

The Impact of Japanese and South Korean Official Development Assistance on their Relations with South Asian States

Sojin Shin¹

In spite of the current state of disarray in global economy, with its susceptibility to financial crises and resultant foreign aid budget cuts, Japan and South Korea have substantially increased their foreign aid, the official development assistance (ODA), in particular, to South Asian countries. This is puzzling. The Japanese and South Korean action certainly draws attention. In fact, Japan has been a key ODA provider for long with its focus on project financing, while South Korea is a rising ODA donor in the region, with its emphasis on enhancing the educational and healthcare sectors in the recipient countries. The active ODA engagement of Japan and South Korea with the region raises several important questions. What does the increase in foreign aid from Japan and South Korea mean to South Asian countries in economic and political terms? How relevant is such ODA in the current globalised economy that provides greater sources of capital even if only on commercial terms? How has South Asia benefitted from the foreign aid from these two countries? This paper addresses these important questions while briefly mapping the ODA situation in South Asia.

¹ Dr Sojin Shin is Visiting Research Fellow at the Institute of South Asian Studies (ISAS), an autonomous research institute at the National University of Singapore. She can be contacted at isassos@nus.edu.sg. The author bears full responsibility for the facts cited and opinions expressed in this paper.

Mapping Official Development Assistance in South Asia

Official Development Assistance (ODA) is defined as the capital flows to developing countries provided by official agencies, including state and local governments or by their executive agencies, with the aim of promoting economic development and welfare of the recipient countries.² It has a concessional character in that it includes a grant element of at least 25 per cent of the total amount provided to the developing countries. The ODA is used in many sectors of the recipient countries such as education, health, economic and social infrastructure, debt relief and a number of others.

South Asia has long been the world's second largest recipient of ODA after the South of Sahara by region. Table 1 presents three significant ODA recipients in South Asia in 2014-15. During this period, 13.4 per cent of the world's total ODA was provided to South and Central Asia.³ Interestingly, the top two recipients of global ODA were from the South Asian region – Afghanistan and India. The former received around US\$3.8 billion (\$5.2 billion) while the latter got about US\$3.1 billion (\$4.2 billion) in ODA in 2014-15. The next highest recipient of global ODA in South Asia was Pakistan. Ranked sixth globally, it received ODA from various countries amounting to US\$1.8 billion (\$2.4 billion). A substantial portion of the ODA received by these countries was directed towards the economic and social infrastructure sectors.

Table 1: Select ODA Recipients in South Asia (2014-2015) [Gross ODA, US\$ Million]

| Countries | ODA Received (World Rank) | Focused Sectors |
|-------------|------------------------------|--------------------------------------|
| Afghanistan | 3.828 (1 st) | Social infrastructure and services |
| India | 3.179 (2 nd) | Economic infrastructure and services |
| Pakistan | 1.883 (6 th) | Economic and social infrastructure |

Source: Based on OECD Statistics on ODA.

² See the official website of Organisation of Economic Co-operation and Development (OECD). Available at <http://www.oecd.org/dac/stats/officialdevelopmentassistancedefinitionandcoverage.htm#Definition>.

³ Data is available at https://public.tableau.com/views/AidAtAGlance/DACmembers?:embed=y&:display_count=no?&:showVizHome=no#1.

Japan's and South Korea's ODA in South Asia

Japan is a key ODA benefactor in South Asia. In 2014-15, the top 10 recipients of ODA from Japan included four South Asian countries – India, Bangladesh, Afghanistan and Sri Lanka. Although Japan's contribution to global ODA disbursements is not as significant as those from the United States (US), Germany and the United Kingdom (UK), its ODA focus on South Asian countries is remarkable.⁴ Japan has outpaced many European countries in disbursing financial aid to India. For example, Japan ranked the top donor of ODA to India in 2014-15, providing about US\$1.4 billion (S\$1.9 billion).⁵ This was followed by contributions from the International Development Association, Germany and the UK.

It is interesting to note that Japan has been the largest donor to most of the South Asian countries. Table 2 shows the top donors of ODA to eight South Asian countries. The donors listed here are individual countries, not international development associations and special funds. Of the eight countries in this list, Japan's ODA contributions to Bangladesh, Bhutan, Maldives and Sri Lanka, aside from India, are noteworthy. Further, the ratio of grant as aid from Japan to these South Asian countries is much bigger than loan as aid – this is particularly so for Bhutan, Maldives and Nepal.⁶

Much of the ODA from Japan to the South Asian countries has been used for economic and social infrastructural development. Some of these countries, for example, Bangladesh, Bhutan, and Maldives, have used the ODA for human security as well.

⁴ In 2015, the US ranked as the top ODA provider, accounting for 17 per cent of the global ODA disbursements. Germany (nine per cent), EU Institutions (nine per cent), the UK (nine per cent) followed. Japan accounted for four per cent of the global ODA disbursements in that year, accounting for about US\$6.1 billion (S\$8.3 billion). Data is available at <http://www.oecd.org/dac/stats/documentupload/World-Development-Aid-at-a-Glance.pdf>.

⁵ OECD ODA archive.

⁶ See the Ministry of Foreign Affairs of Japan. Available at <http://www.mofa.go.jp/policy/oda/data/index.html>.

Table 2: Top Donors of ODA to South Asian Countries (2014-15)

| Countries | Top Donor | Gross ODA (US\$ Million) |
|-------------|----------------|--------------------------|
| Afghanistan | United States | 1,791 |
| Bangladesh | Japan | 435.5 |
| Bhutan | Japan | 15.93 |
| India | Japan | 1,494 |
| Maldives | Japan | 5,840 |
| Nepal | United Kingdom | 159.5 |
| Pakistan | United States | 779 |
| Sri Lanka | Japan | 267.8 |

Source: Based on OECD Statistics on ODA.

Compared to Japan, South Korea is just an emerging ODA power. According to the OECD's Development Assistance Committee (DAC) Peer Review 2012, the DAC members were surprised at South Korea's success in transforming itself from an aid recipient as recent as in 1995 to become a significant aid donor and join the DAC in January 2010.⁷ In 2015, South Korea provided US\$1.9 billion (S\$2.6 billion) in net ODA – this amounted to 0.14 per cent of its gross national income and represented an 8.3 per cent increase in real terms from 2014.⁸

South Korea has been providing ODA substantially to the Asian countries, including all eight South Asian countries. In 2015, 39.7 per cent of South Korea's total ODA went to countries in Asia. Among them, Bangladesh, Nepal and Sri Lanka were in the list of the top 20 recipient countries by volume. For example, Bangladesh received US\$15.1 million (S\$20.5 million) of ODA from South Korea in 2015, which accounted for 3.3 per cent of the total ODA allocation by South Korea in that year.⁹

South Korea's legal and strategic framework for ODA includes the focus on education, healthcare, poverty reduction, human rights enhancement, gender equality, sustainable development, and support for peace and prosperity in the international community. For example, Bangladesh was the second largest ODA recipient from South Korea after Cambodia for health and medical care projects in 2015. Dhaka received around US\$8 million

⁷ See "KOREA: Development Assistance Committee (DAC) Peer Review 2012" at http://www.oecd.org/dac/peer-reviews/Korea_per_cent20CRC_per_cent20- per_cent20FINAL_per_cent2021_per_cent20JAN.pdf.

⁸ *Statistics from the Development Co-operation Report 2016*, OECD, 2016. South Korea is the 24th largest DAC provider in terms of ODA as a percentage of gross national income and the 14th largest by volume.

⁹ 2015 KOICA DaeOeiMuSangWonJoSilJeokTongGye [2015 KOICA ODA Performance Statistics], KOICA, 2016.

(S\$10.9 million) from South Korea to enhance its healthcare system. Similarly, Sri Lanka received about US\$5 million (S\$6.8 million) in the same year from South Korea for its education sector. It was the sixth-largest ODA recipient from South Korea in this sector.

Efficient ODA Implementation in South Asia

The substantial increase in foreign aid from Japan and South Korea is all the more impressive when one considers the fact that the recent global economic crisis has prompted donor nations to cut back on ODA. Additionally, the consistent support of the Japanese and South Korean governments clearly differs from the ‘America-first’ attitude of President Donald Trump in the US – the US’ focus is to cut development aid considerably. The sustained Japanese and South Korean focus on development aid in the global context poses several important questions. What does the increase in their foreign aid indicate about their international relations? What has encouraged Japan and South Korea to focus their foreign aid on South Asia? How relevant is it to the current globalised economy?

For example, the Japanese ODA model focuses on Tokyo’s strategic orientation towards the recipient countries. Notably, Japan uses its ODA as a tool to pursue its strategic objectives and to secure investments in the recipient countries. For example, in the case of Japan’s ODA to countries in South Asia and Southeast Asia, its intent is to elicit cooperation from the recipient countries to ensure maritime security. Similarly, by providing substantial financial support and ODA to the recipient countries, the Japanese government aims to create a favourable climate for Japanese firms to make trade- and investment-inroads in these countries.

Beyond the aforementioned questions, several other significant posers arise relating to the successful utilisation of ODA by the recipient countries. How well has such financial aid facilitated development in the South Asian countries? How well have the recipient countries prepared the local institutions to make optimal use of the ODA resources?

The Korea International Cooperation Agency,¹⁰ for example, carried out an evaluation of select ODA projects in the recipient countries in South Asia.¹¹ In many instances, the evaluation found a less-than-efficient ODA implementation process. The main problems were twofold – the institutional incapability to allocate the aid to where it was needed the most, and the lack of development of relevant institutions to ensure project sustainability in the recipient countries.

South Korea recently signed an agreement in June 2017 for US\$10 billion (S\$13.6 billion) assistance for infrastructure development in India. Out of this amount, US\$1 billion (S\$1.36 billion) will be provided to India in the form of ODA to build smart cities in the country. However, there remains a question mark on India's ability to efficiently use this financial assistance. The relevant Indian institutions would need to ensure effective and efficient allocation of the aid as well as monitor the implementation and sustainability of these projects in the country.

Conclusion

Foreign aid – ODA in particular – has been used by many South Asian countries for the benefit of their education, health, economic and social infrastructure sectors. In times of global economic challenges, the active provision of ODA by Japan and South Korea to South Asia is rather surprising. While the ODA promotes economic development and welfare of the countries receiving it, the paper suggests that Japan and South Korea use ODA to enhance their national interests through the active engagement with South Asian countries. This possibly explains the fact that, despite foreign aid cuts by many countries, Japan continues to be a key ODA provider to South Asia while South Korea has emerged as an important player in the field.

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¹⁰ The Korea International Cooperation Agency was established in 1991 by the South Korean Ministry of Foreign Affairs and Trade as a governmental organisation for ODA to enhance the effectiveness of the country's grant aid programmes for developing countries. See <http://www.koica.go.kr/english/main.html>. Accessed on 27 July 2017.

¹¹ KOICA. Ibid.