri Lanka could not attract foreign direct investment (FDI), particularly Japanese FDI to finance its external resource gap substantially. This means, Japanese ODA and FDI did not inflow together to Sri Lanka as they were in Asian NIEs and ASEAN countries.

The country's strong dependence on foreign aid and its continuation trend can be further affirmed from per capita foreign aid receipts and its import capacity. According to Lakshman (1999: 16-17), "At current

Table 8: Level of Foreign Aid Dependency: Share of Foreign Aid in Financing of External Resource Gap and Significant of Foreign Aid in National Income

	1977	1978	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999(b)
<i>Share of Foreign Aid in Financing of External Resource Gap (%)</i>																				
(1) Total Foreign Aid	--	--	--	32.6	57.0	45.9	48.5	45.6	44.2	47.8	57.6	53.1	42.7	43.2	33.8	50.6	45.4	33.4	62.9	36.1
(2) Japanese Aid	--	--	--	4.4	5.4	5.9	9.8	9.0	10.3	15.7	13.0	15.4	4.4	8.7	10.0	13.5	10.0	6.3	17.4	9.5
<i>Share of Foreign Aid in GNP at Factor Cost Price (%)</i>																				
(1) Total Foreign Aid	4.9	11.4	9.0	9.7	10.0	9.5	9.6	8.3	8.8	7.9	8.3	10.9	16.8	15.6	17.4	14.5	11.3	12.2	7.1	8.9
(2) Japanese Aid	0.2	1.1	1.2	1.3	1.0	1.2	1.9	1.6	2.1	2.6	1.9	2.9	0.7	1.4	1.7	2.0	1.1	0.8	1.2	0.9
<i>Foreign Aid Receipts Per Capita (Rs.) at Current Prices</i>																				
(1) Total Aid	120	323	551	695	878	867	950	878	1,054	1,041	1,388	2,093	3,666	3,955	5,000	4,740	4,235	5,194	3,388	4,595
(2) Japanese Aid	6	31	75	94	84	111	193	174	247	342	313	563	160	345	502	640	424	326	588	437
Import Capacity of Foreign Aid Receipts (a)																				
(1) Total Aid	9.8	14.3	9.9	12.0	14.7	13.7	15.3	13.0	12.7	10.6	11.3	16.6	26.8	27.1	33.1	28.6	23.7	28.8	18.8	24.4

Note: (a) Foreign Aid/ Import Price Index: 1985 = 100; (b) Provisional

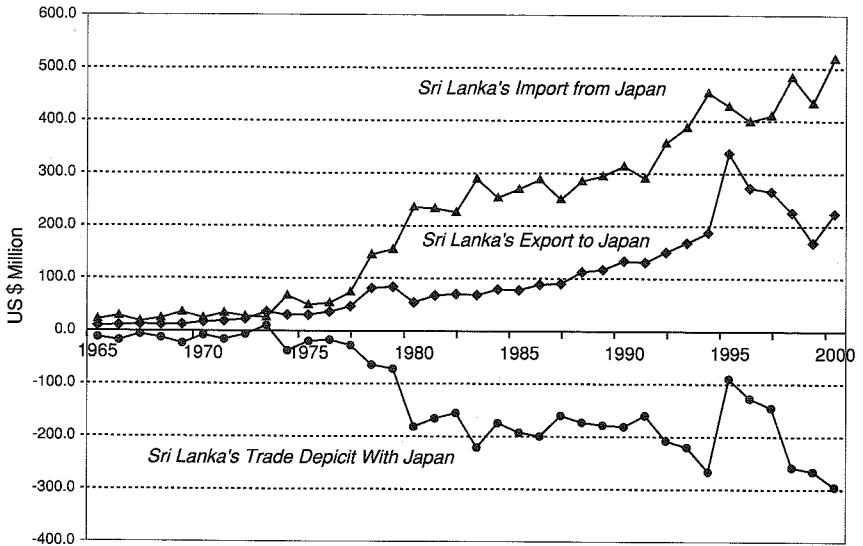
Source: Lakshman, W.D., *Foreign Aid Dependence in Sri Lanka since 1977: Casual Factors, Performance and Implications*, Unpublished Manuscript; Central Bank of Sri Lanka, Annual Report, Various Issues

prices, the rupee value of annual foreign aid receipts had gone up at a phenomenal rate between the end of the 1970s and the 1990s. Even in current US dollar terms the increase was substantial — it was increased by three times in the period 1977-99. As a proportion of GNP, foreign aid receipts surged to a high level after 1977 — from five per cent in 1977 to 11 per cent in 1978 and 1991. It remained in the range of 7-17 in the period 1992-99. Corrected for population growth, but remaining within current price terms, the per capita foreign aid receipts in rupee terms increased by 18 times and in US dollar terms by 1.7 times between 1977-78 and 1998-99 on average. In terms of their import capacity, derived through a deflation of current rupee figures with the Sri Lankan import price index, these foreign aid receipts, however, have not increased as rapidly as in current price (rupee or dollar) terms — the total going up by 9.5 per cent and the per capita going down by 1 per cent as between the two periods referred to. Thus, Sri Lanka's current development strategy has clearly been very heavily dependent on foreign aid. There has been no clear tendency towards a reduction in the extent of this dependence”.

In addition to this indefinite dependence of economic policy of the country on foreign aid, largely on Japanese aid, continuing trade deficit of Sri Lanka in export-import trade with Japan has been another serious problem in the last four decades. The deterioration of the trade gap between Japan and Sri Lanka is demonstrated in Figure 3 to further illustrate the trade dependence of the country.

The significant point emerging out of the data in Figure 3 and 4 is that the trade imbalance of Sri Lanka with Japan persisted throughout the period 1965-2000 (except 1973): the cumulative trade deficit of Sri Lanka with Japan for this period amounted to US \$ 4,340 million. It is interesting to emphasize that the Japanese accumulated aid to Sri Lanka in this period was less than 28 per cent of the total trade deficit of the

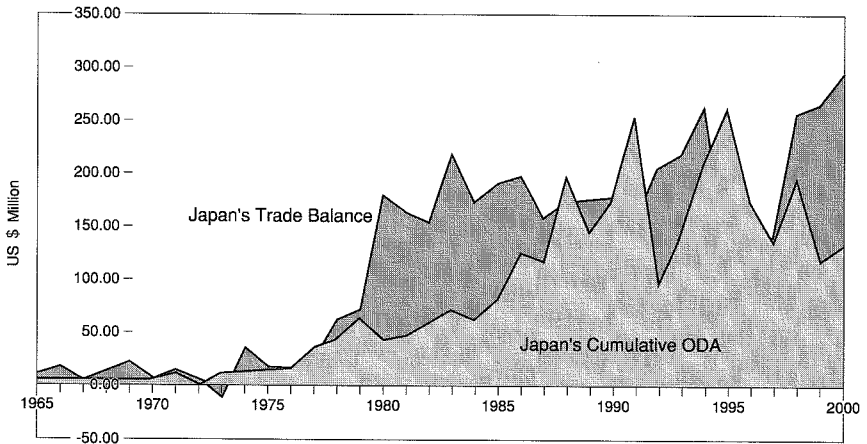
Figure 3: Trade Relationship between Sri Lanka and Japan



Source: MITI, Trade White Paper (Tsusho Hakusho), Tokyo, Various Issues

country with Japan. Therefore, it is reasonable to argue that Japanese aid may have promoted Japanese exports to Sri Lanka gradually.

Figure 4: Japanese Cumulative ODA and Trade Balance of Japan with Sri Lanka



Source: Same as Table 1 and Figure 3

The other aspect, which comes into view in these Figures is that the trend of trade deficit or export import relationship of Sri Lanka with Japan is closely associated with its policy change from ISI to EOI. The annual average increase rate of deficit in the EOI-period accounted for about 41 per cent, comprising more than 96 per cent or US\$ 4,178 million of the accumulated trade deficit of US\$ 4,340 million in the period 1965-2000. This is natural because the EOI policy was not only seen as a huge foreign resource to meet the country's resource gap, but also introduced par-reaching policies to open the economy for foreign investment and foreign trade. Although the country was anticipated to minimize its trade deficit through expansion of exports under this policy, it was not achieved as a result of political unrest and economic mismanagement in the last two decades.

5. Concluding Remarks

The study has found that the Japanese economic assistance was strongly correlated with the recipient's perceptions as well as the donor's motivations. From the donor side, it reveals that the motives of Japan have changed gradually in accordance with the economic problems encountered at home and in the international economy. In particular, the rebuilding of war-damaged economy, international pressure on repatriation aid, two-oil shocks, appreciation of yen, end of the cold war era, expansion of Japanese foreign direct investment, bureaucratic monopoly on decision-making of ODA towards self-interest, international criticisms on Japanese aid and its role in economic development in recipient countries were the principal complications confronted by Japan internally and externally on its ODA programme¹⁴. Many of these constraints

¹⁴ See Ratnayake (a), 2001: 1-34 for detail analysis on Japanese aid policy in the past four decades.

directly and indirectly influenced Japan to use its economic assistance as a straightforward commercial and economic strategy to re-achieve its national pride, which was lost in WWII. Although Sri Lanka is not a large market or a resource-rich country to Japan like China, Indonesia and Thailand, the pattern of Japanese aid flows and its trade relation with Sri Lanka reveals Japan's economic, political and social motives in the provision of Yen-loan, grant and technical aid to Sri Lanka.

These motivations have affirmed how Japan surged its economic assistance in value term and concentrated it in diversified sectors along with the change of Sri Lanka's development strategies. In particular, the inflow pattern of Japanese ODA to Sri Lanka has observed its distinguished nature according to the policy change of Sri Lanka from ISI to EOI. These two policy strategies have given respectively less and high dependence on foreign aid in financing the external resource gap and on international economic relations. During the ISI policy regime the Japanese aid was insignificant. However, it began to play a major role in the development process or financing the resource gap largely as a single country in the EOI period. This is natural because the EOI policy has given a vast opportunity to donor countries to expand their economic relations like trade and investment while assuring security of international property and a stable economic relationship with donors in future.

In spite of the factors that have influenced the motivations of the donor and the perceptions of the recipient, the major question to be answered is how far the Japanese ODA has contributed to the socio-economic development in Sri Lanka. It is observed that the role of Japanese aid in economic growth has not performed at any satisfactory level in the development experience of Sri Lanka, which has used foreign aid as the main fuel to accelerate economic growth since 1977. However, it is difficult to deny that the rate of unexplained productivity in various socioeconomic sectors of Sri Lanka has been achieved as a result of

Japanese ODA. On the other hand, the inflow pattern of Japanese ODA to Sri Lanka since 1977 reflects that its aid disbursement was based on a trickle down approach to development of the recipient country rather than direct involvement in the eradication of poverty through a basic needs approach. This may be the reason for the little awareness of the people in Sri Lanka about Japanese aid. However, Japanese industrial goods, specifically automobiles, electric and electronic goods have become well known and highly demanded commodities among the people in Sri Lanka. This implies how Japan has expanded its trade relation, or Japanese export to Sri Lanka along with its ODA programme.

The failure of Sri Lanka's attempts to achieve a high rate of economic growth through injecting Japanese aid as in most of the successful countries in Asia, is not only due to the self-interest aid policy of Japan. The poor quality of governments and their administrations in the country is more responsible for it. Although as it is always emphasized, the 18-year long civil war with Tamil separatists may have contributed to a certain extent for the failure of utilization of foreign aid productively in economic growth. However, the role of government in the development process should take the greater responsibility.

Nevertheless, the lack of contribution of Japanese ODA to economic growth in Sri Lanka cannot be concluded in this way because the present study does not involve any in-depth analysis on the role of Japanese aid in the economic development in Sri Lanka. Hence, it is necessary to conduct a comprehensive survey on selected projects in order to measure the level of contribution of Japanese aid and its major constraints from the donor's side as well as from the recipient's side.

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	Japan	USA	UK	Germany	Norway	Sweden	Netherlands	Canada	Other	Total
1980	44.78	55	73.25	19.74	11.39	23.11	22.72	29.28	16.8	296.07
1981	49.07	31	50.4	9.6	8.07	22.73	49.49	32.8	33.68	286.84
1982	61.61	49	55.48	24.43	14.69	25.21	21.54	33.35	20.05	305.36
1983	73.08	58	42.3	42.58	11.7	28.26	25.41	36.09	25.77	343.19
1984	63.77	76	12.26	33.74	11.88	32.3	20.65	30.44	20.71	301.75
1985	83.74	85	12.26	53.59	10.31	33.26	14.45	21.93	19.67	334.21
1986	126.91	66	17.3	73.2	12.22	23.97	17.22	21.56	29.71	388.09
1987	118.24	35	16.28	39.67	15.62	19.94	23.52	21.77	36.08	326.12
1988	199.83	41	30.41	37.17	16.43	7.18	28.35	28.25	47.35	435.97
1989	185.3	43	30.9	40.8	13.3	6.3	18	15.4	44.3	397.3
1990	176.1	75	21.3	26.2	22.5	10.6	22.3	4.3	45.5	403.8
1991	256.1	78	20.6	11.2	13.2	13.4	15.2	9.8	40	457.5
1992	96.1	52	16.3	4	13.7	12.1	10.4	7.6	36.6	248.8
1993	147.2	34	11.7	14.4	12.1	12	9.3	5.9	26.2	272.8
1994	213.8	37	12.4	7	15	8.5	14.7	4.9	20.7	334
1995	263.7	25	13.6	11.4	14.2	12.4	14.1	4	15.6	374
1996	173.9	4	12.1	15.8	31.7	12.5	13.1	4	12.1	279.2
1997	134.6	5	17.4	9.8	15.9	13.9	14	3.6	14.1	228.3

Source: Same as Table 1

Japanese Official Development Assistance to Sri Lanka: An Analysis of Perceptions of the Recipient

Appendix Table 2 : The Composition of DAC Countries' ODA Disbursements to Sri Lanka (%)

	Japan	USA	UK	Germany	Norway	Other	Sweden	Netherlands	Canada	Other
1980	15.12	18.58	24.74	6.67	3.85	31.04	7.81	7.67	9.89	5.67
1981	17.11	10.81	17.57	3.35	2.81	48.35	7.92	17.25	11.43	11.74
1982	20.18	16.05	18.17	8.00	4.81	32.80	8.26	7.05	10.92	6.57
1983	21.29	16.90	12.33	12.41	3.41	33.66	8.23	7.40	10.52	7.51
1984	21.13	25.19	4.06	11.18	3.94	34.50	10.70	6.84	10.09	6.86
1985	25.06	25.43	3.67	16.03	3.08	26.72	9.95	4.32	6.56	5.89
1986	32.70	17.01	4.46	18.86	3.15	23.82	6.18	4.44	5.56	7.66
1987	36.26	10.73	4.99	12.16	4.79	31.07	6.11	7.21	6.68	11.06
1988	45.84	9.40	6.98	8.53	3.77	25.49	1.65	6.50	6.48	10.86
1989	46.64	10.82	7.78	10.27	3.35	21.14	1.59	4.53	3.88	11.15
1990	43.61	18.57	5.27	6.49	5.57	20.48	2.63	5.52	1.06	11.27
1991	55.98	17.05	4.50	2.45	2.89	17.14	2.93	3.32	2.14	8.74
1992	38.63	20.90	6.55	1.61	5.51	26.81	4.86	4.18	3.05	14.71
1993	53.96	12.46	4.29	5.28	4.44	19.57	4.40	3.41	2.16	9.60
1994	64.01	11.08	3.71	2.10	4.49	14.61	2.54	4.40	1.47	6.20
1995	70.51	6.68	3.64	3.05	3.80	12.33	3.32	3.77	1.07	4.17
1996	62.29	1.43	4.33	5.66	11.35	14.94	4.48	4.69	1.43	4.33
1997	58.96	2.19	7.62	4.29	6.96	19.97	6.09	6.13	1.58	6.18

Source: Same as Table 1

Appendix 3 : The Trend of Yen-Dollar Exchange Rate in Japan

Year/ Period	Exchange Rate (1\$ = Yen)	Annual Increase Rate
Until 1970 (fixed)	360.00	---
1971	350.68	2.61
1972	303.17	13.91
1973	271.70	12.89
1974	292.08	-6.40
1975	296.79	-1.87
1976	296.55	0.17
1977	268.51	10.44
1978	210.44	27.58
1979	219.14	-3.97
1980	226.74	-3.34
1981	220.54	2.82
1982	249.08	-11.45
1983	237.51	4.85
1984	237.52	0.00
1985	238.54	-0.43
1986	168.52	41.55
1987	144.64	16.51
1988	128.15	12.87
1989	137.96	-7.11
1990	144.79	-4.72
1991	134.91	7.32
1992	126.65	6.52
1993	111.20	13.90
1994	102.21	8.80
1995	94.06	8.66
1996	108.78	-13.53
1997	120.99	-10.09
1998	130.91	-7.58
1999	113.91	14.92
2000 (May)	108.11	5.36

Source: International Monetary Fund, *International Financial Statistics*, Various Issues