

Japan's Development Cooperation in the Era of "New Partnership" : Challenges and Opportunities

March 16, 2017

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Objective of this presentation


- This presentation examines the effects on the traditional donors of the shift to “New Partnership” between the traditional and “emerging” donors
- More specifically, it deals with:
 - a) the challenges facing the OECD-DAC
 - b) opportunities as well as challenges for Japan’s development cooperation

A new landscape in the era of “New Partnership”

- Changes in the needs for development cooperation, in particular from aid to FDI, and from social to economic infrastructure
- Rise of new actors
: larger roles of ‘emerging donors’, private financial flows, and NGOs



Wider range of options for developing/recipient countries

- Blurred frontier between public and commercial financial flows
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- Challenges for the prevailing development norm/paradigm

Challenges for the OECD-DAC members

- The prevailing rules of the game of development cooperation are not suited to the new reality, in which the emerging donors got influential
- The DAC members began to change some of the mainstream norms and principles, in order to adapt to the new situation



- The shift from the Paris Declaration to the Busan Declaration
- The shift from the MDGs to the SDGs

Traditional and new actors

OECD-DAC

in cooperation with the World Bank

- Charity and humanitarian motive
- **Poverty reduction** as a paramount aim of aid
- Emphasis on **social sector**
- Program aid and aid harmonization
- Political tying and economic untying with policy conditionality
- **Dissociation from private sector activities**


‘Emerging donors’: China & India

- Principle: mutual respect, equality, and solidarity
- Objective: **attaining self-reliance**
- Emphasis on **real sector and infrastructure**
- Non-interference, no conditionality
- **Close linkage between aid, direct investment, and trade**
- ‘Win-win’ approach

Diversity of 'Emerging Donors'

- DAC-friendly emerging donors
Arab donors: Saudi Arabia, UAE, Kuwait etc.
Mexico, Turkey, [Korea](until 2009)
- DAC-unfriendly emerging donors: challengers to the mainstream
China, India, Brazil, South Africa, Venezuela, [Russia]
- The description of 'emerging' is misleading, as many of them, in particular China and India, has long history of aid giving since the early 1950s.

Shift from Paris and Busan Declarations : Changes in the OECD-DAC's position

- Paris Declaration (2005) 
 - Key actors: (traditional) donors and 'partner countries' (new donors were not mentioned)
 - Key issues: recipients' ownership, aid harmonization, alignment with recipients' strategies
 - No emphasis on human rights, democratization, and good governance
- Busan Declaration (2011)
 - 'New partnership' between the traditional and emerging donors
 - Broaden support for South-South and triangular cooperation
 - Common goals and differential commitments
 - Emphasis on human rights, democracy, and good governance

Shift from the MDGs to SDGs

: reflecting the injected voices of the South

- The Millennium Development Goals (2000)



- Eradicate **extreme poverty** and hunger (Goal 1)
- Achieve universal primary education (Goal 2)
- Reduce child mortality (Goal 4)
- Ensure environmental sustainability (Goal 7)

- The Sustainable Development Goals (2015)

- Decent work and **economic growth** (Goal 8)
- **Industry, innovation and infrastructure** (Goal 9)
- The principle of common but differentiated responsibilities (**CBDR**)

New definition of ODA (2014)

- Rethinking the criterion of 'what is concessional': purpose is to secure more concessional loans for least developed countries (LDCs)
- Lower 'discount rate', which means 'commercial' interest rate, in comparison with concessional rate: for LDCs/LICs from 10% to 9%, for LMICs from 10% to 7%
- Higher 'grant element' required for ODA for LDCs/LICs 45% (previously 25%)
- ODA amount calculation based on 'gross cash-flow' instead of previously used 'net cash-flow'
- Effect: the introduction of new definition would
 - Demonstrate that the rules of the game are in the hands of traditional donors
 - Increase Japan's ODA amount due to the change from net to gross basis
 - Decrease China's de fact ODA amount due to higher grant element required

New opportunities for Japan's development cooperation

- **Renaissance of economic infrastructure**

Assisting infrastructure construction, in conjunction with rural development assistance, has been the lynchpin of Japan's cooperation for developing countries' endeavor of attaining self-reliance

While, the MDGs neglected economic infrastructure, the World Bank viewed infrastructure as a 'sunset' sector in the 1990s, and public and private infrastructure investment to developing countries had fallen significantly.

- **Japan's comparative advantage in the seamless cooperation between public and private actors**

The model of "aid, investment and trade synthesis" or "trinity development cooperation" is shared also by China's foreign aid

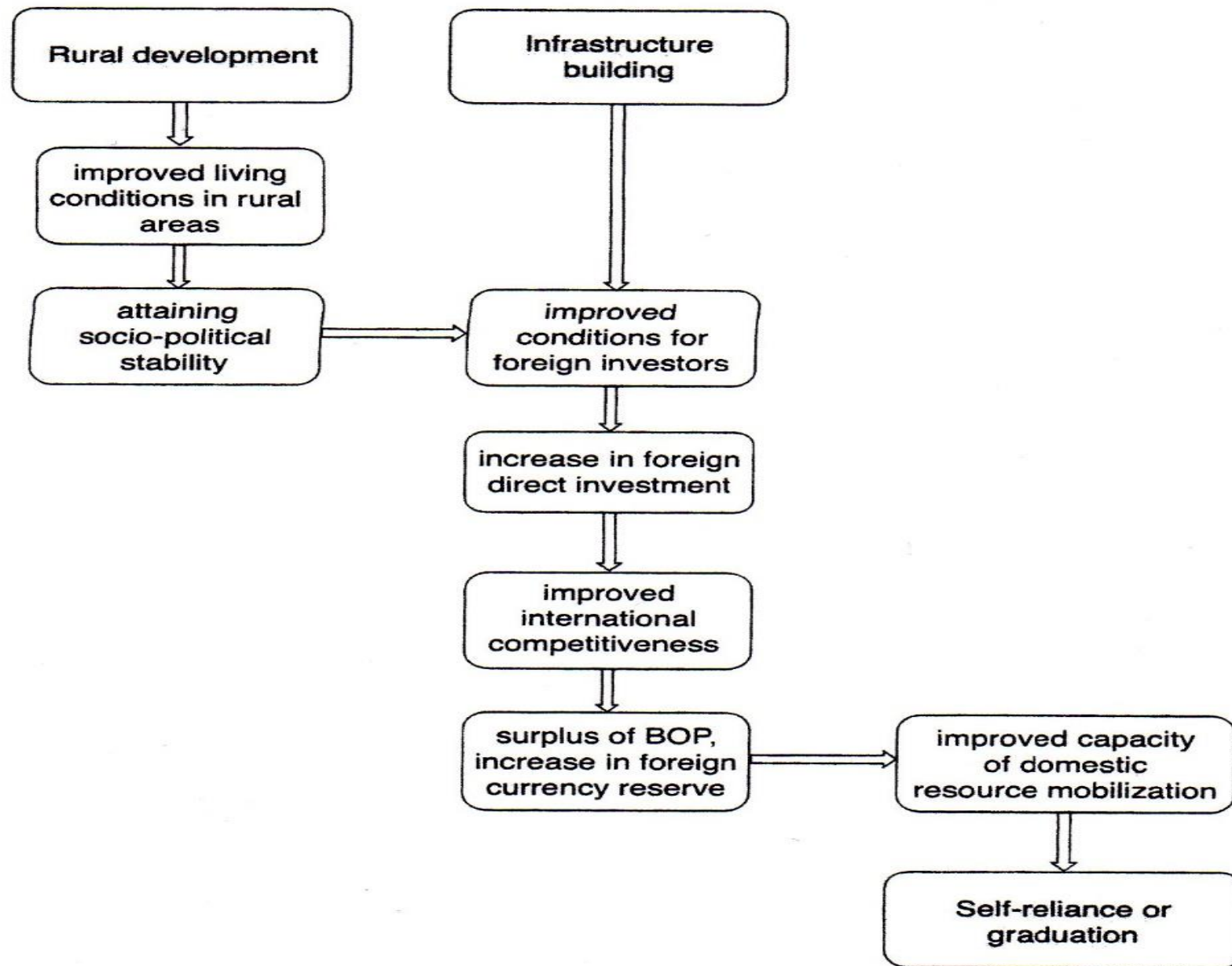
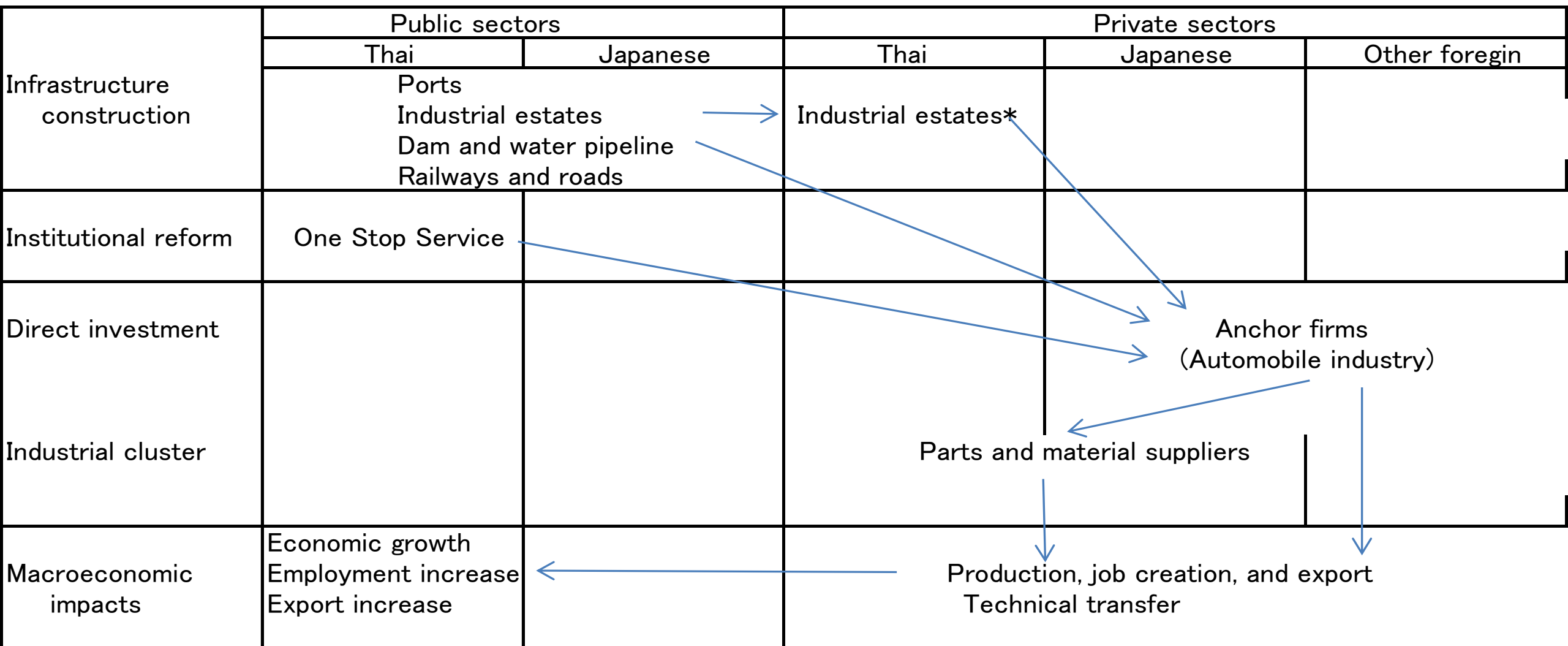


Figure Path to self-reliance/graduation: "Aid to end aid".

Source: prepared by the author.

Figure 7-2 Concerted activities between public and private sectors: the case of the Eastern Seaboard



*Amata Group, Hamaarji Land Group

(Source) Prepared by the author

Challenges facing Japan's development cooperation

- Japan is urged to reverse its recent shift to narrowly scoped national interest, which is the result of post-bubble stagnation and the rise of China
- Otherwise, it is difficult for Japan to take advantage of the new opportunities. Also, it is not easy to differentiate Japan's cooperation from China's.

Two undesirable changes in Japan's mode of development cooperation

- **Tied aid loans** have increased persistently since the introduction of STEP* in 2002, although the ratio of untied loans was 100% in 1996.
*The Special Terms of Economic Partnership
- The objective of Infrastructure System Export Strategy of the Japanese government is **to support Japanese firms**. In contrast, the mission of the New AID Plan of 1987 was **to develop local (Asian) export industries**.