

**JAPAN'S AID TO ASEAN:
PRESENT REALITIES AND FUTURE CHALLENGES**

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JAPAN'S AID TO ASEAN: PRESENT REALITIES AND FUTURE CHALLENGES*

by

*Filologo Pante, Jr.***

I. INTRODUCTION

The world economy has been going through a period of sluggish growth. The prospects for the near future are not encouraging, with forecasts for 1988 clustering around 3% and not much more.^{1/} This does not augur well for the developing countries, many of whom have been struggling with serious problems of external debt and dwindling earnings from exports of primary commodities, a situation which has been exacerbated by the resurgence of protectionism in the industrialized countries. There is an urgent need for effective responses to the problems of the developing world, for, like it or not, unmitigated mass poverty and hunger could lead to political instability.

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**President, Philippine Institute for Development Studies. The views expressed in this paper are solely those of the author and do not necessarily reflect those of PIDS.

In the midst of all these, Japan has experienced unprecedented current account surpluses and is expected to do so in the next few years. Japan's response has essentially been three-pronged: (1) the expansion of domestic demand; (2) the improvement of market access; and (3) the recycling of part of her external surpluses to the developing countries through various means, including the accelerated disbursement of official development assistance (ODA) targets.^{2/} The latter, with emphasis on Japan's aid to ASEAN, is the subject of this paper. It reviews the realities of existing aid relations between Japan and her neighbors, particularly ASEAN, and presents some of the major challenges that Japan's ODA must face today and in the future, if it is to be a true "medium for regional growth."

Section 2 provides an overview of Japan's ODA, touching on the overall trends and patterns of Japan's aid in terms of quantity and quality. Section 3 deals with the question of the importance of Japan's ODA to ASEAN, both from the viewpoint of Japan and ASEAN member countries. Section 4 discusses the major challenges facing Japan's ODA, focusing on issues surrounding the volume of aid, the efficiency of aid implementation, the quality of aid and its effectiveness, and the geographic allocation of aid. The last section concludes the paper.

2. TRENDS AND PATTERNS OF JAPANESE ODA

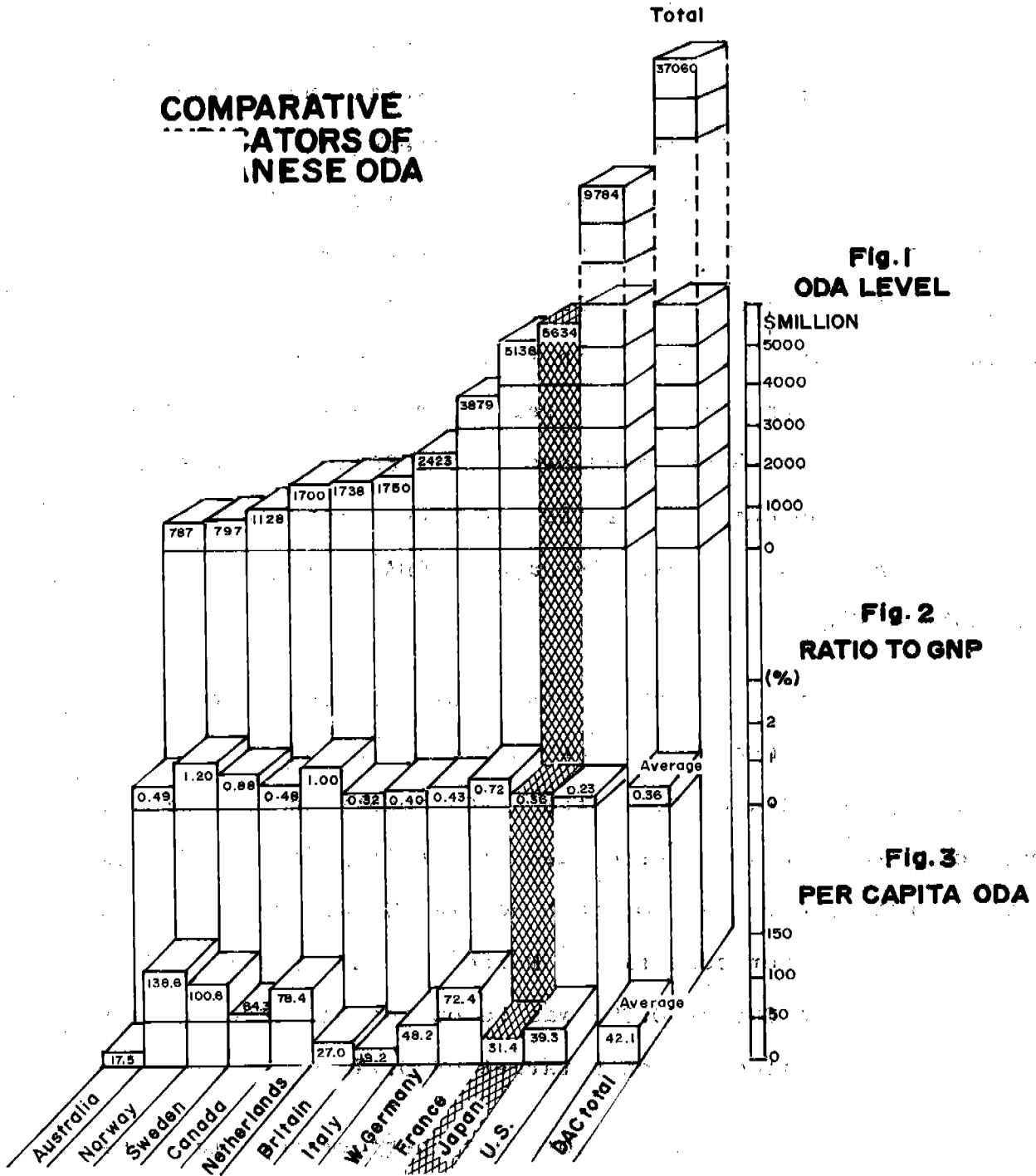
2.1 Quantity

In the 1960s, Japan was just a minor ODA contributor. By the 1970s, however, Japan had become a major participant in the international assistance effort.^{3/} Between 1976 and 1986, Japanese ODA increased five-fold. In 1986, Japan's ODA ranked second to that of the US, reaching an ODA volume of \$5,634 million on a net disbursement basis (Figure 1). Just a year earlier, Japan was in third place behind the U.S. and France in terms of ODA volume. The principal reason for the rapid growth in Japanese ODA in 1986 (48.4% increase over the 1985 level) was the substantial appreciation of the yen since September 1985. In yen terms, the increase in Japan's ODA in 1985 to 1986 was only 4.8%.

Despite the sharp increase in the level of Japanese ODA, however, Japan still lags behind other Development Assistance Committee (DAC) countries in terms of ODA contribution as a percentage of GNP (Figure 2) and ODA per capita (Figure 3). On both counts, Japan ranked 14th among the 18 member countries. Moreover, the 1986 ratio of Japan's ODA to GNP of 0.29% was below the DAC average of 0.36% and the United Nation's target of 0.7%.

Another indicator of ODA performance is the proportion of ODA in central government budget expenditures. Table 1 shows that in the case of Japan, the share of ODA in

COMPARATIVE INDICATORS OF JAPANESE ODA



Source: Journal of Japanese Trade and Industry (Vol. 7, No. 2, March/April 1988), p. 9

TABLE I

ODA APPROPRIATIONS AS A PERCENTAGE OF CENTRAL GOVERNMENT
BUDGET EXPENDITURES, 1970-85
Three year averages

	1970-72	1975-77	1980-82	1983-85
Australia	2.2	1.6	1.5	1.5
Austria	0.3	0.4	0.4	0.4
Belgium	1.9	1.9	1.4	1.4
Canada	2.8	2.3	2.1	2.1
Denmark	1.5	1.9	2.0	2.1
Finland	0.6	0.6	1.0	1.3
a/				
France	3.6	3.3	3.1	3.3
Germany	2.3	2.1	2.5	2.5
Ireland	-	-	0.5	0.5
			b/	
Italy	-	-	0.8	1.1
c/				
Japan	-	0.6	0.8	1.0
Netherlands	2.6	2.7	3.0	2.9
New Zealand	0.7	0.9	0.6	0.5
Norway	1.4	2.5	2.6	2.6
Sweden	2.2	2.7	2.5	2.4
Switzerland	1.9	1.9	2.5	2.9
United Kingdom	1.8	1.5	1.3	1.2
United States	1.2	1.0	1.1	1.0
	---	---	---	---
Total DAC countries	(2.0)	(1.8)	(1.8)	(1.8)

a/ Including DOM/TOM

b/ 1980-1981 only.

c/ General account budget.

Source: OECD, 1986 Report, (Paris, 1986).

central government expenditures has risen from 0.6% in 1975-77 to 1.0% in 1983-85. The ratio for the U.S. has stayed close to 1.0% during the same period. On the whole, the data indicate that the national budget shares of aid expenditures have by and large held up despite severe budgetary restraints in most DAC member countries. This is particularly true with Japan. From 1983 to 1987, Japan's ODA budget increased by an average of 8.3% per year as compared to the general budget account which grew by 1.7% annually during the same period.^{4/}

2.2 Quality

Several indicators are used to assess the quality of Japanese ODA, namely: the grant element of aid, its grant-loan mix and the degree to which aid is tied or untied. Table 2 shows the grant element of total ODA and the share of grants in total ODA of aid commitments of DAC countries. The grant element of Japan's ODA (73.6% in 1984-85), despite some improvement between 1970-71 and 1984-85, was the lowest among those of DAC member-countries and way below the DAC average which, in 1984-85, stood at 90.3%. In 1985, all DAC member countries except Japan, met the overall concessionality target. The share of grants in Japan's ODA (55.4% in 1983, 46.1% in 1984 and 47.5% in 1985) was also the lowest among those of DAC member-countries, falling below the DAC average of 77.0-81.0% during 1983-85.

TABLE 2
FINANCIAL TERMS OF ODA COMMITMENTS OF DAC MEMBERS

	Grant element of total ODA (norm: 86%) a/				Grants as a share of ODA commitments b/ %	
	1970-71	1975-76	1980-81	1984-85	1984	1985
Australia	95.5	100.0	100.0	100.0	100.0	100.0
Austria	67.0	95.0	61.4	86.9	71.1	85.3
Belgium	97.0	97.8	97.9	98.3	85.7	94.5
Canada	93.8	96.9	97.6	99.0	85.3	95.6
Denmark	94.7	96.3	96.6	96.8	88.2	80.9
Finland	85.1 c/	91.2	96.5	96.9	85.7	95.1
France	83.7	90.9	89.9	86.8	79.2	78.1
Germany	82.1	87.6	86.7	86.7	63.8	76.9
Ireland	100.0	100.0	100.0	100.0	100.0	100.0
Italy	56.5	97.8	94.0	92.2	83.7	80.9
Japan	67.6	72.6	74.7	73.6	46.1	47.5
Netherlands	86.0	89.3	93.0	94.9	83.2	90.8
New Zealand	95.0	98.3	100.0	100.0	100.0	100.0
Norway	99.4	100.0	99.8	99.7	99.5	99.6
Sweden	95.6	99.6	99.4	100.0	100.0	100.0
Switzerland	92.4	92.5	97.0	98.6	90.2	93.2
United Kingdom	80.9	97.4	96.8	98.9	97.6	98.6
United States	84.6	86.1	92.4	94.7	82.4	88.9
Total DAC countries	83.1	89.3	89.7	90.3	77.0	80.8

a/ Including debt reorganization.

b/ Including grants and capital subscriptions to multilateral agencies,

c/ 1971-72.

Source: OECD, 1985 Report (Paris, 1985) and 1986 Report (Paris, 1986).

Table 3 compares Japan's ODA loan terms to those of other DAC member countries in 1985. The interest rate on Japanese ODA loans was the highest at 3.7% followed by those of Austria, 3.6% and France, 3.3%. Japan ranked sixth in terms of the length of maturity of ODA loans (27.7 years), with Canada's ODA loans having the longest maturity of 50 years, followed by the US's 35.6 years. In terms of grace period, Japan fared better. With 8.8 years grace, Japan's ODA loans had the fourth longest grace period among DAC members' ODA loans.

As far as aid untying is concerned, Japan has followed a policy of general untying of ODA loans since FY 1978. Consequently, the rate of untied assistance in Japan's bilateral loans reached 60.7% in 1985, as compared to the US's 13.8%, and France's 39.0%. As of the same year, only 3.7% of Japan's bilateral ODA loans remained tied.^{5/} The proportion of grant-aid that is still tied, however, is much higher, estimated at 55.3% in 1983.^{6/} Despite the policy of general untying of ODA loans, however, it seems that the process by which projects are developed and funded under the Overseas Economic Cooperation Fund (OECF) is still very much stacked in favor of Japanese suppliers. Among other advantages, the latter are able to participate at every step of the way, starting from the early stages of project development. Accordingly, while there is general untying of Japan's ODA loans in principle, the opposite seems to be the case in actual practice.^{7/}

TABLE 3
 a/
DAC MEMBERS' ODA TERMS IN 1984 AND 1985

	Interest rate %		Maturity (years)		Grace period (years)	
	1984	1985	1984	1985	1984	1985
Australia	-	-	-	-	-	-
Austria	4.3	3.6	16.8	21.1	6.7	6.5
Belgium	(0.1)	0.0	(30.0)	30.0	(10.0)	10.0
Canada	0.0	0.0	50.0	50.0	10.0	10.0
Denmark	0.0	0.0	31.6	27.1	9.3	7.6
Finland	0.8	2.1	24.5	(22.1)	7.4	6.0
France	3.1	3.3	23.7	23.6	8.3	8.2
Germany	2.8	2.9	36.7	32.4	5.7	5.9
Ireland	-	-	-	-	-	-
Italy	2.5	2.1	16.3	18.2	4.9	6.1
Japan	3.4	3.7	26.7	27.7	8.6	8.8
Netherlands	2.5	2.3	30.1	28.8	8.0	7.8
New Zealand	-	-	-	-	-	-
Norway	3.3	2.0	17.1	6.2	7.0	2.0
Sweden	-	-	-	-	-	-
Switzerland	0.0	0.0	22.3	24.1	12.8	14.6
United Kingdom	1.4	0.0	20.3	17.3	6.3	5.3
United States	2.8	2.8	34.6	35.6	10.0	9.4
Total DAC countries	2.9	3.1	30.4	(28.5)	8.3	(8.3)

a/ Excluding debt reorganization.

Source: OECD, 1986 Report (Paris, 1986).

3. JAPANESE AID TO ASEAN

How important is Japan's aid to ASEAN? This question can be considered from the viewpoint of Japan as well as that of ASEAN.

3.1 Role of Japanese ODA to ASEAN in Japan's Aid Program

The main focus of Japanese aid has traditionally been the Asian region, with which Japan has had a close geographic, cultural, historical, economic and political relationship. In the 1960s and early 1970s, Asia had a virtual monopoly of Japanese ODA. The degree of emphasis has, however, diminished, as other regions began to receive increasing attention in Japan's program of aid. Within Asia, a good proportion of Japanese ODA goes to ASEAN, "reflecting Japan's high regard of ASEAN."^{8/}

The priority being given to ASEAN has been part of Japan's effort since the mid-1970s to stabilize and expand her economic ties with Southeast Asia, particularly with the ASEAN member countries.^{9/} Japan obviously recognized early on the economic potentials and importance of ASEAN to her, as a source of raw materials and as a destination of exports and overseas investments. Beyond economic considerations, however, there are also political or "strategic" reasons for giving great importance to aid to ASEAN. More specifically, the steady economic progress in ASEAN and, for that matter, the developing Asian region, is seen as being crucial to the promotion of peace and stability in Asia and the world.

Table 4 presents the geographical allocation of Japanese bilateral ODA for 1970, 1975, 1984, 1985 and 1986. While Asia remains to be the major recipient region of Japanese bilateral ODA, the shares of other regions, particularly Africa, the Middle East and Central and South America has risen from just 1.7% in 1970 to 35.2% in 1986. In Asia, China has become Japan's largest single recipient of bilateral aid since 1982, replacing Indonesia. In 1986, China received about 13% of the total Japanese bilateral aid. The four ASEAN countries--Indonesia, Malaysia, the Philippines and Thailand--still account for a relatively substantial proportion of Japanese bilateral ODA, indicating the continuing emphasis of the Japanese aid program on ASEAN, but the regional organization's share in the total has progressively declined from 34.4% in 1984 to 31.3% in 1985 and 23.8% in 1986. The absolute level of assistance to ASEAN actually increased from \$800 million in 1985 to \$914 million in 1986. However, the rates of increase of Japan's aid to other recipient regions were much greater as the following table will show:

TABLE 4

GEOGRAPHICAL ALLOCATION OF BILATERAL ODA
(Percentage Distribution of Net Disbursements)

	1970	1975	1984	1985	1986
Asia	98.3	75.1	65.7	67.8	64.8
of which:					
China	n.a.	n.a.	16.0	15.2	12.9
ASEAN	n.a.	n.a.	34.4	31.3	23.8
Southwest Asia	n.a.	n.a.	12.7	14.7	21.6
Middle East	3.3	10.6	10.3	7.9	8.8
Africa	2.3	6.9	8.7	9.9	10.9
Central and South America	(4.0)	5.6	9.4	8.8	8.2
Oceania	0.0	0.6	1.1	0.9	1.4
Europe	(0.2)	-	0.0	0.0	0.1
Unallocable	0.3	1.2	4.8	4.8	5.7
TOTAL	100.0	100.0	100.0	100.0	100.0

Sources: 1970 figures are from Allan Rix, Japan's Aid Program, International Development Issues No. 1, Australian Development Assistance Bureau, (Canberra 1987), p. 14; Data for 1984-1986 are from Japan's ODA 1987, Ministry of Foreign Affairs, (Tokyo, 1988), p. 55-56.

TABLE 5

PERCENTAGE INCREASE IN NET DISBURSEMENTS OF
JAPANESE BILATERAL ODA, 1985-1986

Asia	43.9
of which:	
China	34.8
ASEAN	14.2
Southwest Asia	212.6
Middle East	69.1
Africa	65.9
Central and South America	40.9

Table 6 shows the 10 major recipients of Japanese bilateral aid from 1984 to 1986. China has maintained its premier position during this period. After China, the ranking of countries has shifted, with the Philippines reaching the number two position in 1986. In 1984, the four ASEAN countries--Malaysia, Thailand, Indonesia and the Philippines followed China, in that order. In 1985, Burma dislodged Malaysia in the top five; in 1986, Bangladesh, Burma and India overtook Indonesia which ended up seventh in the ranking. By that year, Malaysia was no longer among the top 10 recipients of Japan's bilateral ODA.

TABLE 6

Ten Major Recipients of Bilateral ODA (1984-86)

Net Disbursement)		(Million Dollars)					
		1984		1985		1986	
1	China	389.35	China	387.89	China	496.95	
2	Malaysia	245.14	Thailand	264.10	Philippines	437.96	
3	Thailand	232.02	Philippines	240.00	Thailand	260.41	
4	Indonesia	167.69	Indonesia	161.33	Bangladesh	248.47	
5	Philippines	160.07	Burma	154.04	Burma	244.14	
6	Bangladesh	123.28	Malaysia	125.59	India	226.71	
7	Burma	95.40	Bangladesh	121.48	Indonesia	160.63	
8	Egypt	81.47	Pakistan	93.31	Pakistan	151.56	
9	Pakistan	67.03	Sri Lanka	83.74	Sri Lanka	126.91	
10	Sri Lanka	63.77	Egypt	73.01	Egypt	125.70	

Source: Japan's ODA 1987, Ministry of Foreign Affairs, (Tokyo, 1988), pp. 55-56.

It is also interesting to note the form of assistance being extended to various regions under Japan's ODA program. For Asia and the Middle East, the larger proportion of ODA is in the form of loans (about one-third grants and two-third loans). The share of grants is larger in the case of Africa, almost exactly the opposite of the grant-loan mix in Asia and the Middle East. The grant-loan mix is likewise in favor of grants in the case of ODA to Central and South America. Within Asia, ODA to China is mostly in the form of loans (82.5% loans and 17.5% grants). The grant-loan composition is comparatively more favorable to ASEAN, at about 42.0% grants and 58.0% loans, in fact more favorable than that for Southwest Asia (31.1 grants and 68.9% loans.)^{10/}

3.2 Importance of Japanese ODA to ASEAN Countries

The problems faced by most ASEAN member-countries and, for that matter, other similarly situated developing countries vis-a-vis the rest of the world are generally similar: instability of primary export earnings and vulnerability to external shocks; difficulty of access to markets of developed countries and the resurgence of protectionist tendencies among them; the drying-up of new resource flows from private sources to developing countries; and the constraints imposed by a growing, if not already substantial, external debt burden. As stated above, the scenario for the near future is not at all helpful, because

developed countries are anticipated to experience relatively slower rates of growth. Given such a situation, the role and contribution of ODA becomes doubly important. This is particularly true for the more heavily indebted countries in ASEAN, such as the Philippines and Indonesia.^{11/}

Table 7 shows the total ODA received by ASEAN countries from 1982-1985. Two things can be noted from the table. First, the volume of total ODA disbursed to ASEAN countries in 1985 did not increase significantly from the 1980 level. This is mainly due to the drop in ODA disbursements to Indonesia during the period, from \$950 million in 1980 to \$603 million in 1985. Second, while ODA disbursements to Indonesia declined, Indonesia is still the largest ODA recipient in ASEAN. In 1980, Indonesia received about half of all ODA that was extended to ASEAN. In 1985, this share was down to one-third. The next largest recipients of ODA in ASEAN are Thailand and the Philippines, each accounting for about 26.0% of total ODA disbursements to ASEAN in 1985. With regard to ODA as a percentage of GNP in 1985, the Philippines ranks highest with 1.5%, followed by Thailand with 1.3%; Malaysia, 0.8%; Indonesia, 0.7% and Singapore, 0.1%.

How significant is Japanese ODA in the total ODA received by ASEAN? Table 8 shows that slightly over one-half of the ODA received by ASEAN countries in 1985 came from Japan. For purposes of comparison, the figure for

TABLE 7

TOTAL ODA TO ASEAN FROM DAC
COUNTRIES, MULTILATERAL ORGANIZATIONS
AND OPEC, 1982-1985 a/
(\$ million, net disbursement basis)

	1982	1983	1984	1985
Brunei	0.3 (-)	0.4 (-)	0.8 (-)	1.4 (-)
Indonesia	906.3 (50.8)	744.5 (41.4)	672.7 (35.2)	603.2 (33.1)
Malaysia	135.3 (7.6)	176.6 (9.8)	326.6 (17.1)	229.2 (12.6)
Philippines	333.4 (18.7)	429.0 (23.9)	397.0 (20.7)	486.2 (26.6)
Singapore	20.5 (1.1)	14.6 (0.8)	41.0 (2.1)	23.9 (1.3)
Thailand	388.9 (21.8)	431.7 (24.0)	475.2 (24.8)	480.9 (26.3)
Total ASEAN	1,735.5	1,696.9	1,813.4	1,724.9

a/ Figures in parenthesis indicate percentage distribution. Totals may not add up to 100 due to rounding.

Source: OECD, 1986 Report (Paris, 1986).

TABLE 8

SHARE OF JAPANESE ODA IN TOTAL BILATERAL ODA
RECEIVED BY ASEAN COUNTRIES AND CHINA, 1985

ASEAN	Total Bilateral ODA	Japan	Japan % Share
Indonesia	502.74	161.33	32.1
Malaysia	202.56	125.59	62.0
Philippines	437.55	240.00	54.9
Singapore	21.77	7.94	36.5
Thailand	385.48	264.10	68.5
Brunei a/	1.30	1.05	80.8
Total ASEAN	1,551.40 =====	800.01 =====	51.6 =====
China	573.67	387.89	67.6

a/ 1984 for Brunei.

Source: Ministry of Foreign Affairs,
Japanese ODA 1987, (Tokyo, 1988).

China (67.6%) is also shown. Except for Indonesia and Singapore, all other ASEAN countries sourced more than one-half of the total ODA they have received from Japan, with the highest proportion of Japanese ODA being in Thailand (68.5%), if Brunei is excluded.^{12/} These numbers manifest the critical role that Japan's aid plays in the development efforts of ASEAN countries.

Table 9 presents Japan's ODA disbursements to individual ASEAN countries in 1982-86, broken down into grants (capital grants and technical assistance) and loans. There are a number of observations which can be made from the table, namely: (1) the rapid decline in the net disbursements of Japan's aid to Indonesia; (b) the large reduction in the net disbursements to Malaysia between 1985 and 1986; (3) the rapid expansion in aid disbursements to the Philippines, notably loans; (4) between loans and grants extended to ASEAN as a whole, the faster build-up of grants (more than doubled from 1982 to 1986) as compared to loans; and (5) between capital grants and technical assistance, the faster increase in capital grants as compared to technical assistance also for ASEAN, as a whole.

The rise of China as the major recipient of Japanese ODA has been mentioned above. As regards the Philippines, the increasing level of Japanese assistance reflects Japan's interest and concern in stabilizing the government under President Aquino. A number of events

TABLE 9

JAPAN'S ODA DISBURSEMENTS TO ASEAN COUNTRIES AND CHINA, 1982-1986
(Million \$, Net Disbursement Basis)

	Grants			Loans	Total	%
	Capital Grants	Technical	Total			

ASEAN Countries						

Indonesia						
1982	19.47	37.18	56.65	237.90	294.55	12.40
1983	20.04	39.99	60.03	175.43	235.46	9.70
1984	30.03	43.66	73.69	94.00	167.69	6.90
1985	31.06	45.28	76.34	84.99	161.33	6.30
1986	46.75	63.07	109.82	51.01	160.83	4.20
Malaysia						
1982	1.12	15.47	16.59	58.73	75.32	3.20
1983	6.72	22.57	29.29	63.01	92.30	3.80
1984	11.03	24.81	35.83	209.31	245.14	10.10
1985	0.55	23.06	23.61	101.98	125.59	4.90
1986	7.06	36.43	43.49	(5.73)	37.77	1.00
Philippines						
1982	22.12	22.97	45.09	91.29	136.38	5.80
1983	35.84	26.13	61.97	85.05	147.02	6.10
1984	26.39	31.30	57.68	102.39	160.07	6.60
1985	39.96	29.75	69.71	170.29	240.00	9.40
1986	41.08	39.30	80.37	357.58	437.96	11.40
Singapore						
1982	0.30	6.98	7.28	0.27	7.55	0.30
1983	0.15	7.83	7.98	(4.13)	3.85	0.20
1984	2.77	10.47	13.23	15.15	28.38	1.20
1985	2.54	9.51	12.05	(4.11)	7.94	0.30
1986	8.34	12.86	21.21	(5.89)	15.32	0.40
Thailand						
1982	33.73	27.48	61.21	109.11	170.32	7.20
1983	52.16	37.19	89.35	158.77	248.12	10.20
1984	50.20	40.21	90.41	141.61	232.02	9.60
1985	76.54	40.69	117.23	146.87	264.10	10.30
1986	71.56	54.19	125.76	134.65	260.41	6.80

.../2...

	Grants			Loans	Total	%
	Capital Grants	Technical	Total			
Brunei						
1982	-	0.29	0.29	(0.04)	(0.25)	0.00
1983	-	0.37	0.37	-	0.37	0.00
1984	-	0.64	0.64	-	0.64	0.00
1985	-	1.05	1.05	-	1.05	0.00
1986	-	2.18	2.18	-	2.18	0.10
Total ASEAN						
1982	76.74	110.37	187.11	497.26	683.87	28.90
1983	114.91	134.08	248.99	478.13	727.12	30.00
1984	120.42	151.09	271.48	562.46	833.94	34.40
1985	150.65	149.34	299.99	500.02	800.01	31.20
1986	174.79	208.03	382.83	531.62	914.47	23.90
China						
1982	25.09	13.52	38.61	330.18	368.79	15.60
1983	30.62	20.46	51.08	299.07	350.15	14.40
1984	14.26	27.23	41.49	347.86	389.35	16.00
1985	11.56	31.16	42.72	345.17	387.89	15.20
1986	25.68	61.19	86.87	410.08	496.95	12.90
Total (ASEAN & China)						
1982	101.83	123.89	225.72	827.44	1,052.66	44.50
1983	145.53	154.54	300.07	777.20	1,077.27	44.40
1984	134.68	178.32	312.97	910.32	1,223.29	50.40
1985	162.21	180.50	342.71	845.19	1,187.90	46.40
1986	200.47	269.22	469.70	941.70	1,411.42	36.80

Note: % is % of total bilateral ODA.

Source: Ministry of Foreign Affairs, Japan's ODA 1987 (Tokyo, 1988)

confirm this continuing concern, including the Reagan-Nakasone meeting in April 1986 which officially affirmed the support of Japan and the U.S. to the Aquino administration, the visit of Mrs. Aquino to Japan in October 1986, the dispatch of a high-level Japanese mission headed by Mr. Saburo Okita to the Philippines in June 1987, and the visit of Prime Minister Noburo Takeshita to the Philippines in December 1987. The latter announced at the ASEAN-Japan Summit the establishment of a \$2 billion ASEAN-Japan Development Fund (AJDF), which is over and above the regular ODA programmed for ASEAN, and which will be used principally to finance private sector projects in ASEAN countries.

Something can also be said about the grant-loan mix of Japanese ODA to individual ASEAN countries. In 1986, the country with the most favorable mix was Indonesia (68.3% grants) followed by Thailand (48.3 grants) the Philippines (18.4% grants), and Malaysia (15.4% grants). The decline in the net disbursements to Indonesia can probably be compensated for by the relatively large grant component of the aid program. In fact, from 1982 to 1986, the grant component of Japan's aid to Indonesia increased from 19% in 1982 to almost 70% in 1986. It is difficult to find a consistent rationale for this grant-loan pattern of Japan's aid to individual ASEAN countries. That Indonesia should have the most favorable grant-loan mix is understandable, since the country has the lowest per capita

GNP in the regional grouping (Annex A). Thailand has a higher per capita GNP than the Philippines, but the latter has received a much lower grant allocation. Malaysia has a per capita GNP which is about 3 1/2 times larger than that of the Philippines, but the grant-loan percentages for the two countries are not much different. What this suggests is that there are perhaps no hard and fast rules as far as the Japanese aid-giving process is concerned.

4.0 FUTURE PERSPECTIVES AND CHALLENGES

4.1 Aid Volume

There are at least three reasons which have been given at one time or another to "persuade" Japan to substantially increase her volume of aid to the developing countries. The first is Japan's inability to further raise her ODA to GNP ratio, her ODA contribution not being commensurate with her economic power. As mentioned above, the Japanese ODA to GNP ratio of 0.29% in 1986 was one of the lowest among those of DAC countries, falling short of the DAC average of 0.36% and the United Nations target of 0.7%. The second reason has to do with security or "strategic" considerations. The argument is that Japan should share more substantially in the task of promoting peace and stability through her aid program, since she cannot and does not carry a large-scale defense burden. The third reason is the persistence in recent years of huge surpluses in Japan's current account which, proponents say, should be recycled to the developing countries.

To be sure, Japan has recognized the need to raise the level of ODA she is extending and has set Medium-Term Targets since 1978.^{13/} The First Medium-Term Target was aimed at doubling the 1977 level of ODA (in dollar terms) in three years starting in 1978. This objective was readily achieved, with an ODA volume in 1980 of \$3.3 billion as compared to \$1.4 billion in 1977. The Second Medium-Term Target was to double the 1976 to 1980 aid disbursements (21.36 billion) within 1981-85. This target was only 84.6% achieved. The latest Medium-Term Target, adopted in September 1985, is to increase the total volume of ODA to more than \$40 billion during the period 1986 to 1992 and to double the 1985 ODA level in 1992. The achievement of these targets would bring up Japan's ODA to GNP ratio to 0.42% in 1992. On April 17, 1987, the Special Committee on Economic Restructuring recommended, among other things, that: "Every effort should be made to achieve as early as possible the current Medium-Term Target to expand Japan's official development assistance."^{14/} The following month, the Japanese government included as one of the Emergency Economic Measures the acceleration of the ODA doubling target date to 1990, so that disbursements in that year would exceed \$7.6 billion.

What are the prospects for achieving Japan's announced ODA targets? Based on the original Third Medium-Term Targets, ODA would have to grow by 10.5% annually in order to attain the targets. However, considering the 48.4%

growth rate of ODA in 1986, ODA should grow by only about 8.0 per year in 1987-90 to achieve the accelerated doubling target in 1990. In fact, if the average growth of 8.0% per year is realized through 1992, the \$40 billion target can be easily overshoot, suggesting that there may still be room for a larger ODA target disbursement level. Needless to say, since the targets are expressed in dollar terms, their achievement will partly depend on what happens to the value of the yen.

It is of interest to note that also in May last year, Saburo Okita called for the launching of a bold initiative according to which the current account surpluses of Japan and West Germany would be recycled to the developing countries at an annual rate of \$25 billion over the next five years for a total of \$125 billion.^{15/} His group estimates that Japan alone would continue to post a current account surplus of \$60-80 billion a year over the period 1988 - 1992. The need for such large scale capital transfers to the developing countries arises from a situation in which there are substantial net capital outflows from them: they are paying more in principal repayments and interest payments on their outstanding debt than they are receiving in new loans. Okita and his colleagues estimated that this net transfer of resources from developing countries would amount to about \$40 billion in the 1990s. They argue that breaking the vicious cycle

of low growth and low demand in the developing countries could provide the spark needed to energize an otherwise anemic world economy.

Will Japan take on the challenge? It has been pointed out that the implementation of the Okita proposals is not as simple as it appears to be, principally because the surplus capital in Japan is held by the private sector. But this problem is not insurmountable, if Japan decides to take the lead in what some have called a "Japanese Marshall Plan."^{16/} In fact, the Japanese Government has already made commitments to provide untied funds totalling \$30 billion over 1987-89 which are over and above the latest ODA targets. Of this amount, \$10 billion will be in the form of increased contributions to multilateral institutions and \$20 billion will be lent to developing countries through Japan's Export-Import Bank and OECF. These initiatives, however, fall short of what Okita and his colleagues envision.

4.2 Aid Implementation

One of the questions which has been raised about Japan's emergence as a major ODA donor is: Can Japan's aid administration keep up with rising expectations about the contribution of Japan's aid to growth and development?^{17/}

In this connection, the Third Medium-Term Target indicated that steps will be taken to achieve a more effective and efficient ODA implementation. This was reiterated in the Emergency Economic Measures of May 1987: "We will also seek to strengthen aid management capacities."

For purposes of discussion, efficiency will refer to the packaging and delivery of ODA inputs. On the other hand, effectiveness will refer to the impact of ODA on the recipient country. Inasmuch as effectiveness is closely related to the issue of ODA quality, it will be dealt with in the discussion of the latter subject matter in Section 4.3 below.

A number of weaknesses have been cited regarding the efficiency of Japan's ODA administration, namely: (1) the inadequacy of Japan's ODA administrative structure; (2) the problem of disbursements from OECF which is partly due to delays in decision making, particularly on loans in Tokyo; and (3) the lack of coordination within Japan's technical assistance program and between the technical assistance program and the capital assistance program.^{18/}

The handicap of Japan's aid machinery can readily be appreciated if one considers that while the volume of Japan's ODA grew more than 5.1 times from 1976 to 1986, the total number of staffs engaged in ODA administration (Economic Cooperation Bureau, MFA; economic staff in overseas establishments; JICA; and OECF) increased by only 1.1 times during the same period (1,308 to 1,476). As a result, ODA volume per staff in Japan is two to three times larger than that of such major donors as the U.S., West Germany, France and the United Kingdom. The problem of OECF in this regard is particularly acute, having only about 250

personnel as of last year, inclusive of those posted overseas.

While the problem of loan disbursements is partly due to insufficiency of staff support, there are other reasons such as the centralized systems and processes and the rather cumbersome aid bureaucracy which involves not just one but four agencies: The Ministry of Foreign Affairs, the Ministry of Finance, the Ministry of Trade and Industry and the Economic Planning Agency. Of course, the problem of "absorptive capacity" on the side of recipient countries cannot be ignored. With regard to technical assistance, the problem is the unclear institutional responsibility, the latter being shared by the Ministries of Foreign Affairs, Trade and Industry, Finance, Transport, and Agriculture, Forestry and Fisheries which all have a say (management and budget) over the program. Furthermore, the implementation of the technical assistance and the capital assistance programs are not always well coordinated, so that the benefits of mutually reinforcing assistance are foregone.

Some suggestions have been put forward to improve the efficiency of Japan's ODA, including: (1) provision of more quick-disbursing loans, such as program or sector loans; (2) increasing the proportion of local costs eligible for funding (in many instances, disbursement problems arise because of lack of counterpart funds); (3)

expansion of the OECF staff; (4) greater coordination among ministries and adoption of systems and procedures which can facilitate the decision-making process, particularly in the case of loans; (5) strengthening of linkages between technical cooperation and capital assistance; and (6) co-financing with other bilateral donors and multilateral agencies.

Undoubtedly, the organization and system for delivering Japanese ODA must be improved and streamlined not only to facilitate the achievement of ODA targets, but also to enhance the effectiveness of aid in the sense of delivering ODA where it is needed (sectors, programs, projects) when it is needed. It goes without saying that recipient countries must exert their best effort to improve their capabilities for program and project development and implementation. Even here, Japanese technical assistance can play a significant role in strengthening and expanding such capacities.

4.3 Effectiveness and Quality of Aid

The question of aid effectiveness is a tricky one because of the difficulty of quantifying the impact of ODA on recipient countries. Standard techniques have been developed for the financial and economic cost-benefit analysis of infrastructure projects. The same is not true with "soft" or social sector projects (education, health, population planning, nutrition, etc.) in view of the problem of quantification, specially on the benefit side of the

equation. The area of ODA impact analysis is even more difficult and underdeveloped.

Accordingly, the issue is approached qualitatively. The assumption is that the better is the quality of aid, the greater is the likelihood of a net favorable impact of ODA on the recipient country. (The quantity of aid could, of course, affect the impact of assistance, i.e., ODA may be too little to make any difference.) "Quality" here is taken to mean not only the financial terms and conditions of aid (grant element, grant-loan mix, interest rate, maturity and grace period, tying or untying status), but also the type of programs and projects supported by ODA and the flexibility by which aid programs are implemented.

For Japan, it seems that the issue of quantity is a less difficult one to resolve than that of the quality of aid. In fact, the substantial increase in the quantity of aid has not been matched significantly by an improvement in quality, as the discussion in Section 2 above indicates. Part of the reason is the rather complex and sometimes conflicting set of motivations for extending aid described by Rix as follows:^{19/}

...while national self-interest is the obvious prime impetus, the balance within this national interest has shifted over time away from trade promotion, to resources development, technology

trade and more recently, to political and security objectives. The humanitarian element, it can reasonably be said, is also an important factor, but it has never been paramount, and only even a relatively minor component of the principle of reciprocity in Japan's aid. The term "economic cooperation" probably best encapsulates the thinking which is at the basis of Japan's aid policy.

This is not to say that there has been no improvement in the quality of Japan's aid at all. To be sure, there has been some softening in the financial terms and conditions of Japan's aid. However, because these changes have come in small doses, they have not been enough to substantially alter Japan's relatively low ranking in aid quality, particularly in terms of the concessionality of her assistance. Furthermore, while a major portion of Japan's loans are untied, about one-third is still partially untied and, as pointed out above, much of untied loan assistance have often been de facto tied.

The case of grants is a good example. Grants are by and large tied, and this is true not only with Japan but with other donors as well (except in rare cases where assistance is provided in the form of direct budgetary support). But the problem involving Japanese grants, at least based on experience in the Philippines, is that the award for the supply of goods and services under grant assistance does not seem to be always determined through

competitive bidding among qualified Japanese firms. Private Japanese companies are quite aggressive in directly approaching government agencies in recipient countries, in a way creating a demand for the goods and services they offer. Some go to the extent of promising the appropriate grant assistance to said agencies, provided the recipient country's government endorses their project to the Japanese Government. When these happen, it is possible that projects are funded not because of their priority in the country's development program, but because of the strength of the lobby of Japanese firms through government agencies.

In 1985, the Research Committee on the More Efficient Implementation of ODA, organized by Japan's Minister of Foreign Affairs, recommended, among other actions, less reliance on recipient requests as a basis for the extension of ODA. Grave reservations are being expressed about this.^{20/} Except in cases where recipient countries are obviously weak in identifying and prioritizing projects, Japan should continue the policy of allowing countries to identify and submit projects in accordance with their development plans. This is one good feature of Japan's aid which should not be eliminated. In fact, Japan's aid is superior to that of the U.S. in this respect.^{21/} Moreover, as recounted above, government request lists are already somewhat influenced by the lobby of Japanese firms. What Japan should do is to extend assistance to recipient countries, where it is needed, to

strengthen their capabilities for the identification, development and prioritization of development programs and projects.

The other problem area that should be pointed out is the sourcing of goods and services, especially under grant assistance. Under present arrangements in the Philippines, a larger proportion of materials to be used for, say a building project, e.g., cement, wood products and other construction materials, air conditioning units, etc., must come from Japan. The possibility of expanding the practice of local sourcing of materials and supplies for projects under grant aid should be looked into. The same should be considered in the case of experts to the extent that local expertise may already be available in various areas.

On the sectoral allocation of aid, it is generally well-known that the main focus of Japanese ODA is the provision of funding support for the establishment and expansion of basic infrastructure facilities, the so-called "hard" type of assistance. In recent years, however, Japan's ODA has increasingly paid attention to BHN (Basic Human Needs) - based projects, although the share of education, health and social infrastructure and welfare in Japan's ODA, on a commitment basis, was only about 12% in 1986. In the case of the ASEAN countries, in particular Indonesia, Malaysia, the Philippines and Thailand, the

projects supported by Japan's aid program which are classified under BHN do not necessarily mean the "soft" type of assistance, because in many cases, the assistance comes in the form of buildings and the provision of equipment. There is nothing intrinsically wrong with this, but the benefits that can be gained by target beneficiaries depend considerably on what buildings are built, where they are built and what type of equipment are acquired.

A review of the projects under grant aid in the four ASEAN countries will show that a large proportion of the allocation went to the construction of various centers.^{22/} By focusing on the construction of centers of different types, Japan's grant aid may not be that effective in helping address poverty, considering that many of these centers are urban-based and may not be appropriately geared towards serving the needs of low-income groups in the rural areas. The goal of rural development can probably be better served if grant-aid is focused on small infrastructure projects such as schoolbuildings, rural roads, small irrigation systems, rural water supply and, although not in the nature of infrastructure, post harvest facilities. Even under Japan's ODA loan program, there is much to say about including more of these small projects which can be packaged together so that they are not considered by OECF as being "too small" and, therefore, may not be suitable for OECF funding.

In short, the present grant aid and technical cooperation programs of Japan are too rigid and very closely linked to the procurement of goods and services from Japan, e.g., buildings, equipment, supplies, Japanese experts and survey teams, etc. Except for training, they are weak in their institution-building content. With regard to training, not all training programs need to be conducted in Japan, because there may be some local institutions which can more than adequately handle certain training courses. There is merit in allowing more local cost expenditures under Japan's grant programs similar to the suggestion involving OECF loans. Among other things, this will strengthen the institution-building component of Japan's grant assistance.

4.4 Geographical Distribution of Aid

Data in Section 3 above showed the declining share of Asia and ASEAN in Japan's total aid disbursements, although both still account for a major proportion of Japan's ODA. For Asia, this reduction reflected Japan's effort to expand the reach of its ODA to other regions of the world, particularly Africa, the Middle East and Central and South America. On the other hand, the lower share of ASEAN in Japan's ODA disbursements in the whole of Asia signaled the rise of China as the largest single recipient of Japanese aid, as well as the increasing assistance to Southwest Asia.

What is not clear from the above, however, is whether the substantial reduction in ASEAN's share to a little less than one-fourth of Japan's bilateral ODA (from about one-third on average) and to approximately one-third of Japan's aid to Asia (from an average of one-half) in 1986 is a short-term or long-term trend. Based on commitment levels in 1986, it is highly probable that the 1986 net disbursements are more of the former than of the latter. In FY 1986, Japan's loan aid commitments to Indonesia were just about the level of commitments to China (¥80 billion vs. ¥86 billion). In the preceding three FYs, the commitment level of Indonesia exceeded that of China, specially in FY 1984 (¥117 billion for Indonesia vs. ¥71.5 billion for China). For ASEAN as a whole, Japan's loan aid commitments in FY 1986 accounted for 36% of total commitments and 46% of commitments to the Asian region. This seems to confirm the bottlenecks in Japanese ODA loan disbursements to ASEAN noted above. In the case of Indonesia, Rix reports that the "problems of disbursement to Indonesia via the OECF remain considerable." In contrast, Brooks says that the implementation of Japanese aid programs in China has been "on time and relatively trouble free."^{23/}

Nonetheless, it is unlikely that the emphasis of Japan's ODA programs on Asia, and within Asia, on ASEAN, will change in the foreseeable future. To put it quite simply, charity begins at home and Asia and ASEAN are close

to home. Japan's Foreign Ministry lists the criteria used in determining the geographic allocation of Japan's ODA: ^{24/}

...the volume of aid needs; the degree of poverty; the recipient country's economic and political (underscoring supplied) importance to Japan; the required projects' feasibility as well as its importance in the comprehensive development program; economic and financial status of the recipient country and balance with other recipient countries.

Among these criteria, the "economic and political importance to Japan" is probably the paramount rule, and there is no doubt about the real or perceived importance of Asia and the ASEAN to Japan, politically and economically. One question remains, however. Will the recent emphasis of Japan's aid on China as well as the focus on Africa be pursued at the expense of ASEAN countries? One point of view is that the slackening of aid disbursements to Indonesia in recent years was effected to allow an increase in the aid level to China. The situation is unclear as far as this issue is involved, because it is clouded by the serious problems of disbursements of Japan's loan aid to the ASEAN, specially Indonesia, as pointed out above. What observers seem to have failed to notice is that ODA net disbursements to Malaysia have tapered off from a peak of \$245 million in 1984 to \$37.8 million in 1986. OECF loan commitments have also dropped from ¥65.8 billion in FY 1984 to just ¥10.7 billion in FY 1986. It appears that Malaysia

may be "graduating" from the list of priority countries in Japan's ODA, having attained a GNP per capita of \$2,000 in 1985.

The challenge to Japan's ODA in the future is how to balance its allocation, so that the growing assistance to China and other parts of the world does not severely affect the level of aid to ASEAN. It need not be a zero-sum game if Japan's ODA volume is substantially raised in the coming years. On the part of ASEAN countries, what they can do to sustain the flow of Japan's ODA to them is to continuously strengthen their capability for program and project identification, preparation, evaluation, prioritization, implementation and monitoring or, in short, their absorptive capacity for effective aid utilization.

5. CONCLUSION

Beginning with just a minor role in the field of ODA, Japan has quickly become a major actor, and is now the second largest global aid donor. It may not be too long before Japan finds itself at the top.

In many respects, however, one senses on the part of Japan a feeling of reluctance, albeit not exactly unwillingness, to exercise the leadership role in this critical development activity. For instance, questions have been raised about the adequacy of Japan's aid machinery to handle even the volume of assistance it is currently administering, about the quality and effectiveness of

Japan's aid, about the motivations of Japan's aid which seems to be still driven by reciprocity, about the rigidity of Japan's aid programs, etc. Japan is, of course, aware of these problems and has taken steps, although slowly, to address them. The slow response only manifests the existing lack of consensus among the major players in the Japanese bureaucracy.

And yet, there is perhaps no better time than today, for Japan to lead the effort to promote the development of Third World countries and, through that process, the world as a whole. For the ASEAN countries, the assumption by Japan of a larger role in global ODA should not mean a diminution of Japan's emphasis on them. For many reasons, ASEAN is close to Japan's heart, China notwithstanding.

There are responsibilities that go with being a major economic power. Japan probably realizes this only too well. But the earlier she accepts such responsibilities, the better for the world and, for that matter, Japan.

ANNEX A

Basic Economic Data for ASEAN, 1965 and 1985:
Population and Gross Domestic Product and Distribution
of GDP by Sector

	Population (million)	mid-1984	1985	GNP per capita (\$)	GDP growth rates (%)		Distribution of GDP (%)							
					1965-80	1980-85	Agriculture		Industry		Manufacturing		Services	
			1985		1965-80	1980-85	1965	1985	1965	1985	1965	1985	1965	1985
Indonesia	162.2		530		7.9	3.5	56	24	13	36	8	14	31	41
Philippines	54.7		580		5.9	-0.5	26	27	28	32	20	25	46	41
Thailand	51.7		800		7.4	5.1	35	17	23	30	14	20	42	53
Malaysia	15.6		2,000		7.3	5.5	28	-	25	-	9	-	47	-
Singapore	2.6		7,420		10.2	6.5	3	1	24	37	15	24	73	62

Source: IBRD, World Development Report, 1987.

FOOTNOTES

1/ Economic and Social Survey of Asia and the Pacific, 1987, U.N. Economic and Social Commission for Asia and the Pacific, (Bangkok, 1988); World Economic Outlook, International Monetary Fund (Washington D.C., October 1987).

2/ "Emergency Economic Measures" (Provisional Translation). Ministerial Conference for Economic Measures, Tokyo, (May 29, 1987).

3/ Japan's ODA 1987, Ministry of Foreign Affairs (Tokyo, March 1987); OECD, 1985 Report: Twenty-Five Years of Development Cooperation (Paris, 1985); OECD, 1986 Report: Development Cooperation (Paris, 1986).

4/ Alan Rix, Japan's Aid Program: Quantity versus Quality International Development Issues No. 1, Australian Development Assistance Bureau, (Canberra, February 1987), p. 111.

5/ Japan's ODA 1987, op. cit. p. 120.

6/ Alan Rix, Japan's Aid Program: op. cit. p. 15.

7/ See F. Pante, Jr. and R. A. Reyes, "Japanese and U.S. Development Assistance to the Philippines: A Philippine Perspective," Paper prepared for the workshop on "Japan's Role in North-South Relations" held in Missoula, Montana and Washington, D.C., May 14-19, 1987, pp. 21-22; and A.J. De Dios, "The Overseas Economic Cooperation Fund, A Preliminary Survey: 1971-1981" Faculty Research Journal (Quezon City, 1986).

8/ Japan's ODA, 1987, op. cit., p. 54.

9/ Hirono Ryokichi, "Japan, the United States and Development Assistance to Southeast Asia," in M. Blaker (ed.), Development Assistance to Southeast Asia (Columbia University, New York, 1980), p. 91.

10/ Japan's ODA 1987, op. cit., p. 54.

11/ Campbell lists Indonesia, Malaysia, the Philippines and Thailand as among the countries in the region with a possible debt problem based on certain criteria. See B. O. Campbell, "Asian and Pacific Developing Economies: Performance and Issues," Asian Development Review, (Vol. 5, No. 1, 1987), pp. 16-18.

12/

Comparable figures for the U.S. were obtained only for Indonesia and the Philippines. For Indonesia, the share of U.S. ODA in total bilateral ODA received was 8.6% in 1985; for the Philippines, the U.S. share was 31.0%.

13/

The seven-year economic plan drawn up by Japan's Economic-Planning Agency in August 1979 specifically included among other goals "cooperating in and contributing to the development of the international economic society." See Saburo Okita, "Economic Planning in Japan," in L.C. Thurow (ed.), The Management Challenge (MIT Press, Cambridge, Massachusetts, 1985), p. 202.

14/

"The Report of the Advisory Group on Economic Structural Adjustment for International Harmony" or "Maekawa Report," (Provisional Translation), April 7, 1986, p. 14.

15/

Saburo Okita, et al, "Mobilising International Surpluses for World Development," Study Group Series No. 2 (Helsinki, 1987); H. Rowen, "Japan's 'Marshall' Plan Could Spur World Economy," The Washington Post, (May 3, 1987), p. H1.

16/

See for instance, H. Rowen, ibid.

17/

R. Orr, Jr., "The Politics of Japan's Foreign Aid," Paper prepared for the workshop on "Japan's Role in North-South Relations" held in Missoula, Montana and Washington D.C., May 14-19, 1987.

18/

See for instance, Alan Rix, Japan's Aid Program, op. cit., p. 23-25; Ryokichi Hirono, "Japan, the U.S., and Development Assistance to Southeast Asia," op. cit., p. 103.

19/

Alan Rix, Japan's Aid Program, op. cit., p. 7.

20/As White points out: "The predilection of aid agencies for specifying the uses to which their resources are to be put to use imposes various costs upon the recipient." See J. White, The Politics of Foreign Aid, St. Martin's Press, New York, 1974), p. 165.

21/F. Pante, Jr. and R.A. Reyes, "Japanese and U.S. Development Assistance to the Philippines" op. cit., pp. 29.

22/

Japan's ODA 1987, op. cit., Statistical Appendix.

23/

Alan Rix, Japan's Aid Program, op. cit., p. 30; W.L. Brooks, "Japanese Economic Assistance to China," paper prepared for the workshop on "Japan's Role in North-South Relations," held in Missoula, Montana and Washington, D.C., May 14-19, 1987, p. 29.

24/Japan's ODA 1987, op. cit., p. 54.

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