

GRIPS Discussion Paper 14-15

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September 2014



GRIPS

NATIONAL GRADUATE INSTITUTE
FOR POLICY STUDIES

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Abstract

The landscape of international development has changed markedly, with the acceleration of global integration and the shaping of the post-2015 development framework. This paper discusses the new era of Japan's development cooperation from two perspectives—broader and deeper partnerships with the private sector, as well as 'cooperation and competition' with Asian emerging donors. It proposes 'network-based cooperation' as a central pillar of Japan's future development cooperation, based on the analyses of the nature of a new wave of internationalization of Japanese manufacturing foreign direct investment (FDI) which involves small-and medium enterprises (SMEs), as well as the extensive local human and organizational networks accumulated in Asia through sixty years of Japan's official development assistance (ODA). Unique roles of Japan as a mature knowledge partner based on international comparative analysis and a quality leader in global business activity are also discussed. Japan should leverage its distinctive strengths in both the corporate and ODA sectors, and actively embark on the new era of development cooperation.

Keywords: development cooperation, network-based cooperation, ODA, partnerships, private sector, SMEs, emerging donors

Acknowledgements: This work was supported by JSPS KAKENHI Grant Number 25283004 (Grant-in-Aid for Scientific Research (B)) and a research grant of the GRIPS Policy Research Center.

1. Changing Landscape of International Development and the Context of Japan's Development Cooperation

In the twenty-first century globalization continues apace, bringing with it increased diversity and complexity. The landscape of international development has changed markedly since the adoption of the Millennium Development Goals (MDGs) at the UN General Assembly in 2000, where heads of state committed to improving the lives of millions around the world. The actors involved in development cooperation have diversified and the international development agenda has broadened. As the 2015 deadline for achieving the MDGs approaches, a lively debate to define the post-MDGs development agenda has emerged.

Two developments in particular are worthy of note. First is the dramatic increase in private capital flows to developing countries, and the second is the growing presence of emerging Asian donors such as South Korea, China, and India. And while the importance of development efforts to reduce poverty remains unchanged, the number of countries achieving economic growth through active trade and investment with emerging economies or through a boom in natural resources is increasing. Particularly since financial and economic crises precipitated by the Lehman Brothers scandal of 2008, investors are turning away from the faltering economies of the developed world and looking to emerging economies and developing countries to drive the global economy forward by acting as new 'growth centers'. In this environment, multi-national corporations have actively expanded their business activities in emerging economies and developing countries, and as a result the interface between business and development cooperation activity is growing. Moreover, even European donors, for whom the poverty reduction agenda predominated until 2000, have begun to wield economic and commercial diplomacy as well as engage actively in partnerships with the private sector.¹ Without doubt international development cooperation has entered a new era.

The domestic environment in Japan has also undergone significant changes over the past decades. During the 1990s Japan established itself as the world's top donor. However the fiscal and financial deterioration that followed the collapse of the bubble economy caused the country's Official Development Assistance (ODA) to enter a period of waning support and retrenchment. Over a period of 14 years, the initial ODA budget (general account) declined continually so that by FY 2013 it represented just 48% of its peak amount of 1997. By 2007 Japan had slid down to fifth place on the list of major donors compiled by the Development Assistance Committee (DAC) of the Organization for Economic Co-operation and Development (OECD). Public opinion

¹ Poverty reduction was the chief cornerstone of the UK's aid program. However as the growth agenda emerged in 2007, the country's Department for International Development (DfID) began to strengthen its partnerships with the business community. In late 2013 DfID Secretary Justine Greening invited representatives from British business community on an official visit to Tanzania where she praised the trade, investment, and economic development that would be generated by the UK's Prosperity Partnership with the government there. Also, in early 2013, as part of a government-wide restructuring of ministries and agencies, the Canadian government merged its ODA implementing agency CIDA, which was established in 1968 with a strong focus on poverty reduction, into the Department of Foreign Affairs and Trade to create the Foreign Trade and Development Ministry (DFATD). Both these developments represent policy initiatives taken to restructure aid organizations to pay greater attention to the interface between development and economic and commercial diplomacy.

turned inwards and the proportion of the general public that indicated strong support for Japan's foreign aid and economic cooperation declined sharply between 2002 and 2004 (Cabinet Office of Japan, *Public Opinion Survey on Diplomacy* 2002, 2003, 2004). To exacerbate the situation, the Great East Japan Earthquake struck in March 2011 causing untold devastation and suffering, and the reconstruction of the areas affected placed a further heavy fiscal burden upon the government's shoulders.

Still we have good reason not to be overly pessimistic about the future of Japan's ODA. Viewed in a more positive light, we could understand the first decade of the twenty-first century as a period when Japan took stock of its experience and built the foundations for the next stage of its development cooperation. Faced with fiscal stringency, a series of ODA reforms were pushed through as part of a government-wide administrative and financial reform.² These changes aimed to increase the transparency and efficiency of aid, and moreover, to build an organizational structure that provided more timely assistance on the ground in support of active aid partnership efforts that were unfolding in developing countries.

In particular, between 2002 and 2006, a series of measures and reviews were introduced by the Board on Comprehensive ODA Strategy to make aid programs more effective, focused, and strategic. The creation of this multi-stakeholder board was in follow-up to recommendations made by the Second Consultative Committee on ODA Reform, a private advisory body to the Minister of Foreign Affairs, which served between May 2001 and March 2002. The Strategy Board was chaired by the Minister of Foreign Affairs and had Professor Toshio Watanabe, the dean of Takushoku University, acting as the alternate. Reform continued under the Advisory Council on International Cooperation (2007 to 2009), a second private advisory body reporting to the Minister of Foreign Affairs and chaired by Professor Toshio Watanabe. While scope for improvement still remains, the government implemented a package of extensive and far-reaching institutional reforms during this decade-long period. These reforms encompassed the delegation of decision-making power to the field; the creation of ODA taskforces in major partner countries; the strengthening of the ODA evaluation system; the establishment of the New Japan International Cooperation Agency (New JICA) by consolidating most ODA operations under the management of one agency; the strengthening of the International Cooperation Bureau in MOFA by replacing its 'scheme'-based divisions with country or region-based ones; and the formation of an ODA special committee in the Upper House of the Diet .

Furthermore, the outpouring of support from various countries, organizations, and individuals following the Great East Japan Earthquake provided an opportunity for Japanese citizens to appreciate the benefits of international cooperation as aid recipients, and this experience reminded the populous of the importance of inter-dependence and mutual help. The disaster was so devastating and painful that the whole nation united to support recovery and reconstruction efforts for the Tohoku region. Alliances between

² A succession of expert panels with stakeholders from all quarters of the government were called on to discuss the role of ODA and make recommendations: the Council on ODA Reforms for 21st Century (April 1997 to January 1998), Council on Yen Loan Schemes (January to August 2000), the Second Consultative Committee on ODA Reform (June 2001 to March 2002), the Board on Comprehensive ODA Strategy (June 2002 to June 2006), the Advisory Council on International Cooperation (March 2007 to February 2009) and others were formed with the International Cooperation Bureau (formerly Economic Cooperation Bureau) of the Ministry of Foreign Affairs (MOFA) acting as the secretariat.

NGOs, business, local communities, and the Self-Defense Forces were forged, and innovative activities such as social business and social investment to support people in the affected areas began to emerge. The results of the *Public Opinion Survey on Diplomacy* conducted in October 2011 reflected the change in mood brought on by the disaster, with the proportion of respondents in favor of economic cooperation recovering from the lowest level recorded at the beginning of 2000s. The reason given by many of supporters was the generosity shown by the world to Japan following the Great East Japan Earthquake.³ This episode undoubtedly provides a valuable lesson for Japan's future development cooperation and indicates that a new era has begun even within Japan.

Against such background, H.E. Mr. Fumio Kishida, Minister of Foreign Affairs, announced his intention to revise the current ODA Charter (adopted by the Cabinet in August 2003) in his ODA policy speech given at the Press Club in March 2014⁴. Subsequently, the Ministry of Foreign Affairs convened the Advisory Panel to the Minister to Review the ODA Charter, chaired by Professor Taizo Yakushiji, Professor Emeritus of Keio University and consisting of multi-stakeholder members. The Advisory Panel which met four times during late March-June 2014 and submitted the recommendations to the Minister of Foreign Affairs. Currently, the drafting work is underway by the Ministry's International Cooperation Bureau, and a series of public consultations are being held in different localities of Japan simultaneously.

With these developments in mind, in the following sections, I would like to explore this new era of Japan's development cooperation from two perspectives. The first is that of partnerships with the private sector. In recent years, as the interface between development and business has grown, the Japanese government has introduced a series of new measures to promote partnerships with the private sector within its ODA activities. What does this development hold for the future? How do these new partnerships differ from the public-private partnerships of the past? The second perspective is that of 'cooperation and competition' with Asia's emerging donors. Their rise offers an excellent opportunity for cooperation in the region to disseminate Asian development thinking to the international community. At the same time, it requires that Japan clearly articulate its comparative advantage over Asia's emerging donors. What features distinguish Japan's development cooperation from that of China or Korea?

2. Partnerships with the Private Sector within Development Cooperation

In response to the accelerated outward foreign direct investment (FDI) of Japanese firms triggered by the recent financial crisis, from 2011 Japan began investing heavily

³ In the Cabinet of Japan's *Public Opinion Poll on Diplomacy* conducted in October 2011, 27.4% of respondents were in favor ODA. While this proportion is well below the 41.4% who responded positively in 1993, it represents a significant recovery in support compared to 2004 when the proportion in support of ODA hit a low of 18.7%. The three main reasons given by respondents in favor of ODA in the 2011 survey were: 'we should continue providing ODA to support those countries that came to Japan's aid following the Great East Japan Earthquake (60.8%)'; 'ODA is an important tool for advancing Japan's foreign policy' (50.3%); and 'Japan should use its technological know-how and experience to solve environmental and other problems in developing world' (48.6%).

⁴ Foreign Minister Fukuda gave a speech at the Press Club on March 28, 2014, entitled "An Evolving ODA: For the World's Future and the Japan's Future." For details, please see: http://www.mofa.go.jp/ic/ap_m/page3e_000169.html

into strengthening partnerships with the private sector within its ODA activities, primarily targeting Japanese firms active in developing countries. Economic cooperation agencies like the Ministry of Economy, Trade and Industry (METI), the Japan External Trade Organization (JETRO) and the Overseas Human Resources and Industry Development Association (HIDA)⁵ have long supported Japanese business, forging public-private partnerships as the core part of their operations. Now, notably even MOFA and JICA—which previously had demonstrated reluctance in supporting individual firms and rarely became involved in any business proposals presented to them—have started to use ODA budget to support new private sector partnership activities, including support for the overseas expansion of small and medium-sized enterprises (SMEs). Another interesting development is that METI and related agencies have begun to promote Base of the Pyramid (BOP) business⁶ to Japanese companies to broaden the interface between the private sector and development. Targeting the BOP presents a new business model in which core business operations aim directly at solving the social and development challenges faced by the poor in developing countries and emerging economies.

Preoccupied with the hollowing out of domestic industry, national and local government in Japan had until recently taken a cautious stance toward supporting the overseas expansion of SMEs. However, from 2010 onwards a new wave of internationalization began, and growing numbers of manufacturing SMEs have shown strong interest in pursuing fresh opportunities abroad. These SMEs have demonstrated not only a willingness to take on new risks, but also have started to take action (or give serious consideration to) to move their production bases overseas without the support of a parent company, which was rarely the case in the past. Consequently, the government shifted its policy away from a cautious stance to one that provided active support to these pioneers (SME Support, JAPAN 2010).⁷ It is also important to note the factors that contributed to Japan's growing interest in the BOP business, which was also precipitated by the 2008 financial crisis. Chief among them was the rise of emerging economies and developing countries as the 'growth centers' of the global economy and the perception that these centers also represented future markets full of new middle class consumers that would compensate for the sluggish demand of the developed world. Added to this, there was a greater awareness regarding the need to extend support to socially and ethically responsible business practices (Sugawara, Ohno & Tsuchiya 2011).

The motivation for JICA and MOFA to move forward with private sector partnerships utilizing ODA is linked to a number of different but related factors, such as the increased importance of private capital in poverty reduction and sustainable growth in developing countries; the potential application of private sector technology, know-how, and innovation, including that of Japanese companies to solve global challenges in environment, climate change, infectious diseases, food security, and energy; and not

⁵ HIDA was created in April 2012 through the merger of the Japan Overseas Development Corporation (JODC), the Association for Overseas Technical Scholarship (AOTS), and other related structures within METI.

⁶ Around 40 million people are estimated to be living on less than \$3,000 a year (i.e. the Base of the Pyramid or BOP). Recently the number of private sector firms developing products and services targeted at this low-income group has been increasing.

⁷ A major turning point was the *Small and Medium Sized Enterprise White Paper 2010*, which called for the need 'to harness global economic development for Japan's growth' and 'to actively promote internationalization of SMEs in challenging conditions abroad' to further develop Japan's SMEs.

least, the strong perception that such partnerships would be mutually beneficial for developing countries and Japan.⁸ This line of thinking was already evident when the Democratic Party of Japan (DJP) was in power. For example, the *ODA Review* (June 2010, MOFA) compiled under the guidance of the Minister of Foreign Affairs Katsuya Okada posited the concept of ‘enlightened national interest’ and the Noda government also announced the *New Growth Strategy* (National Strategy Office, Cabinet decision in July 2012). Going one step further, when the Liberal Democratic Party (LDP) came into power at the end of 2012, Prime Minister Shinzo Abe unveiled the *Japan Revitalization Strategy: Japan is Back* (Headquarters for Japan’s Economic Revitalization, Cabinet decision in June 2013), which advanced global outreach as one of its three action plans. The global outreach action plan set specific numerical targets for infrastructure exports and the overseas expansion of SMEs and leading medium-sized enterprises and envisages ‘the strategic use of economic cooperation’.

Table 1 provides examples of recently introduced ODA modalities to support partnerships with the Japanese private sector. Needless to say, economic cooperation agencies such as METI and the Organization for Small and Medium Enterprises and Regional Innovation (aka SME Support, JAPAN) have long supported Japanese businesses across the board. JETRO and HIDA are also boosting measures to support the overseas expansion of Japanese SMEs by strengthening one-stop consultation services and providing feasibility studies and hands-on support for export promotion and outward FDI.

⁸ Refer to the ODA section of the MOFA website and the Public Private Partnerships section of the JICA website.

Table 1: ODA Modalities to Support Partnerships with the Private Sector

Area of Support	ODA Modality & Launch Date	Purpose
Entire Private Sector		
Fact-finding surveys	Preparatory survey for infrastructure PPP projects (FY2009- , JICA)	Support the design of infrastructure PPP projects that seek concessional loans or PSIF support
	Preparatory survey for BOP business (FY2010- , JICA)	Support the design of pro-poor, BOP business
Pilot and dissemination	Pilot projects for disseminating private sector technologies for the socio-economic development of developing countries (FY2013- , JICA)	Support the introduction and dissemination of a company's products, technologies, and systems
Financial cooperation	Private Sector Investment Finance (PSIF) (FY2012, after piloted from FY2010, JICA)	Provide financial support (loans and equity) to private sector projects that contribute to the socio-economic development of developing countries
Human resource development	Private-Sector Cooperation Volunteer System (FY2012- , JICA)	Support global human resources development through the dispatch of private sector professionals as volunteers
	Japan Centers (in six overseas locations, JICA)	Train local business managers and workers focusing on Japanese business management
Targeted at SMEs Only		
Fact-finding surveys	Needs survey (FY2012- , MOFA: commissioned to JICA) ; Project formulation survey (FY2012- . MOFA: commissioned to JICA; FY2014- transferred to JICA)	Verify developmental needs for a company's technologies and products in developing countries, and support project formulation
	Preliminary survey for preparing for SME outward FDI (FY2012- , JICA)	Support information gathering and project formulation prior to outward FDI into developing countries
Pilot and dissemination	Feasibility study and pilot projects for disseminating SME's technologies in developing countries (FY2012- , JICA)	Verify the suitability of SME's products and technologies in developing country and disseminating them
Grant aid	Non-project grant aid (FY2012- , MOFA)	Provide SME's products that contribute to the socio-economic development of developing countries, at their requests
Partnership with Local Governments		
Grass-roots technical cooperation	Grass-roots technical cooperation in partnership with local governments and for economic reactivation (FY2012 supplementary budget- , JICA)	Support the socio-economic development of developing countries, by mobilizing resources of local governments/ communities (technologies, experiences, human networks)

*The Japanese fiscal year runs from April to March

(Source) Compiled by the author using information available in Japanese from the JICA website. JICA also has a variety of other collaborative partnerships with developing country partners at the local level in training programs and grassroots cooperation that are not included here.

New Wave of Internationalization

So what are the features of the new wave of internationalization? Broadly speaking, up to now Japanese manufacturing FDI has passed through three stages; the first was from the 1970s to the mid 1980s, the second spanned the latter half of 1980s and the third began in the 1990s (Kubota 2012). Since the 2008 global economic crisis, however, we can say that Japan has entered a fourth new stage of internationalization.⁹

From 1970s to the middle of 1980s, trade friction between Japan and its Western trading partners was the primary factor behind outward FDI by Japanese business. As part of an export substituting strategy to avoid the tariff and the non-tariff barriers set up by the US and Europe, Japanese business shifted its manufacturing base to various Western countries. Later, in response to the export-oriented industrialization policy adopted by the Asian Newly Industrialized Economies (NIEs), Japanese companies began moving into export processing zones (EPZ) in these economies. The appreciation of the yen after the 1985 Plaza Accord caused Japanese domestic wages and production costs to soar compared with the West and other Asian countries, and by the late 1980s Japanese outward FDI expanded further, shifting labor-intensive production processes to Southeast Asia in pursuit of lower labor costs. The advance of China's open-door policy and its economic reforms prompted a global FDI rush into the country from the 1990s. In addition, the progress of bilateral and regional trade liberalization presents companies with further incentives to restructure production and export bases to take advantage of new global and regional business opportunities.

Notably throughout these three stages of Japanese FDI, large manufacturing companies played a central role, irrespective of the target destination or motivating factors behind the move. In many instances, SMEs bound in a subcontracting relationship with larger parent companies would be asked to follow in the expansion overseas. Once on the ground, these Japanese businesses would create production networks, maintaining domestic Japanese-style subcontracting relations and production partnerships. Efforts were also made to integrate local businesses into the Japanese production networks as supporting industries. During these first three stages of FDI, however, only a few manufacturing SMEs expanded into global markets without the support of such Japanese-style production partnerships.

By contrast, following the 2008 financial crisis, traditional Japanese-style production relations crumbled, and an increasing number of SMEs began to seek new opportunities overseas, making management decisions and taking risks to establish overseas production bases independently of large parent companies. As Table 2 shows, the primary motivation for the outward FDI of Japanese manufacturing companies shifted away from cost reduction—usually the search for cheaper labor costs—to developing new markets for the parts and components industry. In pursuing new markets, acquiring new customers among Japanese and non-Japanese business alike became more important than maintaining domestic subcontracting relations abroad, although cases of this still remained. The search for new markets indicates the beginning of a new era of internationalization for Japanese business in the sense that even small urban factories or

⁹ For more details refer to Kenichi Ohno, *The Overseas Expansion of Manufacturing Small and Medium-Sized Enterprises: Policy Recommendations*, Chapter 1 in *The Expansion of Japanese-style Manufacturing in Asia: Recommendations and Strategies from a Case Study of Vietnam*, Asia Pacific Institute of Research, March 2013.

machi koba that possess nothing more than high-level skills and technology may have to face a situation where they have to expand overseas. Another change that marks the shift to a new era is the recent increase in outward Japanese FDI into Southeast Asia in order to avoid the rising risks of doing business in China. Until now China has without doubt been the top destination for Japanese FDI, but according to various surveys conducted in 2012, Thailand is becoming an ever-more popular destination, followed by Vietnam and Indonesia (Shoko Chukin Bank 2013, Kinki Bureau of Economy, Trade and Industry 2013 and others).

Table 2: Trends in Japanese Outward FDI (Manufacturing)

Period	Main Developments in FDI	Main Traits	Exchange Rates
1970s to mid-1980s	<ul style="list-style-type: none"> • A rapid increase in FDI to North America and Europe • An increase in FDI to Asian NIEs 	<ul style="list-style-type: none"> • Trade friction with the West prompts the Japanese manufacturing industry to shift production overseas thus avoiding tariff and non-tariff barriers imposed on exports • The establishment of EPZ and SEZ by Asian NIEs 	<ul style="list-style-type: none"> • A floating exchange rate system is introduced in 1973 • The yen appreciates against the US dollar
Latter half of 1980s	<ul style="list-style-type: none"> • A gradual shift away from investment in Asian NIEs in favor of ASEAN countries 	<ul style="list-style-type: none"> • The transfer of labor-intensive production processes to Southeast Asia allowing the manufacturing industry to benefit from lower wages 	<ul style="list-style-type: none"> • The Plaza Accord of 1985 sees the yen appreciate against the dollar
1990s to the early 2000s	<ul style="list-style-type: none"> • A rapid increase of FDI to China • FDI to Asia recovers in 2000 having experienced a sharp drop between 1998 and 1999. 	<ul style="list-style-type: none"> • Expansion into the Chinese market as Chinese economic reforms progress and the country joins the WTO in 2001 • Greater capacity demonstrated by enterprises and the growth of industrial clusters in Asia 	<ul style="list-style-type: none"> • The Asian Financial Crisis of 1997 weakens the yen
Post 2010	<ul style="list-style-type: none"> • FDI to ASEAN increases • Interest grows in India and Myanmar • SMEs step up overseas production independently of Japanese big business 	<ul style="list-style-type: none"> • Production and export bases continue to restructure under the demands of globalization and ASEAN economic integration 	<ul style="list-style-type: none"> • Lehman Shock of 2008 is followed by an appreciating yen

(Source) Prepared by the author, based on Kubota Norio's *The Overseas Expansion of Production by Small- and Medium-Sized Enterprises*, Ch. 2, p. 33, Chart 2-2 in *Internationalization Strategies of Small- and Medium-Sized Enterprises*, Nukada Haruka and Yamamoto Satoshi eds., Doyukan, 2012.

How do the New Partnerships Differ from Traditional PPPs?

Japan has long provided cooperation that combined trade, investment, and development assistance (or ODA) to East Asia, successfully incorporating partner countries into a dynamic production network that has contributed to the economic progress of the region. This phenomenon is often referred to as the East Asian Miracle and Japan's METI has hailed this successful mix as the Japanese ODA Model (METI, 2005). Japan's ODA has played a catalytic role for private sector development on a number of fronts. It has upgraded manufacturing bases through concessional financing for infrastructure. It has established systems to strengthen the functioning of the market economy. And, it has

built human resources through decades of technical cooperation. In turn, the improved investment climate has attracted FDI from Japan and elsewhere, encouraging trade based on the import and export of raw materials as well as of finished goods, thus contributing to the development of partner countries (Watanabe and Miura 2003).¹⁰

In this model, the main driver is the overseas expansion of large Japanese corporations and affiliated SMEs within a traditional Japanese production relationship. In contrast, the new wave of outward FDI regards developing countries and emerging economies not only as destinations for production bases but also as important consumer markets. Further, the players are not limited to large corporations and their affiliates but involve a wide range of businesses, including SMEs acting independently of big business. In a new era, where Asia has become the center of global production and an important market, it is all the more important for FDI companies to build a strong network of local talent and organizations to succeed. Japan needs to move beyond the traditional PPP and form a new style of partnership with the private sector, both domestically and abroad. BOP business provides a perfect example of how this can be achieved. Here, businesses meet the challenge of providing goods and services to serve the basic needs of the poor by designing innovative measures to overcome the ‘BOP penalties’ of access, affordability, and availability faced by their clients. To achieve this, the localization of business activities, including research and development, planning, and distribution and sales, is indispensable. The same holds true for SMEs expanding abroad. In general, small factories in Japan possess superior technology, but they face enormous structural constraints in terms of their ability to devise business strategy, draw up sales and marketing plans or handle foreign languages. Thus, in cases where a Japanese manufacturing SME plans to expand overseas independently, it needs to compensate for such resource constraints with local talent and organizational support. Only then can a small urban factory hope to grow into a global enterprise (Ohno 2013).

In sum, to build the local networks described here, the new partnerships require a much broader and deeper interaction with the partner country which takes them beyond the traditional PPP based on a combination of investment, trade, and aid that Japan has practiced until now.

3. Asia’s Emerging Donors: ‘Cooperation and Competition’

Japan’s aid program has several distinctive features that originate from its own development experience. It is characterized by its support for the self-help efforts of partner countries which places a strong emphasis on promoting sustainable growth over ‘charity’; a respect for country ownership that is governed by a cautious approach to applying political conditionality; and economic cooperation that is based on seeking mutual benefit or creating a win-win partnership. These features are also discernible in the aid being offered by emerging Asian donors like Korea and China. Each of these three countries began their aid programs in response to a unique set of diplomatic and economic considerations while they were still aid recipients themselves and engaged in catching up economically with the West. In fact even now China maintains firmly that it

¹⁰ Also see the *Interim Report of the Advisory Council on Internationalization* (January 2008) chaired by Prof. Toshio Watanabe. As a private advisory body to the Minister of Foreign Affairs, the Council was convened between March 2007 and February 2009 to discuss and propose recommendations for basic policy on international cooperation from a diverse range of perspectives.

is not an aid donor, but rather a partner country that provides 'South-South Cooperation'. Along with Japan, Korea, and China, other advanced economies in ASEAN such as Singapore, Malaysia, Thailand, and India have also launched aid programs. They too possess the dual experience of being an 'aid donor' and 'aid recipient' and it is this double exposure which has shaped Asian development thinking, making it distinct from that of Western donors whose aid has been characterized as an act of giving 'from a wealthy country to poor one'.¹¹ Deep at the roots of Asian development thinking is the concept of self-help, which respects the policy ownership of the recipient country and supports the country's capacity development to enable it to graduate from receiving aid.

In 1961, three years after it had joined the OECD, Japan became a member of the Development Assistance Group (DAG), the precursor to the DAC. Until Korea joined in 2010, Japan was the sole Asian member of the committee. During this period, in the eyes of Western donors, Japan represented a 'foreign' presence and at times Japan felt uneasy too about discussions driven by European or American priorities and agendas.¹² Moving forward half a century, Korea has used its DAC membership to its advantage and made a national commitment to communicate its development experience widely to the international audience, as the adoption of the 'Seoul Consensus' at the G20 Seoul Summit of 2010 and its hosting of the 4th High Level Forum on Aid Effectiveness (Busan HLF) in 2011 demonstrate. As for China (a non-DAC member), the Forum on China-Africa Cooperation (FOCAC) which started in 2000 symbolized a shift from aid that disseminated political ideology to one that focuses on supporting commercial and economic interests. This in turn has triggered strong interest as well as concern among Western donors. In light of these developments, there is now greater awareness in the international community that Asian and Western donors differ in their development thinking and approaches to aid.¹³ In addition, there is wider recognition that China's practice of linking aid, trade, and investment and supporting the economic independence of developing countries originated in Japan's aid program, which started in the postwar period when the country was still receiving aid from the West and international organizations (King 2007, Brautigam 2009, China-DAC Study Group 2009).

The rise of Asian emerging donors is a welcome development for Japan, which has tended to be isolated within the international development community and the DAC until now. Yet at the same time, the presence of other donors with a similar orientation

¹¹ While Eastern and Central European countries are also emerging donors, the type of Asian development thinking mentioned here is not evident among them. This difference is to a large extent connected to the European Union membership process, which requires the harmonization of their values and standards with those held by the major European economies.

¹² The Poverty Reduction Strategy Papers (PRSP) introduced by the World Bank and IMF in the late 1990s heavily emphasized social development at the expense of infrastructure development. In this context and at DAC, Japan argued the importance of economic growth for poverty reduction and presented processes and cases in where infrastructure development benefited the poor.

¹³ Saidi and Wolf (2011) distinguish between the aid given by Asian donors, which has a strong element of economic cooperation or 'international development investment' from that provided by Western Europe, which can be described as 'international development assistance' with an emphasis on responding to humanitarian needs. A discussion has also begun that suggests comparing donors under the framework of 'Asian vs. Western' is more valid than 'traditional vs. emerging' (International Symposium: Styles of Foreign Assistance, May 27-28, 2011, Seoul discussion organized by KAIDEC, KOICA, and Ewha Womans (sic) University; and also Sato and Shimomura (2012)).

demands a greater effort on Japan's part to clarify its comparative advantage in the development arena. The scale and speed of China's economic cooperation are much greater than that of Japan's ODA. Korea's ODA, while still small in terms of budget (a seventh of Japan's in 2012 based on net disbursement) became very active under the leadership of the former president, Lee Myung-bak, who engaged the country in a Knowledge Sharing Program (KSP) that compiles its development experience on a national level and disseminates it to developing country partners. It is of great significance that Asian donors cooperate and communicate Asian development thinking to the international community. But while doing so, Japan should make more robust efforts to call global attention to its comparative advantage and the unique contribution that it can make to progress in developing countries. In the next section, I will discuss the distinctive features of Japan's development cooperation and private sector activity.

Intellectual Support based on International Comparative Analysis

Compared to China and Korea, Japan is a 'mature donor'. Japan's key strengths lie in its wealth of experience and capacity to conduct international comparative analysis of best practices drawn not only from its own development experience, but also from that of advanced East Asian economies. Japan also has the experience and ability to manage the process of knowledge co-creation, through joint work with its developing country partners. As the internal and external environment of a country changes over time, it is difficult to apply Japan's own development experience directly to the issues facing today's developing countries. The same applies to Korea's experience, which is typified by the New Community Movement (Saemaul Undong), export promotion and the creation of five-year plans, or China's experience, which includes the creation of Special Economic Zones (SEZ). Although Korea has demonstrated a powerful ability to communicate globally, its intellectual support has focused on sharing and showcasing its own development experience with interested developing countries. China also has not yet reached the stage where it can share any development experience other than its own. In this respect, as a mature donor that has supported East Asia's development over many decades, Japan is well positioned to conduct policy dialogue and provide intellectual support that incorporates an international comparative analysis of the development experience of other countries. Japan also has access to a wealth of human resources and organizational networks trained and accumulated through decades of past ODA, particularly in the ASEAN region. It is precisely this expertise and human and organizational assets that Japan should mobilize to launch a new era of development cooperation.

Network-Based Cooperation

What plays an essential role here is 'network-based' cooperation.¹⁴ In Asia, along with China and Korea, other former recipients of Japanese aid such as Singapore, Malaysia, and Thailand, have graduated and are now in the position to assist other countries. From the perspective of Korea and China, who actively communicate their development experience as a part of national policy, there may be little incentive to venture into a partnership with Japan. However from Japan's perspective, it is important to take a step

¹⁴ The idea of 'network-based cooperation' is largely attributable to Araki Mitsuya, Chief Editor of *The International Development Journal*, and taken from his recommendations for *International Cooperation in a New Era*. For details see [http://www.grips.ac.jp/forum/pdf10/ODAMT/1st/handout2\(Mr.Araki\).pdf](http://www.grips.ac.jp/forum/pdf10/ODAMT/1st/handout2(Mr.Araki).pdf)

further and promote network-based cooperation, particularly with the leading economies of ASEAN, so it can make use of the knowledge and human networks that it has built over many decades.

For example, at the request by the former prime minister of Singapore, Lee Kwan Yew, JICA implemented an eight-year long project to increase the country's industrial productivity (Productivity Development Project) through which a large number of public and private sector experts were trained. Now these Singaporean experts are actively engaged in international cooperation in neighboring countries and in Africa too. JICA also dispatched a Malaysian investment advisor to Zambia as the third country expert, who made important contributions toward improving Zambia's investment climate. With the first-hand experience in investment promotion he gained having served as the deputy director general of the Malaysia's Industrial Development Authority (MIDA), the advisor was able to offer specific policy recommendations and help the country attract FDI from Malaysia. Furthermore, under the ongoing industrial policy dialogue with Ethiopia conducted by JICA and the National Graduate Institute for Policy Studies (GRIPS), Japan invited Malaysian and Thai practitioners to Ethiopia to share their experience with investment and export promotion. JICA also organized a study tour to send Ethiopian policy makers and practitioners, all of whom were officials of the Ministry of Industry, the Ethiopia Investment Authority, and other related agencies, to Malaysia. There the participants were able to learn the specifics of the country's industrial development, knowledge that contributed to speeding up the revision of Ethiopia's investment laws.¹⁵

The year 2014 marks sixty anniversary of Japan's ODA. Through decades of technical and financial cooperation, Japan has accumulated extensive human and organizational networks in Asia and other partner countries. Now is the time for Japan to institutionalize these individual achievements and lead the shift from conventional cooperation designed to create 'something out of nothing' to the next-generation development cooperation that would build 'more from something' by drawing on the assets accumulated through its past ODA to Asia and by working with emerging donors as key players. By acting as the hub of an intellectual network and partnering with the emerging Asian and ASEAN economies that have recent aid recipient experience, Japan can position itself to engage actively in intellectual support and policy dialogue with latecomer Asian countries such as Myanmar, Laos, Cambodia, and the others developing countries around the world.

Japan as a Quality Leader in Global Business Activity

With the rise of the emerging economies in Asia, the competition for global markets has become even fiercer for Japanese companies. Japanese business has a reputation for being exceedingly cautious about new investments, leading to slow decision-making. Certainly compared to China and Korea, this seems to be the case. This attribute and some others are rooted largely in the Japanese business model. As Table 3 shows,

¹⁵ For details see the reports on the 15th Ethiopian Industrial Policy Dialogue (August 2013) and the Joint JICA-GRIPS-Malaysia Mission to Ethiopia (July 2013) (Japanese) http://www.grips.ac.jp/forum/af-growth/support_ethiopia/document/2013.07_ET/201308_Report_web_final.pdf (English) http://www.grips.ac.jp/forum/af-growth/support_ethiopia/document/2013.06_KL/KLReport_130716_HP.pdf

compared to global investment practice, where pursuing short-term profit and favoring flexible and fluid partnerships is the norm, Japanese outward FDI differs significantly in several respects.¹⁶ Japan has a vibrant manufacturing industry and Japanese companies demand high standards of quality control or Quality, Cost, and Delivery (QCD) from every partner at every stage of the process; from the procurement of raw materials and parts to production and aftercare services. For this reason, Japanese companies need to thoroughly examine the potential and risks associated with their investments. Once a company decides to investment abroad, however, it will remain committed for long term and continue business operations in the country. Needless to say, the company makes extensive efforts to develop local supporting industries, train industry human resources and transfer technology to its local counterparts.

Although these qualities of the Japanese business model slow the decision-making process in companies, in another sense, these unique characteristics may prove to be Japan’s strength. Indeed there are developing country leaders and government officials who already recognize the potential benefits of these features. On a visit to Japan during the Fifth Tokyo International Conference on African Development (TICAD V), the Ethiopian Prime Minister Hailemariam Desalegn invited Japanese industry, in particular the manufacturing sector, to invest in Ethiopia. From Japan he looked for ‘quality’ not ‘quantity’ in investment. More than scale, the values, labor ethics, and the practice of *kaizen* that Japanese companies would bring with them were of interest to him. Top local government officials from Vietnam also remarked that while FDI is pouring into the country from around the world, only Japan has committed to building local capacity while pursuing profit. The officials expressed great interest in learning how to make their provinces more attractive to investment from Japanese businesses.

Table 3: Characteristics of Japanese Outward FDI

Strong manufacturing-orientation	The manufacturing industry leads over any other category of activity, e.g. real estate, commercial or mining operations
Pride in a long tradition of manufacturing or 'manufacturing spirit'	Deep sense of pride on the factory floor; deeply dedicated to quality and ensuring customer satisfaction
Long-term commitment	Slow to enter into frontier countries, but once committed will remain despite being faced with difficulties
Provision of partner support	Provide training to local firms and human resources to meet high standards demanded by QCD
Good legal compliance	Relatively good compliance with local labor, tax, and environmental laws & regulations

(Source) Ohno, Kenichi, *Ethiopia as a Business Manufacturing Partners: The Potential Observed from Bilateral Policy Dialogue*, June 2013.

So rather than striving to compete only on quantitative terms, such as scale and speed of expansion or pricing in a fiercely competitive market, Japanese companies should capitalize on the very features of that have made their business model respected and replicated, and stake their claim as global leaders of quality manufacturing. To achieve this, it becomes increasingly important for Japanese business to intensify and sustain

¹⁶ See the Kenichi Ohno’s presentation materials for the Ethiopian Business Investment Seminar held jointly by JETRO and the Ethiopian ambassador to Japan on June 3, 2013 for TICAD V at http://www.grips.ac.jp/forum/pdf13/Etiopia_seminar@JETRO/policydialog_J.pdf

their involvement in nurturing local organizations and talent, especially in the area of production management systems and manufacturing industry human resources.

4. Recommendations for Network-Based Cooperation

Increasing global integration has blurred the lines between overseas and domestic activities. Moreover, the expansion of corporate activities into emerging economies and developing countries has broadened the interface between development cooperation and business activity. On another front, it is encouraging to witness the growth of human resources and organizational networks built in Asia through Japan's long-standing ODA and economic cooperation. Building on a relationship of trust that has been established over decades of cooperation with Japan, Asian development partners are increasingly becoming players of a new era of development cooperation.

As business activities in emerging economies and developing countries expand and mature, the 'localization' of Japanese companies will become critically important. For business to thrive, partnerships forged with local networks of human resources and organizations built through ODA will prove indispensable. In this new era of cooperation, Japan should leverage the strengths it possesses through network-based cooperation. The networks I refer to here are multifaceted ones that encompass partnerships with the private sector; the network of people and organizations built up throughout Asia by Japanese ODA; and the Asian network that has been mobilized for the development partnership between Asia and Africa. The network can extend further to include local governments in Japan that support SME development, NGOs, and other relevant actors, making them key players in a new era of development cooperation too. Embarking on such an endeavor would elevate Japan's development cooperation and place it squarely at the center of the country's basic national policy and at the same time sharpen its strategic focus in the current context of globalization.

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