

# DISCUSSION GUIDE FOR “JAPAN’S FOREIGN AID POLICY”

A DISCUSSION WITH DR. PHILLIP Y. LIPSCY

## Organizing Questions

- What is the rationale for countries to provide aid to foreign governments?
- What characteristics define Japan’s foreign aid policy?
- How can the effectiveness of foreign aid be judged?

## Introduction

This video lecture provides a general overview of why countries provide foreign aid before examining Japan’s foreign aid history and philosophy. Japan moved from being a net recipient of foreign aid after World War II to becoming the largest provider of foreign aid in the 1990s. According to some analyses, Japan’s foreign aid has been more effective in stimulating economic development than that of other leading donors. In this lesson, students evaluate the utility of select Japan foreign aid projects and make a case for whether foreign aid is an effective method of spurring international development.

## Objectives

In this lesson, students will

- identify the different reasons countries may provide foreign aid;
- understand the unique characteristics of Japan’s foreign aid and why Japan takes its approach to aid;
- evaluate the worth of four proposed aid projects; and
- formulate a point of view on under what conditions, if any, foreign aid can effectively help countries develop.

## Materials

Video Lecture, “*Japan’s Foreign Aid Policy*,” online at <http://spice.fsi.stanford.edu/multimedia/japans-foreign-aid-policy>

Projection 1, *Answer Key for Pre-Lecture Quiz*

Projection 2, *Answer Key for Definitions of Key Terms*

Projection 3, *Quote about Foreign Aid*

Handout 1, *Pre-Lecture Quiz*, 30 copies

Handout 2, *Video Lecture Prompts*, 30 copies

Handout 3, *Definitions of Key Terms*, 30 copies

Handout 4, *Evaluating Proposals for Aid Projects*, 30 copies

Answer Key 1, *Video Lecture Prompts*

Answer Key 2, *Evaluating Proposal for Aid Projects*

Teacher Information, *Video Lecture Transcript*

Equipment	Computer with Internet access and a Flash-enabled or HTML5-supported web browser Computer projector and screen Computer speakers
Teacher Preparation	Instructions and materials are based on a class size of 30 students. Adjust accordingly for different class sizes. <ol style="list-style-type: none"><li>1. Make the appropriate number of copies of handouts.</li><li>2. View Video Lecture, “<i>Japan’s Foreign Aid Policy</i>,” by Philip Lipsky (duration: 12 minutes, 25 seconds).</li><li>3. Become familiar with the content of the projections, handouts, answer keys, and teacher information.</li><li>4. Set up and test computer, projector, speakers, and streaming video lecture. Confirm that you are able to play the video lecture and project sound audibly to students.</li></ol>
Time	Three 50-minute class periods
Procedures	<b>Day One</b> <ol style="list-style-type: none"><li>1. Explain to students that this lesson provides a comprehensive overview of foreign aid, why countries distribute it, and how it can help countries develop. The video lecture approaches these issues through Japan’s experience as a donor country and examines the unique aspects of Japan’s foreign aid policy.</li><li>2. Distribute one copy of Handout 1, <i>Pre-Lecture Quiz</i>, to each student. Allow students ten minutes to write their responses in the second column. (You may allow students to work in pairs or groups if you believe this will spur productive dialogue.) Inform students that the purpose of this quiz is to introduce them to some of the facts about foreign aid. It is not meant as an assessment, so there is no expectation that students know the correct answers to these questions.</li><li>3. After ten minutes, display Projection 1, <i>Answer Key for Pre-Lecture Quiz</i>. Walk the class through the correct responses one by one. Tell students to write the correct answer in the last column if they did not have it in the second column, or simply include a check mark if their response was correct.</li><li>4. As you review the correct responses, make the following points as appropriate:<ul style="list-style-type: none"><li>• Many people believe that foreign aid is a large percentage of their country’s budget. For example, a 2013 poll by the Kaiser Family Foundation found that, on average, Americans believed that 28 percent of the federal budget goes to foreign aid. In reality, foreign aid totals at most one percent of total expenses for almost every donor country.</li><li>• Historically, countries in northern Europe have been the most</li></ul></li></ol>

generous foreign aid donors. For example, the only two countries that gave one percent or more of their budgets to foreign aid in 2015 were Norway and Sweden.

- The biggest donor countries in absolute terms are, in order, the United States, the United Kingdom, Germany, and Japan. During the 1990s, Japan was the top foreign aid donor even though its economy was smaller than that of the United States. Japan's foreign aid expenditures have fallen since 1997. In 2015, Japanese foreign aid was only half of its peak level.
  - There is significant debate regarding whether foreign aid contributes to economic development. This is a question addressed in the lecture, and one that we will explore over the course of this lesson.
5. Distribute one copy of Handout 2, *Video Lecture Prompts*, to each student. Instruct them to take notes related to each question as they watch the video.
  6. View the video lecture, "Japan's Foreign Aid Policy."
  7. Once the lecture is over, ask students what questions they have. Note these on a whiteboard or elsewhere for future reference.
  8. Distribute one copy of Handout 3, *Definitions of Key Terms*, to each student. Inform students that completing this handout will ensure they completely understand the video lecture before viewing it a second time. Instruct students to match the terms in the bank to their definitions as homework.

### Day Two

1. Display Projection 2, *Answer Key for Definitions of Key Terms*. Ask students to take out Handout 3, *Definitions of Key Terms*, and refer to the answer key to ensure they have matched terms to definitions correctly.
2. Inform students that they will now watch the video lecture a second time. This will be their final chance to take the notes they will need to complete Handout 2, *Video Lecture Prompts*.
3. View the video lecture, "Japan's Foreign Aid Policy," a second time.
4. After viewing the lecture, return to the list of questions the class generated after watching the lecture the first time. Ensure that all of the class's questions have been answered.
5. Organize students into groups of four students each. Distribute one copy of Handout 4, *Evaluating Proposals for Aid Projects*, to each student. Allow students the remainder of the class period to review the project profiles on Handout 4 and prepare their responses to the questions on the handout.
6. Ask students to complete Handout 2, *Video Lecture Prompts*, as homework and come to the next class period with responses to all the questions on Handout 4.

### Day Three

1. Collect Handout 2, *Video Lecture Prompts*, for assessment.
2. Allow groups 15 minutes to prepare responses to the questions on Handout 4.
3. After 15 minutes, convene the class. Allow one minute for a representative from each group to state whether or not they would approve Project A and why. Once you have heard from each group, use Answer Key 2, *Evaluating Proposal for Aid Projects*, to fill in any gaps groups may have missed.
4. Repeat this process for Projects B, C, and D. (If you want all students to speak, you could ask a different student in each group to report out for each round.)
5. Once you have heard report-outs for all four projects, inform the class that these four projects were all approved and funded by JICA. In fact, these project profiles are based on information from the JICA website. Use these questions to lead a short class discussion:
  - Which of the four projects garnered the most support from the class? Why did the class believe this project deserved the greatest support?
  - How would your support of these projects change, at all, if all of these projects were grants rather than loans (i.e., the Japanese government did not require the money lent to be repaid)?
6. Conclude the lesson by displaying Projection 3, *Quote about Foreign Aid*. This quote represents a skeptical view about foreign aid taken from an article in the publication *Foreign Policy*. Ask students how they would respond to this quote, given what they learned from the video lecture and associated activities.

### Optional Activity

To extend this lesson, you can ask students to write a one-page essay in response to the quote on Projection 3, *Quote about Foreign Aid*. Evaluate responses based on how well they

- articulate a clear argument;
- use accurate data to support their argument;
- incorporate information from the video lecture and lesson; and
- reflect Japan's experience in donating foreign aid.

### Assessment

The following are suggestions for assessing student work in this lesson:

1. Evaluate student responses to Handout 2, *Video Lecture Prompts*, using Answer Key 1, *Video Lecture Prompts*, as a guide.
2. Evaluate group responses to Handout 4, *Evaluating Proposal for Aid Projects*, using Answer Key 2, *Evaluating Proposal for Aid Projects*, as a guide.
3. Assess student participation in group and class discussions, evaluating students' ability to

- clearly state their opinions, questions, and /or answers;
  - provide thoughtful answers;
  - exhibit sensitivity toward different cultures and ideas;
  - respect and acknowledge other students' comments; and
  - ask relevant and insightful questions.
4. If you assign the optional activity, assess students' written responses per the criteria listed in that section.

## ANSWER KEY FOR PRE-LECTURE QUIZ

1) About what percent of the total U.S. federal budget is spent on foreign aid?

*Less than one percent (0.77 percent in 2015)*

2) About what percent of Japan's total federal budget is spent on foreign aid?

*Less than one percent (0.59 percent in 2015)*

3) Which five countries spend the greatest percentage of their federal budget on foreign aid?

*Norway, Sweden, Luxembourg, Denmark, and the UK  
(note that these are all in northern Europe)*

4) In 2015, how many countries spent one percent or more of their total national budget on foreign aid?

*Only two countries: Norway and Sweden*

5) In 2014, which five countries received the most foreign aid?

*Afghanistan, Vietnam, Syria, Pakistan, and Ethiopia*

6) For a top recipient of foreign aid, about what percentage does foreign aid comprise of total economic activity?

*Usually less than one percent (for example, Vietnam was the number two recipient of foreign aid in 2014, but that aid only amounted to 0.8% of its entire GDP, a common measure of the volume of economic activity in a country)*

7) What country received the most foreign aid from Japan in 2010?

*India*

8) In 2015, where did Japan rank globally in terms of total foreign aid given?

*4th (behind the United States, UK, and Germany)*

9) According to research, what effect does receiving foreign aid have on economic development: great, moderate, none, or negative?

*Research has been inconclusive on whether foreign aid makes any difference in economic development.*

---

Sources:

- World Bank: [http://data.worldbank.org/indicator/DT.ODA.ALLD.CD?year\\_high\\_desc=true](http://data.worldbank.org/indicator/DT.ODA.ALLD.CD?year_high_desc=true)
- Organisation for Economic Co-operation and Development: <http://www.oecd.org/dac/development-aid-rises-again-in-2015-spending-on-refugees-doubles.htm>

# ANSWER KEY FOR DEFINITIONS OF KEY TERMS

	Term	Definition
1	<i>humanitarian</i>	devoted to the promotion of human welfare and to social reforms
2	<i>welfare state</i>	a concept of government in which the state plays a key role in the protection and promotion of the economic and social well-being of its citizens, often through providing benefits to people and families during times of need (illness, old age, disability, or unemployment)
3	<i>Nordic countries</i>	Sweden, Norway, Denmark, and sometimes Finland and Iceland
4	<i>Marshall Plan</i>	a U.S. program of economic aid for the reconstruction of Europe (1948–1952); officially named the European Recovery Program but nicknamed after U.S. Secretary of State George Marshall
5	<i>tied aid</i>	aid given under the condition that part or all of it must be used to purchase goods or services from the country providing the aid
6	<i>quid pro quo aid</i>	aid given in exchange for diplomatic support
7	<i>vote buying</i>	any reward given to a person for voting or not voting in a particular way
8	<i>War on Terror</i>	international military campaign pursued by the United States after the September 11, 2001 terrorist attacks against designated terrorists and regimes that supported them
9	<i>official development assistance (ODA)</i>	formal measurement of aid as defined by the Organisation for Economic Co-operation and Development (OECD). ODA is defined as flows of official financing administered with the promotion of the economic development and welfare of developing countries as the main objective. This includes contributions of donor government agencies at all levels to developing countries and multilateral institutions and includes some loans.
10	<i>gross basis</i>	overall total amount of money offered in aid
11	<i>net basis</i>	amount of money offered in aid minus the amount repaid to the borrower
12	<i>concessional loan</i>	a loan granted on terms substantially more generous than market loans, usually due to below-market interest rates
13	<i>war reparations</i>	a defeated country's payments to another country for damages or expenditures sustained as a result of hostilities with the defeated nation
14	<i>loan</i>	money that is borrowed and expected to be repaid with interest
15	<i>grant</i>	money that is given to another party and does not require repayment



<b>16</b>	<i>interest rate</i>	a rate which is charged or paid for the use of money. An interest rate is often expressed as an annual percentage of the principal. It is calculated by dividing the amount of interest by the amount of principal.
-----------	----------------------	---

## QUOTE ABOUT FOREIGN AID

“Foreign aid is once again under fire. Every so often ... media stories appear detailing how ineffective aid supposedly is. The picture emerges that foreign aid is unnecessary, ineffective, and wasteful.”

Source: Introduction to the article “What is foreign aid for?” by Paul D. Miller, 27 January 2011, *Foreign Policy* (retrieved at <http://foreignpolicy.com/2011/01/27/what-is-foreign-aid-for>)

## PRE-LECTURE QUIZ

Enter your response to the questions below in the 2nd column. Leave the 3rd column blank for now.

	Response	Correct Answer (enter correct answer here, or a ✓ if your response was correct.)
1. About what percent of the total <u>U.S.</u> federal budget is spent on foreign aid?		
2. About what percent of <u>Japan's</u> total federal budget is spent on foreign aid?		
3. Which five countries spend the greatest percentage of their federal budget on foreign aid?		
4. In 2015, how many countries gave <u>one percent or more</u> of their total national income as foreign aid?		
5. In 2014, which five countries received the most foreign aid?		
6. For a top recipient of foreign aid, about what percentage does foreign aid comprise of total economic activity?		
7. What country received the most foreign aid from Japan in 2010?		
8. In 2015, where did Japan rank globally in terms of total foreign aid given?		
9. According to research, what effect does receiving foreign aid have on economic development: great, moderate, none, or negative?		

## VIDEO LECTURE PROMPTS

As you view the lecture, make notes on the questions below. After viewing the lecture, you will have time to turn your notes into complete responses.

1. What are the four different motives countries might have for providing foreign aid?
2. In general terms, how have Japan's foreign aid flows evolved between World War II and the 2010s?
3. Note three characteristics of Japan's foreign aid.
4. What is the argument for providing aid in the form of loans that must be repaid, rather than grants that do not need to be repaid?

5. According to the lecture, what are some of the reasons that foreign aid may not actually stimulate economic development?

## DEFINITIONS OF KEY TERMS

The table on these two pages lists 16 key terms from the video lecture in the order they appear. Use the bank of terms below to find the match for each definition, and enter each term in the correct location in the table.

### Bank of Terms

concessional loan	humanitarian	gross basis
interest rate	tied aid	loan
official development assistance (ODA)	grant	Marshall Plan
vote buying	War on Terror	quid pro quo aid
war reparations	net basis	welfare state
Nordic countries		

	Term	Definition
<b>1</b>		devoted to the promotion of human welfare and to social reforms
<b>2</b>		a concept of government in which the state plays a key role in the protection and promotion of the economic and social well-being of its citizens, often through providing benefits to people and families during times of need (illness, old age, disability, or unemployment)
<b>3</b>		Sweden, Norway, Denmark, and sometimes Finland and Iceland
<b>4</b>		a U.S. program of economic aid for the reconstruction of Europe (1948–1952); officially named the European Recovery Program but nicknamed after U.S. Secretary of State George Marshall
<b>5</b>		aid given under the condition that part or all of it must be used to purchase goods or services from the country providing the aid
<b>6</b>		aid given in exchange for diplomatic support
<b>7</b>		any reward given to a person for voting or not voting in a particular way
<b>8</b>		international military campaign pursued by the United States after the September 11, 2001 terrorist attacks against designated terrorists and regimes that supported them
<b>9</b>		formal measurement of aid as defined by the Organisation for Economic Co-operation and Development (OECD). ODA is defined as flows of official financing administered with the promotion of the economic development and welfare of developing countries as the main objective. This includes contributions of donor government agencies at all levels to developing countries and multilateral institutions and includes some loans.

	Term	Definition
10		overall total amount of money offered in aid
11		amount of money offered in aid minus the amount repaid to the borrower
12		a loan granted on terms substantially more generous than market loans, usually due to below-market interest rates
13		a defeated country's payments to another country for damages or expenditures sustained as a result of hostilities with the defeated nation
14		money that is borrowed and expected to be repaid with interest
15		money that is given to another party and does not require repayment
16		a rate which is charged or paid for the use of money. An interest rate is often expressed as an annual percentage of the principal. It is calculated by dividing the amount of interest by the amount of principal

## EVALUATING PROPOSALS FOR AID PROJECTS

Japan International Cooperation Agency (JICA) is the agency of the Japanese government responsible for distributing foreign aid. Imagine you are members of the JICA board who are reviewing four proposed projects and recommending whether to approve them. You have received a one-page profile for each of the four projects (see the following pages).

With your group, read each of the four projects, and then prepare for your board meeting by answering these questions:

- How well does each project fit with Japan's foreign aid philosophy as described during the video lecture?
- What are the positive aspects, if any, of each proposed project?
- What concerns do you have, if any, about each proposed project?
- What changes would you like to see to each project before approving, if any?
- How would you rank these projects in terms of the best use of the Japanese government's money?

**Bring your responses to the next class meeting to discuss as a group.**



## PROJECT A

<b>Project Name</b>	Hartha Thermal Power Station Rehabilitation
<b>Recipient Country</b>	Iraq (Middle East)
<b>Short Description</b>	Repair of a damaged power station in the south of Iraq to increase the amount of energy that Iraq's power grid can supply to its population
<b>Sector</b>	Energy
<b>Amount</b>	\$179M US dollars (20 billion Japanese yen)
<b>Terms</b>	Loan at a 0.8% interest rate to the government of Iraq
<b>Extended Description and Rationale:</b>	
<p>The Hartha Thermal Power Station is a power plant that converts gas and oil to power for the Basra region in the south of Iraq. The equipment for this power stations was originally supplied by Japanese company Mitsubishi Heavy Industries, Ltd. (MHI) in 1980. However, three wars (the war against Iran in the 1980s and wars against coalition forces led by the United States in 1991 and the 2000s) have damaged the power plant. As a result, Unit 4 of the power station only generates 40 percent of the power it has the capacity to generate.</p> <p>The project is expected to improve power output and the operating ratio of the Hartha Thermal Power Station, contributing to a stable electricity supply and thus boosting economic activities for social development and reconstruction of the country. Power supply in Iraq is a general problem, as the country's electricity infrastructure has been affected by wars and economic sanctions. In 2014, daily electricity production capacity in Iraq could supply only about 75 percent of demand. As a result, blackouts of ten hours a day were common. This project will help expand Iraq's electricity production to meet demand, supporting economic development and social stability. The Hartha Power Station provides about 25 percent of all electricity in Basra province, which is the third most populous in Iraq. It also supplies electricity to Baghdad and central Iraq.</p> <p>The loan will be applied to civil engineering works, procuring materials and equipment, and consulting services.</p>	

## Sources:

- [https://www.jica.go.jp/english/news/press/2014/150223\\_01.html](https://www.jica.go.jp/english/news/press/2014/150223_01.html)
- <http://www.iraq-businessnews.com/2015/04/02/mhps-to-refurbish-power-station-in-basra/>

## PROJECT B

<b>Project Name</b>	Maternal, Neonatal and Child Health (MNCH) and Health System Improvement
<b>Recipient Country</b>	Bangladesh (South Asia)
<b>Short Description</b>	Equipment and facilities for training nurses who attend to maternal and child health, as well as diagnostic imaging equipment to support pregnant women.
<b>Sector</b>	Health care and medicine
<b>Amount</b>	\$155M US dollars (17 billion Japanese yen)
<b>Terms</b>	Loan at a 0.01% interest rate to the government of Bangladesh
<b>Extended Description and Rationale:</b>	
<p>The quality of care for pregnant women and childbirth has improved in Bangladesh recently. However, the percentage of births where a skilled attendant (nurse, doctor, midwife, etc.) is present is still lower than the average for South Asia. The percentage of expectant mothers who receive care is also low. For examinations and treatments before and during child birth, mothers often have to go to private hospitals. These are often beyond the budget of the poor and socially vulnerable, so many mothers never receive examinations or treatments that could ensure the health of their babies.</p> <p>This project seeks to provide health, nutritional, and population services to pregnant and nursing mothers, as well as making these services more accessible to them by removing financial, physical and social barriers. The biggest barrier to improved services for pregnant women, childbirth, and mothers of newborns is the insufficient number of nurses in Bangladesh and inadequate training of nurses.</p> <p>This proposed loan would provide health and educational facilities at nursing colleges, equipment for maternal and child health and nursing college education, and training for emergency and obsteric care. A portion of the loan funds will go toward purchasing diagnostic imaging equipment to strengthen the early diagnosis system at higher-level medical facilities.</p>	

Source: [https://www.jica.go.jp/english/news/press/2015/151214\\_01.html](https://www.jica.go.jp/english/news/press/2015/151214_01.html)

## PROJECT C

<b>Project Name</b>	Lach Huyen Port Infrastructure Construction
<b>Recipient Country</b>	Vietnam (Southeast Asia)
<b>Short Description</b>	Construction of a new port in northern Vietnam to allow large ships to deliver and pick up goods, thereby lowering the costs of trade and contributing to economic development
<b>Sector</b>	Transportation - ports
<b>Amount</b>	\$286M US dollars (32 billion Japanese yen)
<b>Terms</b>	Loan at a 0.1% interest rate to the government of Vietnam, tied to Japanese involvement

**Extended Description and Rationale:**

Hai Phong is the third most-populous city in Vietnam, with a population in 2015 of over 2 million people. As a coastal city, it is the most important seaport in northern Vietnam. However, as Vietnam's economy grows, it needs ports that are capable of handling larger ships to facilitate shipments of goods into and out of the country. Hai Phong's current port cannot accommodate some of the larger ships used for sea transit. Goods that require shipment on large tankers have to first be shipped to regional ports in Singapore or Hong Kong before continuing on to North America or Europe. This raises shipping costs and increases the costs of Vietnam's exports, making them less competitive internationally.

To address this issue, the Vietnamese government has approved construction of a larger port in the Lach Huyen district of Hai Phong. Japanese funding will enable Vietnam to construct the new international deep-sea port and related basic infrastructure in Lach Huyen. This port will accommodate the larger vessels being used in seaborne trade, making goods produced in northern Vietnam more competitive internationally because they will reach their final markets more quickly and at lower cost.

The Japanese Official Development Assistance loan will finance the total investment for this port project. This is a tied aid project, which means that aid is provided under the condition that Japanese companies are used to construct the port, and Japan International Cooperation Agency (JICA) will be involved in the planning, design, and construction of the project through technical and financial co-operation.

## Sources:

- [https://www.jica.go.jp/english/news/press/2016/160401\\_02.html](https://www.jica.go.jp/english/news/press/2016/160401_02.html)
- [https://www.jica.go.jp/english/news/press/2016/c8h0vm00009u52s4-att/20160401\\_02\\_pdf\\_02.pdf](https://www.jica.go.jp/english/news/press/2016/c8h0vm00009u52s4-att/20160401_02_pdf_02.pdf)
- <http://www.ship-technology.com/projects/lach-huyen-international-gateway-port-haiphong>

## PROJECT D

<b>Project Name</b>	Improvement of Research Facilities of Bandung Institute of Technology
<b>Recipient Country</b>	Indonesia (Southeast Asia)
<b>Short Description</b>	Funding to build new research facilities and buy new equipment to improve research and education at Indonesia's leading technological university
<b>Sector</b>	Education
<b>Amount</b>	\$50M US dollars (5.6 billion Japanese yen)
<b>Terms</b>	Loan at a 1.4% interest rate to the government of Indonesia

**Extended Description and Rationale:**

Bandung Institute of Technology (ITB) is the first university established in Indonesia, and dates from 1920. As such, it has served as a benchmark for science and technology research and teaching for other higher education institutions in Indonesia. ITB has produced many of Indonesia's top-level scientists, engineers, and researchers, and has played a crucial role in advising on the Indonesian government's technology policy and economic development. The institute also trains teachers for and from other universities around the country. However, Indonesia needs to improve the quality of its research and university teaching to ensure that its citizens are prepared to work and succeed in more technologically advanced industries. One indication that the country's universities are in need of improvement is the limited research publications of professors.

This project aims to expand the education and research capacity of ITB, as well as improve its quality, by building new research facilities and providing more research equipment. It will also support connections between universities and industry to contribute to the country's development of the talent needed to work in internationally competitive industries.

The JICA loan will fund construction, rehabilitation and related civil works for ITB, as well as purchase of necessary equipment and materials for the university.

A portion of the funds will also be allocated to fellowships to send Indonesian students to Japanese universities, where they can gain knowledge that they can bring back to Indonesia upon their return.

Source: [https://www.jica.go.jp/english/news/press/2009/090331\\_01\\_ref.html](https://www.jica.go.jp/english/news/press/2009/090331_01_ref.html)

## VIDEO LECTURE PROMPTS

1) What are the four different motives countries might have for providing foreign aid?

- 1) **Humanitarian:** *the altruistic desire to help people or countries that are less advantaged*
- 2) **Geopolitical:** *gain allies or help strengthen allies, particularly those that face clear threats or enemies*
- 3a) **Economic (immediate; tied aid):** *require that an aid project (highway, port, etc.) be completed using materials or workers from the donor country to help benefit the donor's economy*
- 3b) **Economic (long-term; broader):** *help strengthen other economies to create more customers for your goods or services and/or decrease economic migration to the donor country*
- 4) **Diplomatic:** *aid provided as part of a deal for support in a diplomatic, multinational objective (support for a vote in the United Nations, a particular stance at an international conference, etc.)*

2) In general terms, how have Japan's foreign aid flows evolved between World War II and the 2010s?

- *Japan was actually a foreign aid recipient directly after World War II, as its economy had been devastated by the war.*
- *Beginning in the 1970s, Japan's rapidly growing economy was reflected in a generous increase in foreign aid.*
- *By 1989, Japan was the largest provider of foreign aid, even though its economy was not the largest in the world.*
- *Japan's foreign aid started to level off in the 1990s, as Japan's economy stagnated and the government decided not to increase its aid amount. It has remained at a stable level continuing to the 2010s, although the United States became the largest donor nation in 2002 and remains in that spot.*

3) Note three characteristics of Japan's foreign aid.

- *Japan has traditionally given most of its aid to nearby countries, principally in East and Southeast Asia. This has shifted somewhat since the early 2000s, with the Middle East and Africa now better represented.*
- *Compared with other high-income countries, Japan provides more of its aid as loans rather than grants.*
- *In terms of types of aid, Japan focuses on support for infrastructure projects like transportation, communications, and electricity. It does not provide as much support for projects related to training and education.*

4) What is the argument for providing aid in the form of loans that must be repaid, rather than grants that do not need to be repaid?

*Loans require recipient governments to repay aid. This responsibility encourages recipient governments to choose development projects more wisely; they are more likely to invest in projects that serve a vital need because they will need to repay the loan.*

5) According to the lecture, what are some of the reasons that foreign aid may not actually stimulate economic development?

- *Compared with the size of a national economy, foreign aid is exceedingly small. Even in the countries that receive the most aid, less than five percent of economic activity stems from foreign aid, so aid has a limited impact on the greater economy.*
- *In many cases, aid is given for non-economic reasons; countries providing aid may do so for geopolitical or diplomatic reasons, so they may not actually care about the economic impact of aid.*
- *Finally, foreign aid may not be necessary for growth. Countries may be planning projects that are supported by the government or domestic companies, and simply use foreign aid to finance projects that would have been completed anyway.*

## EVALUATION GUIDE FOR FOREIGN AID PROPOSALS

This document is designed to allow you to check that students bring up relevant points related to all four proposed projects. Students' views on how well each project fits with Japan's foreign aid philosophy should hew fairly closely to the responses below, as these points come directly from the video lecture. Their perspectives on the positive aspects and concerns of each project are more subjective, but you can use the points below to fill in any gaps.

### Project A: Hartha Thermal Power Station Rehabilitation

- **How well does each project fit with Japan's foreign aid philosophy, as described during the video lecture?**

*This project fits reasonably well with Japan's foreign aid philosophy:*

- *While Japan has more expertise and comfort working with governments in East and Southeast Asia, it has been giving more aid to countries in the Middle East since 2000.*
- *A Japanese company—Mitsubishi Heavy Industries, Ltd. (MHI)—originally built the Hartha Thermal Power Station, so there are strong reasons for Japan to refurbish the station.*
- *This is an infrastructure project, an area where Japan has traditionally been strong.*
- *This project is in the form of a loan at an exceptionally low interest rate, which is consistent with Japan's philosophy that recipient countries take more care with projects when they have to repay the money given to them.*
- *There is strong reason to believe that this project will benefit the general Iraqi population and enable broader economic development.*

- **What are the positive aspects of this proposed project?**

*Students may make the following points:*

- *A consistent supply of energy is key to daily activity and economic growth.*
  - *There are strong Japanese ties to this project, and it highlights the strength of Japanese industry.*
- **What concerns do you have about this proposed project?**

*Students may make the following points:*

- *The security situation in Iraq is unstable, which may lead to further damage to this power plant after the project is completed.*
- *Japan is not as familiar with the culture and economy of Iraq and other countries in the Middle East, so it will be harder to ensure the project's success.*

### Project B: Maternal, Neonatal and Child Health (MNCH) and Health System Improvement

- **How well does each project fit with Japan's foreign aid philosophy, as described during the video lecture?**

*This project fits somewhat well with Japan's foreign aid philosophy:*

- *Japan has significant experience with aid projects in South Asia, though not as much experience as in East and Southeast Asia.*
- *Japan traditionally has focused on infrastructure projects with its aid money; projects related to health and medicine are less common.*

- *This project is in the form of a loan at an exceptionally low interest rate, which is consistent with Japan's philosophy that recipient countries take more care with projects when they have to repay the money given to them.*
- **What are the positive aspects of this proposed project?**

*Students may make the following points:*

  - *Research shows that quality prenatal care and assistance during child birth play an important role in the health of newborns and their mothers, so this project should greatly help women who cannot pay for private health care.*
  - *Japan has one of the world's most-admired health care systems, so it should have expertise in how to make this project successful.*
- **What concerns do you have about this proposed project?**

*Students may make the following points:*

  - *The interest rate is so low that it may not provide much of an incentive for Bangladesh to use the money wisely.*
  - *The description of the project is vague and seems hard to define. This may make it hard to monitor and evaluate project success.*

**Project C: Lach Huyen Port Infrastructure Construction**

- **How well does each project fit with Japan's foreign aid philosophy, as described during the video lecture?**

*This project fits extremely well with Japan's foreign aid philosophy:*

  - *Southeast Asia has been one of Japan's focus areas for aid for decades, and Vietnam in particular is one of the countries Japan has worked with the most.*
  - *Japan traditionally has focused on infrastructure projects such as this, so it has a lot of expertise on how to ensure the project is successful.*
  - *This project is in the form of a loan at a low interest rate, which is consistent with Japan's philosophy that recipient countries take more care with projects when they have to repay the money given to them.*
  - *This is a tied aid project, in which Japanese companies will be used to help construct the port, thus benefitting Japan's economy itself.*
- **What are the positive aspects of this proposed project?**

*Students may make the following points:*

  - *This project will lower the cost of Vietnam's exports, which will improve its economic activity broadly. It is thus a good investment in the country's economic growth.*
  - *Worldwide, there is a trend of using larger vessels for shipping, so the case for building a new port capable of handling these vessels is strong.*
  - *Japan has a reputation for excellence in infrastructure and construction that it can bring to this project.*
- **What concerns do you have about this proposed project?**

*Students may make the following points:*

  - *Tied aid has been criticized as focusing on the benefits to the donor country rather than maximizing the value for the recipient country. In this case, because Japanese companies must be contracted to build the port, costs may be higher than if the Vietnamese government were able to choose any company for port construction.*



- *Vietnam's relative economic success in recent years indicate that it has the means to take on projects such as these on its own, so Japanese aid may be unnecessary for this port project to move forward.*

#### **Project D: Improvement of Research Facilities of Bandung Institute of Technology**

- **How well does each project fit with Japan's foreign aid philosophy, as described during the video lecture?**

*This project fits reasonably well with Japan's foreign aid philosophy:*

- *Southeast Asia has been one of Japan's focus areas for aid for decades, and Indonesia has long been one of the top recipients of aid from Japan.*
- *Japan traditionally has focused on infrastructure projects. This project targets education, an area where Japan has not given as much aid and thus may not be as sure of success.*
- *This project is in the form of a loan at a low interest rate, which is consistent with Japan's philosophy that recipient countries take more care with projects when they have to repay the money given to them.*
- *A portion of the loan will be used to fund fellowships for Indonesian students to study in Japanese universities, which will benefit Japan as well.*
- **What are the positive aspects of this proposed project?**

*Students may make the following points:*

- *This project has the potential to exponentially improve scientific research in Indonesia since most of the country's universities train at ITB.*
  - *Improving the quality of Indonesia's universities will help provide the country the technical capacity to engage in further development, making it a worthwhile investment.*
  - *The project focuses on science and technology, academic subjects where Japan is relatively strong and has expertise.*
  - *The project will strengthen Indonesia-Japan relations at the personal level through the fellowships for Indonesian students.*
  - **What concerns do you have about this proposed project?**
- Students may make the following points:*
- *This project will benefit the most privileged people in Indonesia — those who study or work at the country's most elite institute. A project that addressed the educational needs of poorer members of society (by teaching the illiterate how to read, for example) may have greater benefit for society.*
  - *Dedicating a portion of the funds for fellowships for Indonesian students to study in Japan could be seen as self-serving.*

## VIDEO LECTURE TRANSCRIPT

**Phillip Y. Lipsky**

The Thomas Rohlen Center Fellow, Freeman Spogli Institute for International Studies

\*\*\*\*\*

When we think about foreign aid, we usually think about the humanitarian motive and this has to do with helping people or countries that are least advantaged. It's very similar to the motive for individual charity and the welfare state, and so when countries talk about foreign aid. This is generally the way they talk about why they engage in foreign aid.

And if you look at the distribution of foreign aid cross-nationally, countries that have large welfare states—Nordic countries for example—also tend to be the largest foreign aid donors and so there is some support for the idea that the humanitarian motive matters a lot in foreign aid but as political scientists we also think of several other motivations for foreign aid giving and so one important one is the geopolitical motive. And this is using foreign aid essentially to shore up allies against adversaries in the international system. So you can point to things like U.S. Cold War aid, the Marshall Plan that gave large amounts of aid to Western Europe, there was also quite a bit of aid given to Japan, and more recently U.S. military aid given to Israel and Egypt, which take the form of foreign aid but are essentially also helpful for the geopolitical motivations of the United States.

There is also an economic motive that countries care about when they think about foreign aid policy, so foreign aid can also benefit a country's own economic interests. One example of this is tied aid, where a country would create aid projects like schools or dams but they would require the construction be done by their own country's firms and workers and so this benefits the country where the aid is given but also benefits the economic interests of the donor state.

But more broadly speaking, if you facilitate economic development in another country, that can expand your export markets, it might reduce regional instability, if you're worried about many migrants or refugees, if you can develop the country that is causing those outflows you might be able to benefit your own country economically—and in that case, both countries really benefit.

And lastly, there's also a potential diplomatic motive and this has to do with what we call quid pro quo aid and this is basically giving a country foreign aid in return for some other diplomatic objectives. So, for example, one typically cited version of this is vote buying in the United Nations. If a country wants support in the United Nations Security Council, for example, they might promise generous foreign aid in return.

This is a graph of foreign aid from 1993 to 2012, and what we see is that Japan for many years was the top international aid donor. And this is remarkable, because Japan has never been the largest economy in the world. For the entirety of this period the United States was the largest economy, but Japan was in fact the largest donor of foreign aid right up until 2001. And since then, because of the War on Terror, the United States has dramatically increased its foreign aid, but Japan has very consistently ranked as one of the top aid donors internationally.

Japanese foreign aid, which is called official development assistance (ODA), is a major component of Japanese foreign economic policy. In fact Japan, is currently the number two international donor on a gross basis, number five on a net basis. The net basis number basically takes out repayments of things like concessional loans, so if a country pays back loans that were given to it as part of a foreign aid package, that would be subtracted on a net calculation.

If we look at Japan's history in the immediate time period after World War II, Japan was in fact an aid recipient because its country and economy had been devastated by the war but Japan during this period also paid out quite a bit of money in the form of war reparations. Since the 1970s, there has been a sharp increase in Japanese ODA, and by 1989 Japan had become the top donor internationally and this reflected Japan's rapid economic growth and its ability to provide foreign aid.

Since roughly 1997, so the mid-1990s, Japan has seen a decline in its ODA budget. This was driven really by economic stagnation, which in turn contributed to a rise in government debt so there's been a lot of pressure on Japan's ability to provide foreign aid to other countries. So now Japan's aid budget has declined about roughly half of its peak level.

This is a table of the top recipients of Japanese ODA by decade, so we see that throughout this time period, Japan has really focused on countries in East, Southeast and South Asia so countries like the Philippines, Indonesia, China, Vietnam and so forth. There has been some change in the top recipients over time. Some of this reflects countries "graduating" from aid, so South Korea is no longer a major recipient of aid because now it is economically developed. China was a major recipient in the 90s and early 2000s, but Japan is no longer providing new aid to China based on the fact that China's economy as a whole is now actually bigger than that of Japan.

So moving on to the aid characteristics of Japanese aid, Japan focuses regionally on Asia as we just saw, but in recent years there's been a greater shift to the Middle East and African countries. This in some part reflects Japan's economic interests, which are very closely tied to the Asian region, as well as its expertise: it knows much more about the economic dynamics of its neighboring countries than it might about distant countries.

Japan distributes a relatively higher proportion of its aid in the form of loans as opposed to grants and this reflects the philosophy that aid donor should encourage responsibility and self-sustainable development by requiring that loans be paid back. So the Japanese aid philosophy is one that says if you give aid in the form of grants, then countries might not have as strong of an incentive to use that money wisely. And by giving countries loans that are given at very advantageous interest rates, countries will make sure that they invest in projects that will have a positive return and that would enable them to pay back the loans later.

Japan gives a relatively high proportion of aid to economic infrastructure projects in areas like transport, communications and electricity, so relatively speaking, less to human development projects like training people, teachers, and so forth.

If we think of foreign aid outcomes, this is actually a very tricky subject for academics. If you look at studies of foreign aid in general, we find very little support for the idea that foreign aid contributes to economic development. So a lot of different economists and political scientists have looked at this question: Does foreign aid actually help with economic development? And the answer is very, very ambiguous. Often times, the answer is no.

And this probably reflects several factors. One of them is, as we discussed earlier, the fact that aid is given for many reasons that are really not related to economic development. So the United States, for example, gives a lot of aid to Egypt but not really to economically develop Egypt; it's really about geopolitical motivations and therefore this aid really is not used to develop Egypt's economy. And so because a lot of aid is given for these non-economic reasons, it might not necessarily contribute to economic growth.

It might also be the case that aid is simply too small. Aid flows, generally speaking, are very small in comparison to the size of entire economies and so that makes it a little bit challenging

for academics to identify how much aid contributes to economic growth because economic growth is determined by so many factors.

Moving on to Japanese aid, if you look at the major recipients of Japanese aid over time, they have often done better economically compared to major recipients of Western aid. So many Japanese aid recipients are East Asian growth states often described as “miracle growth states,” like South Korea, Singapore, and Southeast Asia states like Indonesia, the Philippines, and so forth. And these are countries that have performed economically relatively well in international comparison, if you average them as a group. And so many Japanese government officials would say Japanese aid has been very helpful in contributing to the economic growth of these countries.

However some people in the West would criticize Japanese aid for essentially focusing on “easy cases.” So the criticism here is that Japanese aid focuses on things like infrastructure projects in Southeast and East Asia where the fundamentals were already strong—very high literacy rates, very motivated citizens, lots of focus on economic growth anyway—and so the idea here is that it’s not entirely clear whether Japanese aid was necessary in producing the economic growth in these countries.

So Japanese policymakers have recognized this criticism and also because of the graduation of some recipients of Japanese aid, Japan has increasingly allocated a greater share of its ODA to less advantaged countries in the Middle East and Africa and the variety of projects has increased from infrastructure to a range of other types of projects as well. So Japan is responding to this criticism, but I think Japanese policymakers would maintain that its aid has played an important role in the growth of many of its East Asian and Southeast Asian neighbors.

So to conclude, although the Japanese ODA budget has been declining due to economic stagnation, foreign aid remains an important component of Japanese foreign policy and Japanese aid has played an important role in international development, particularly by building economic infrastructure in Asian countries. And finally, Japanese aid increasingly targets a greater range of countries and projects.