

Dec. 18, 2017

2017 CID Conference

Innovative Partnership for Sustainable Development

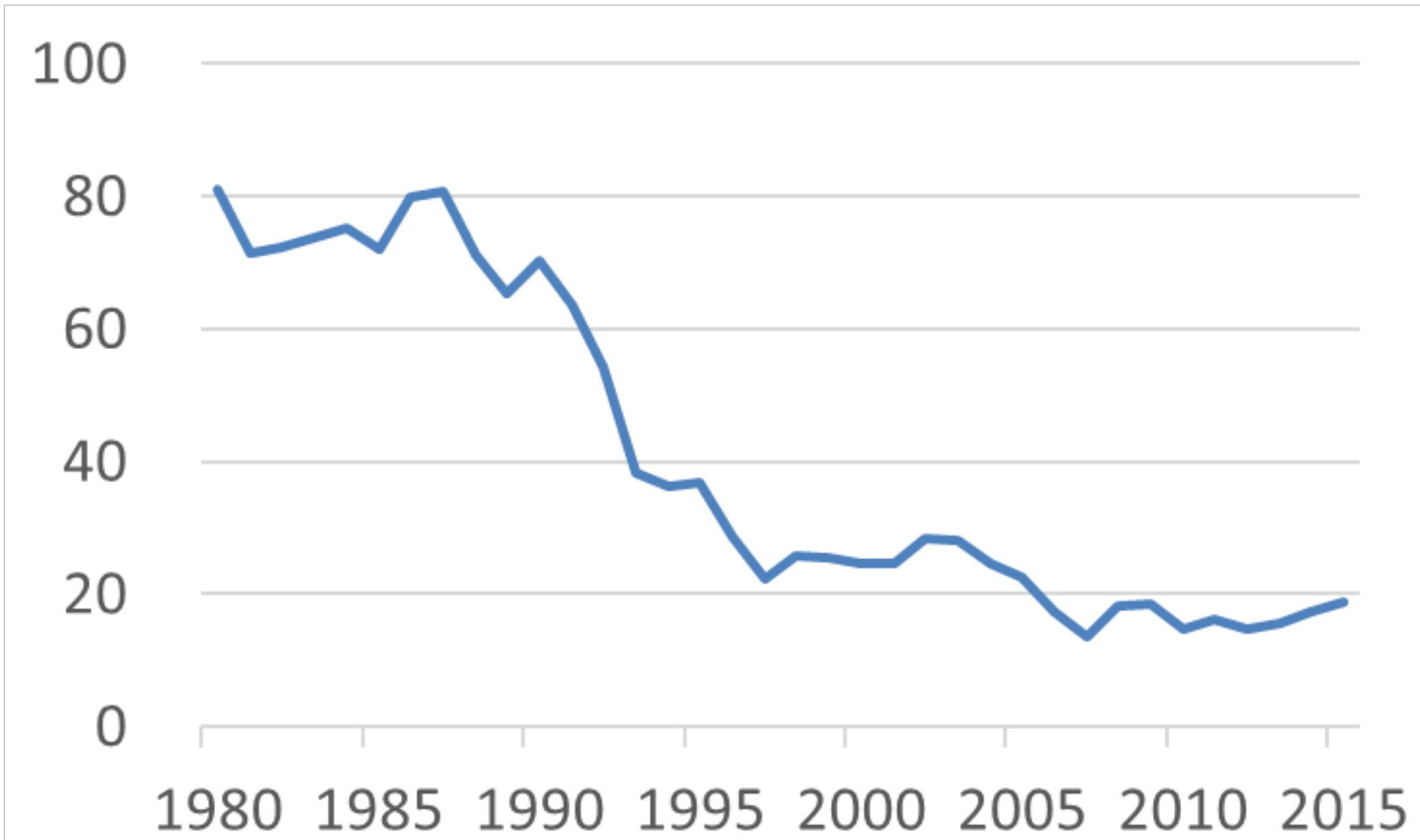
How can we promote win-win relations
between private firms in donor countries
and citizens in recipient countries?

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Declining Share of ODA (%) in Capital Inflows to Developing Countries

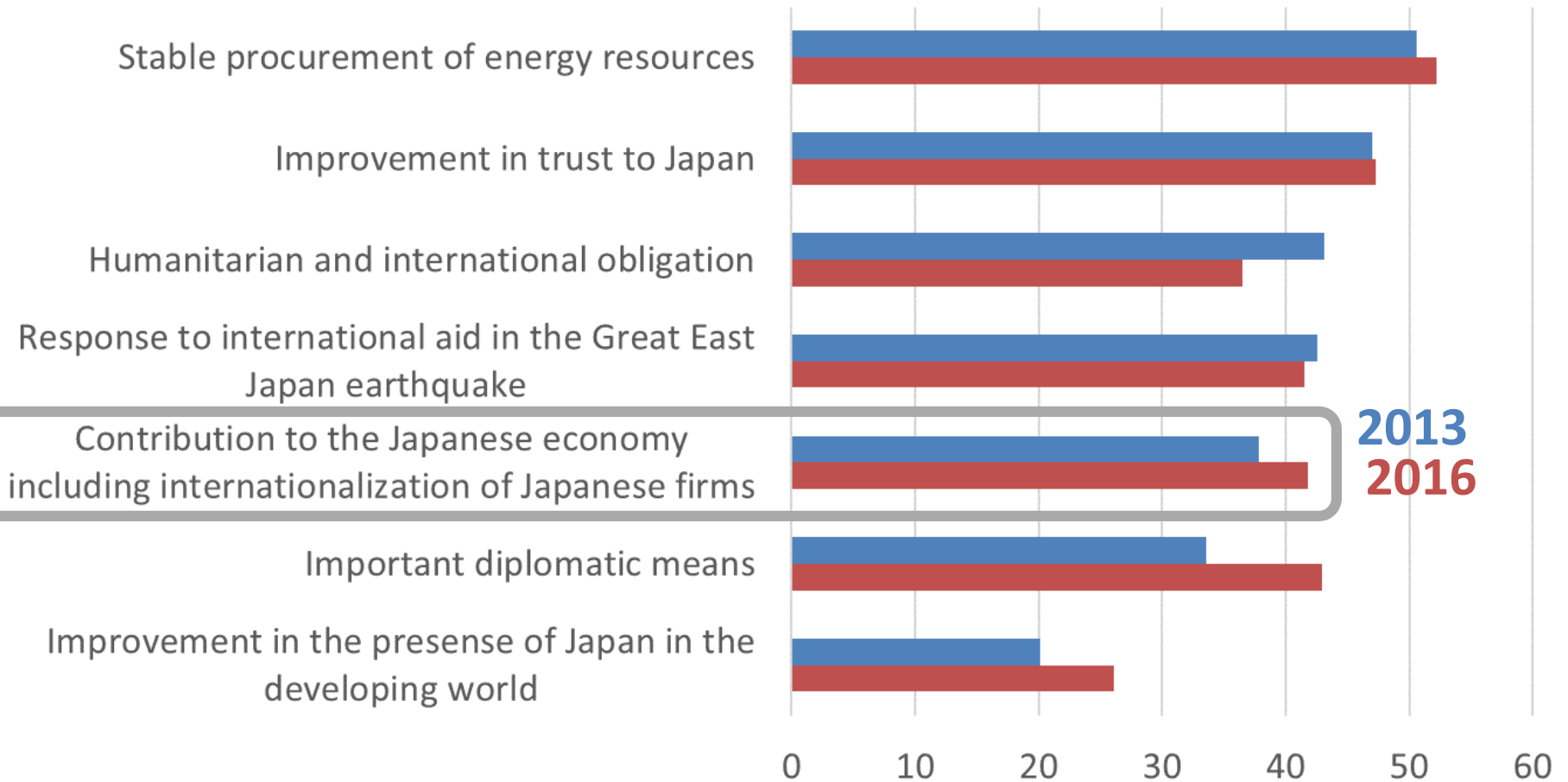


Low and middle income countries
ODA/(ODA + FDI + equity flows)

Source: World Development Indicators

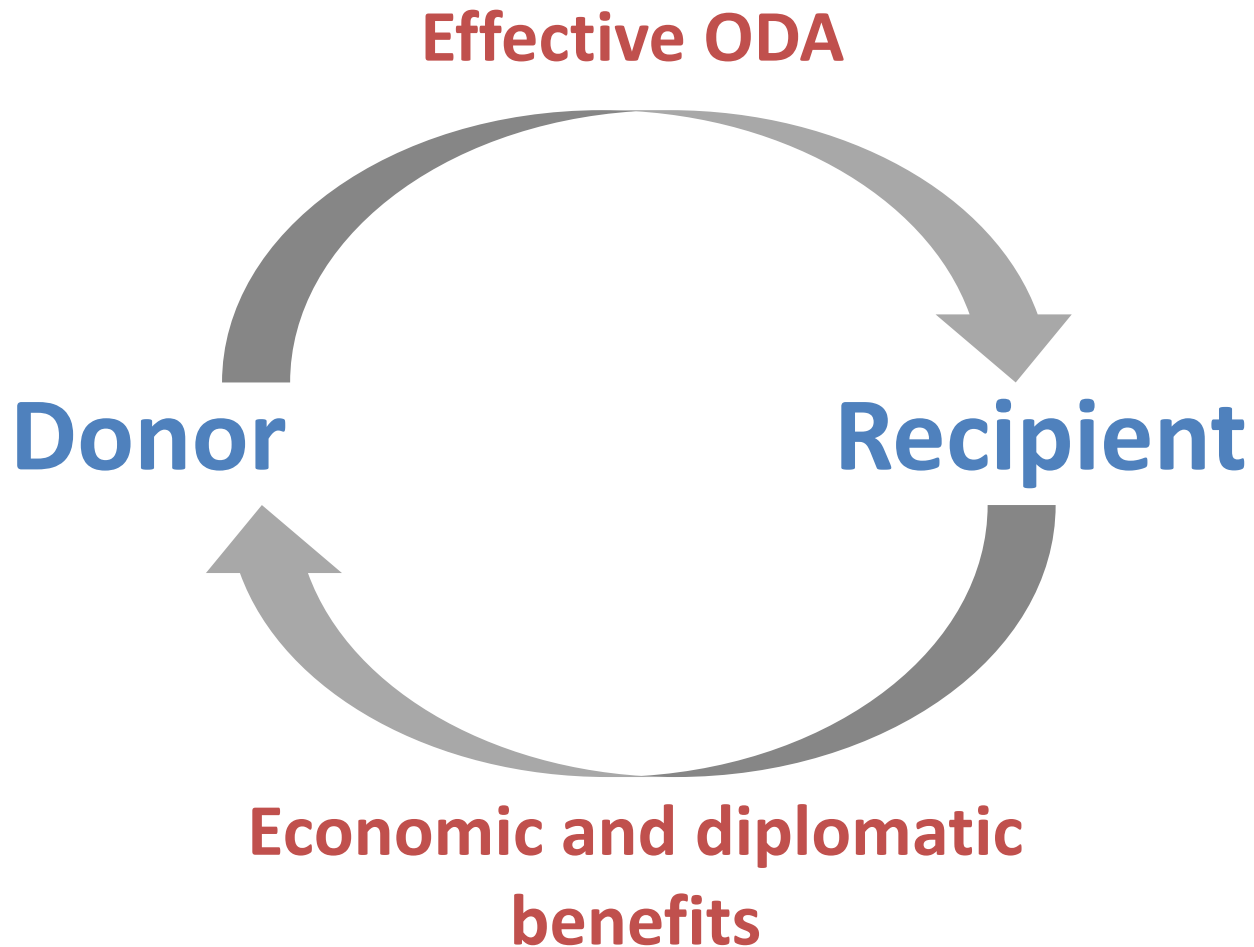
Concerns in Japan about Contributions of ODA to the Domestic Economy

Reasons for ODA (multiple choices, % of respondents)



Source: Cabinet Office, Public-opinion Poll on Diplomacy. (内閣府, 外交に関する世論調査)

ODA with Win-win Relations



Experiences of Japanese ODA (1)

Technical assistance in the foundry industry in Indonesia by JICA in early 2000s

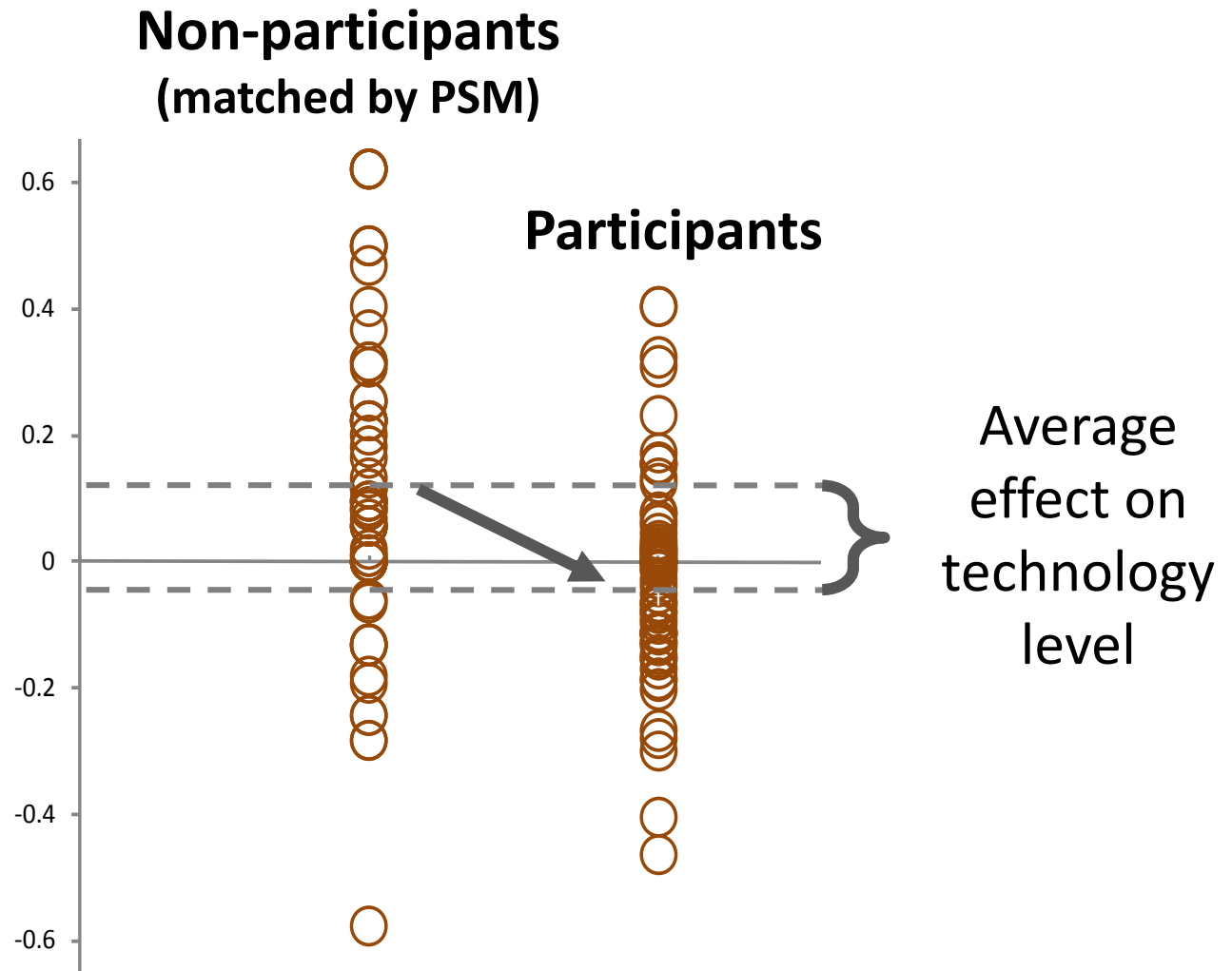
- Fostering supporting industries for the automobile and electronic equipment industries



Todo, Y., 2011. Impacts of aid-funded technical assistance programs: Firm-level evidence from the Indonesian foundry industry. *World Development* 39, 351-362.

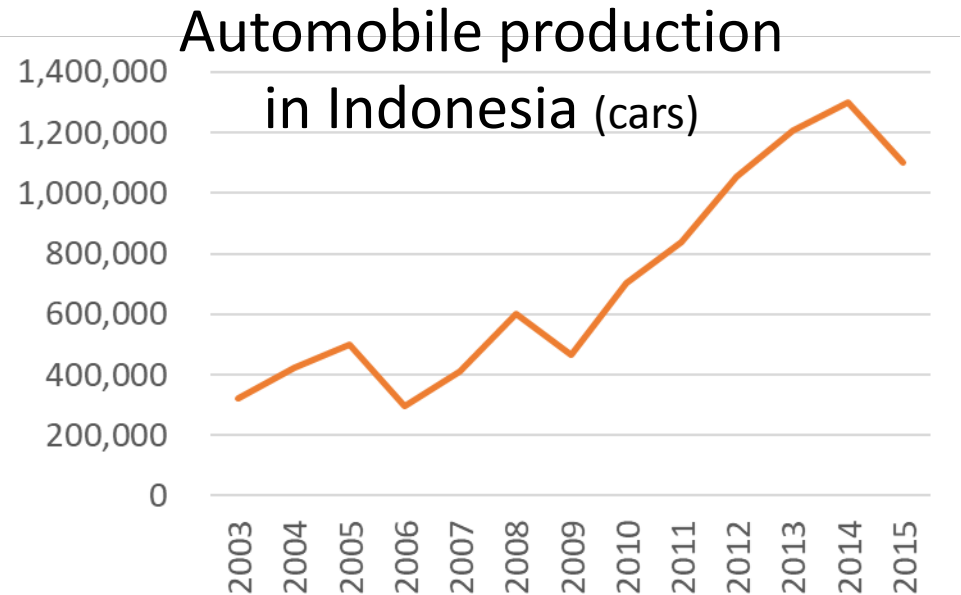
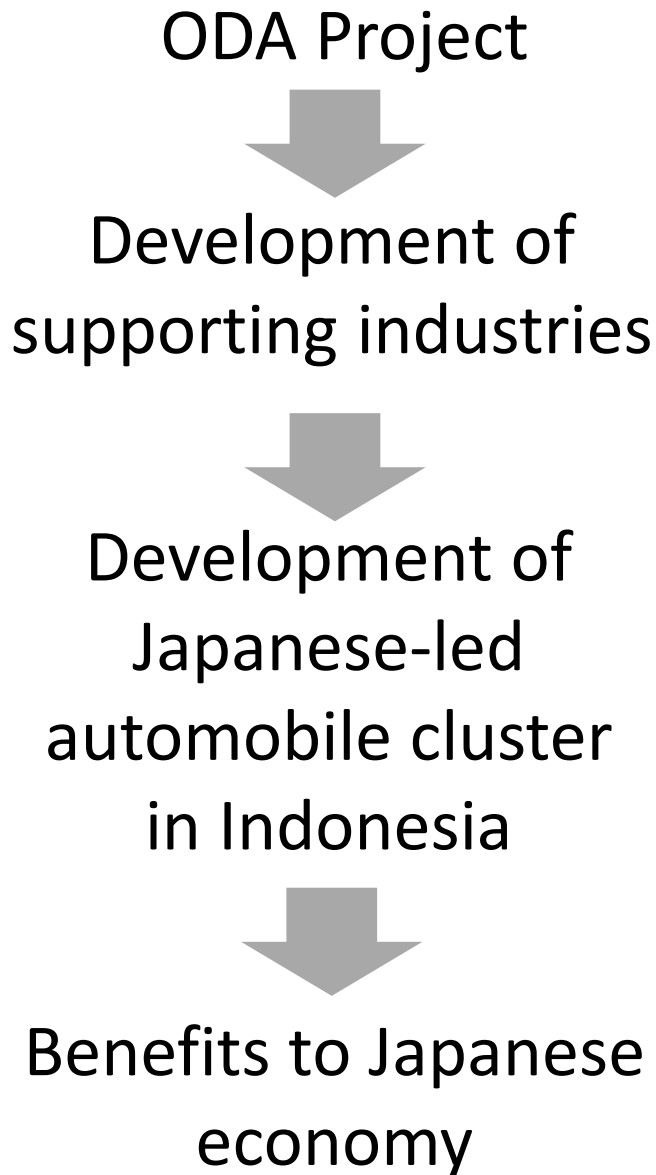
Effect of the JICA project

Effect on the change rate in the reject ratio of firms



Todo (2011)

Win-win Relations

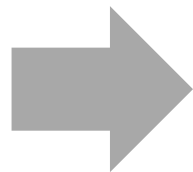


Country/Brand	Share in 2016 (%)
Japan	99.6
Toyota	45.6
Honda	15.7
Daihatsu	9.6
Germany	0.36
Korea	0.04

Source: GAIKINDO (the Association of Indonesia Automotive Industries), <https://www.gaikindo.or.id/en/data-interaktif/>

“Vanguard” Effect of ODA on FDI

ODA
from a donor



FDI
from the donor,
but not from others

- Information flows
- Quasi government guarantee
- Country-specific business practices

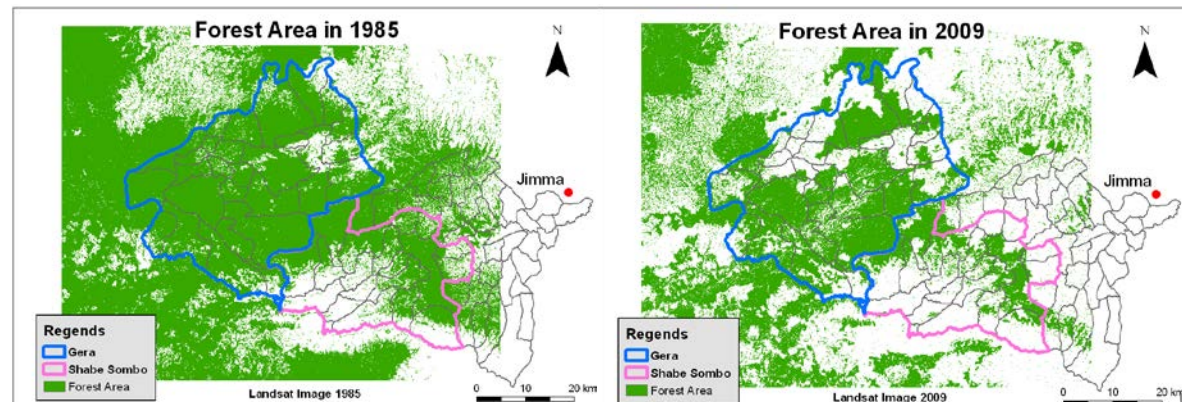
Found for Japanese and Korean ODA, but not others

- Kimura, H., and Todo, Y., 2009. Is foreign aid a vanguard of foreign direct investment? A gravity-equation approach. *World Development* 38, 482-497.
- Kang, S.J., Lee, H., and Park, B., 2011. Does Korea follow Japan in foreign aid? Relationships between aid and foreign investment. *Japan and the World Economy* 23, 19-27.

Experiences of Japanese ODA (2)

Forest protection in Ethiopia

- Establish forest associations
 - + effect on forest (Takahashi, R. & Y. Todo, "Impact of Community-Based Forest Management on Forest Protection: Evidence from an Aid-funded Project in Ethiopia," *Environmental Management*, 50(3), 2012.)
- Establish farmer field schools
 - + effect on income (Todo, Y. & R. Takahashi, "Impact of Farmer Field Schools on Agricultural Income and Skills: Evidence from an Aid-Funded Project in Rural Ethiopia," *Journal of International Development*, 25(3), 2012.)
- Promote forest coffee



Forest Coffee



Premium prices
for certified
coffee



Incentive
to protect
forest

- + effect on forest

- Takahashi, R. & Y. Todo “Coffee certification and forest quality: Evidence from a wild coffee forest in Ethiopia,” *World Development*, 92, 2017.
- Takahashi, R. & Y. Todo, “The impact of a shade coffee certification program on forest conservation using remote sensing and household data,” *Environmental Impact Assessment Review*, 44, 2014.
- Takahashi, R. & Y. Todo, “The Impact of a Shade Coffee Certification Program on Forest Conservation: A Case Study from a Wild Coffee Forest in Ethiopia,” *Journal of Environmental Management*, 130(30), 2013.

Win-win Relations



Forest protection
Income

Japan

Ethiopia

Environmentally friendly
products



Japan's New Strategy under Development Cooperation Charter

Promotion of internationalization of SMEs

(since 2012): [JICA's site](#)

- Subsidize market research in developing countries
 - Products related to agriculture, water supply, etc.
- Subsidize business experiments to show effects of their products
 - E.g., bio-toilets in Cameroon; disaster prevention systems in the Philippines

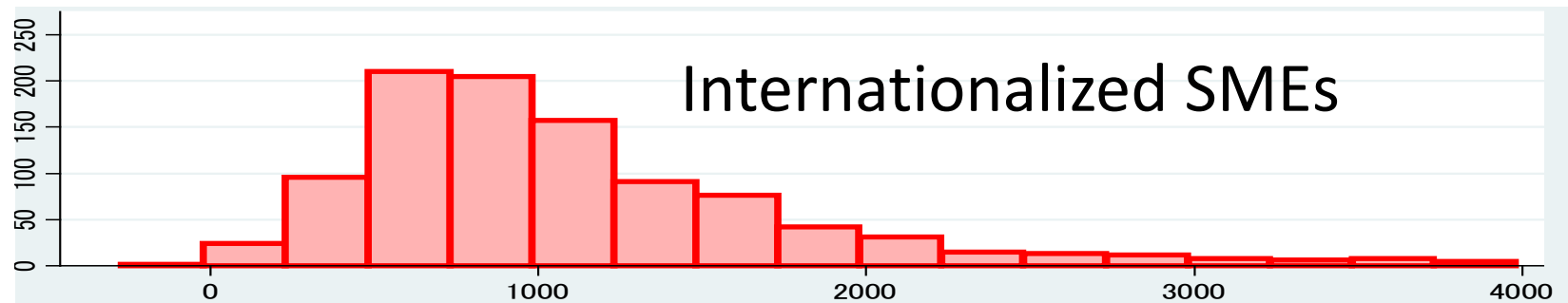


<http://www.mofa.go.jp/mofaj/gaiko/oda/files/000151369.pdf>



https://www.jica.go.jp/sme_support/information/20171117.html

Productive SMEs in Japan remain domestic.



Todo, Y., 2011. Quantitative evaluation of determinants of export and FDI: Firm-level evidence from Japan. *The World Economy* 34.

Todo, Y., and Sato, H., 2014. Effects of presidents' characteristics on internationalization of small and medium firms in Japan. *Journal of the Japanese and International Economies* 34. 13

Win-win Relations?

Any benefit?

Exported products should be new and beneficial to recipients.

Japan

Recipients

**Benefits from exports by
Japanese SMEs through ODA**



Japan's New Strategy under Development Cooperation Charter

Promotion of “infrastructure exports”:

Expanded partnership for quality infrastructure

<http://www.mofa.go.jp/mofaj/gaiko/oda/files/000241007.pdf>

- Flexible operation of JICA's private-sector investment finance
- Expansion of public export and investment insurance
- Expansion of tied aid for high-quality projects (STEP)
 - Subways in Indonesia
 - High-speed train in India



Win-win Relations?

**Infrastructure
development**

Benefits can be maximized if associated with technology transfer.

Japan

Recipients

**Benefits from sales of
infrastructure and related
products and services in the future**



Further Issues

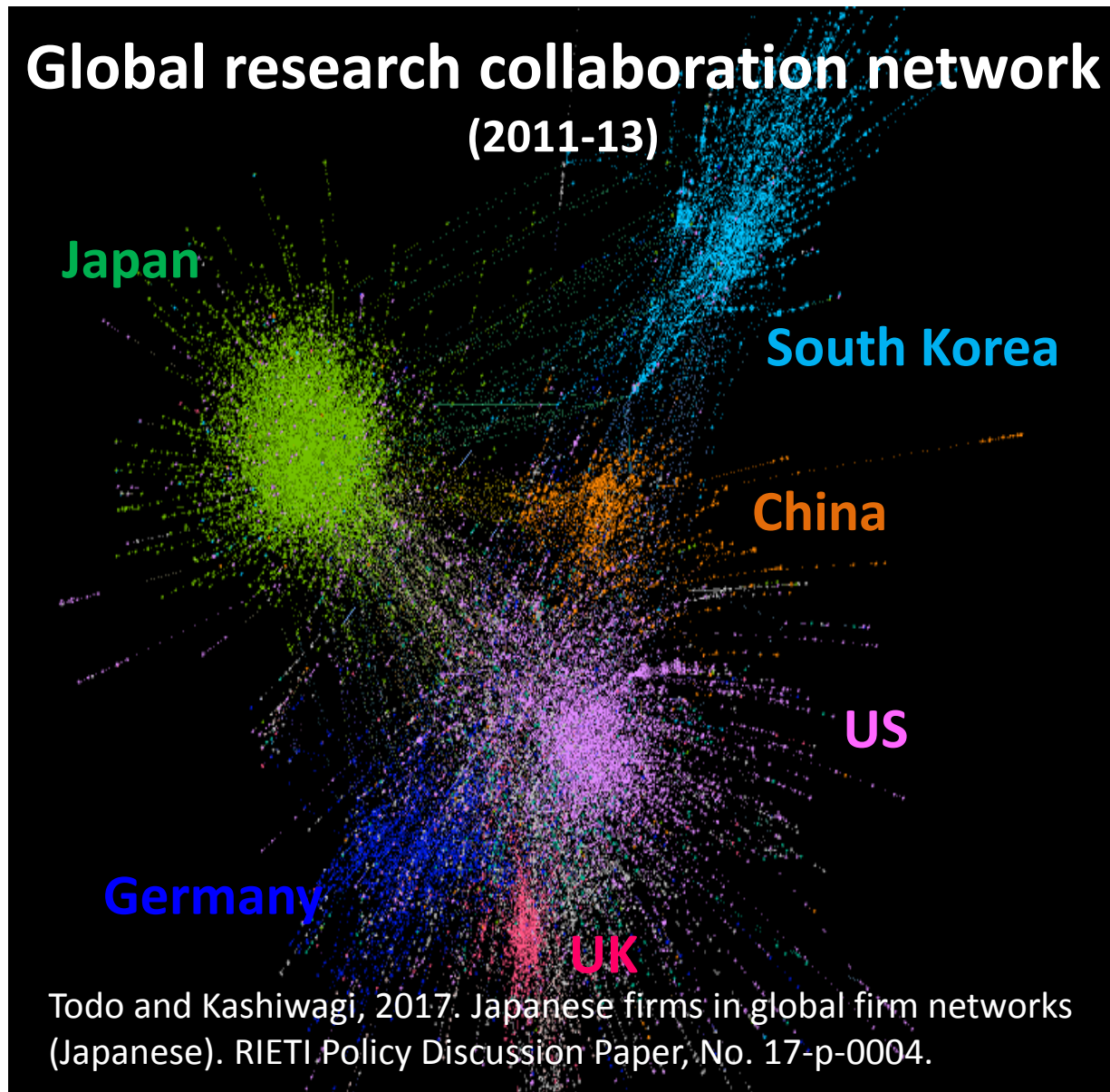
Past and current ODA integrate developing countries to **global supply chains** for mutual benefits.



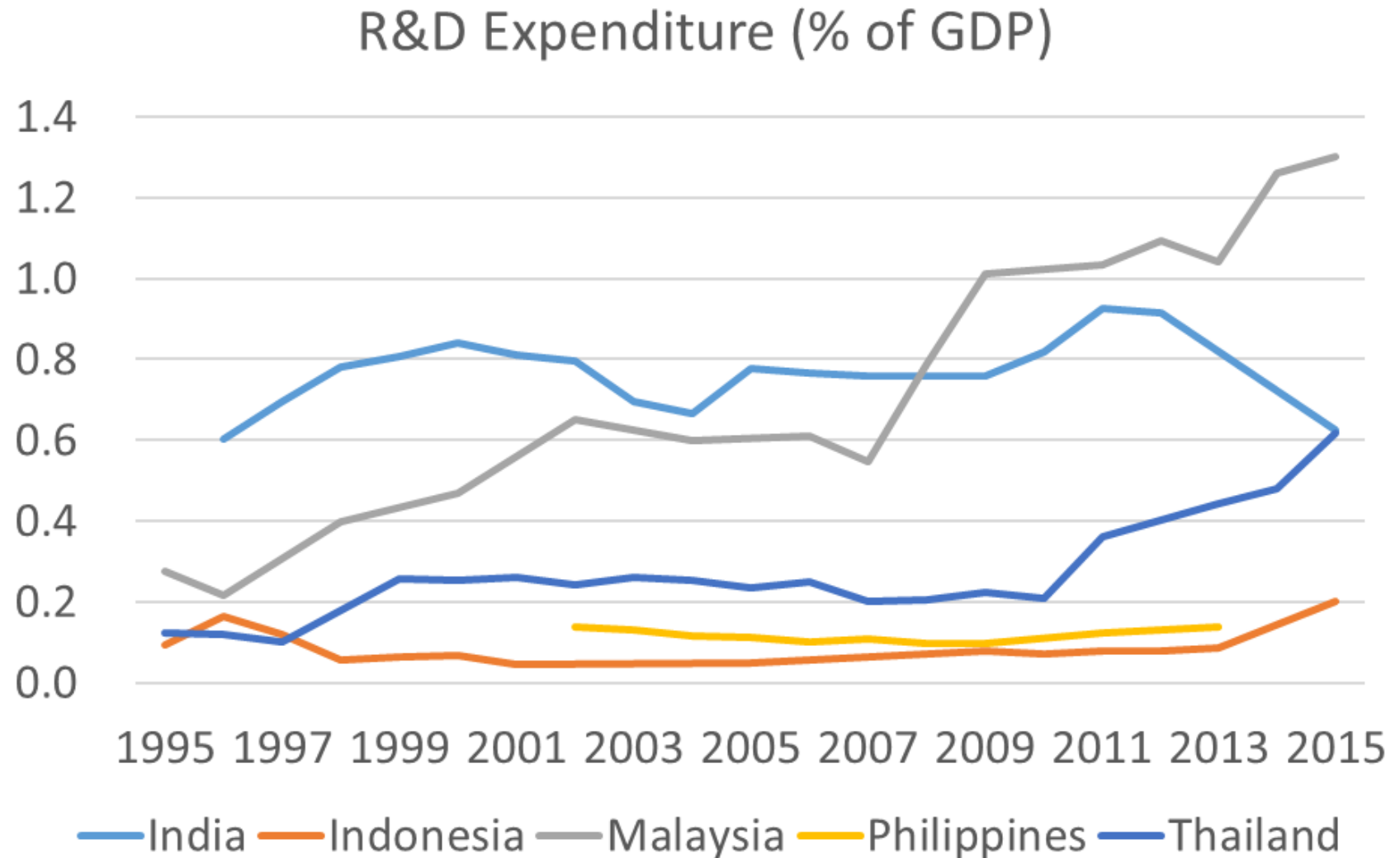
Global supply chains

Kashiwagi, Todo, Matous, 2017, Propagation of shocks due to natural disasters through global supply chains, unpublished manuscript. (Source: LiveData of FactSet Revere)

Future ODA needs to integrate developing countries to the **global knowledge network** for larger mutual benefits.

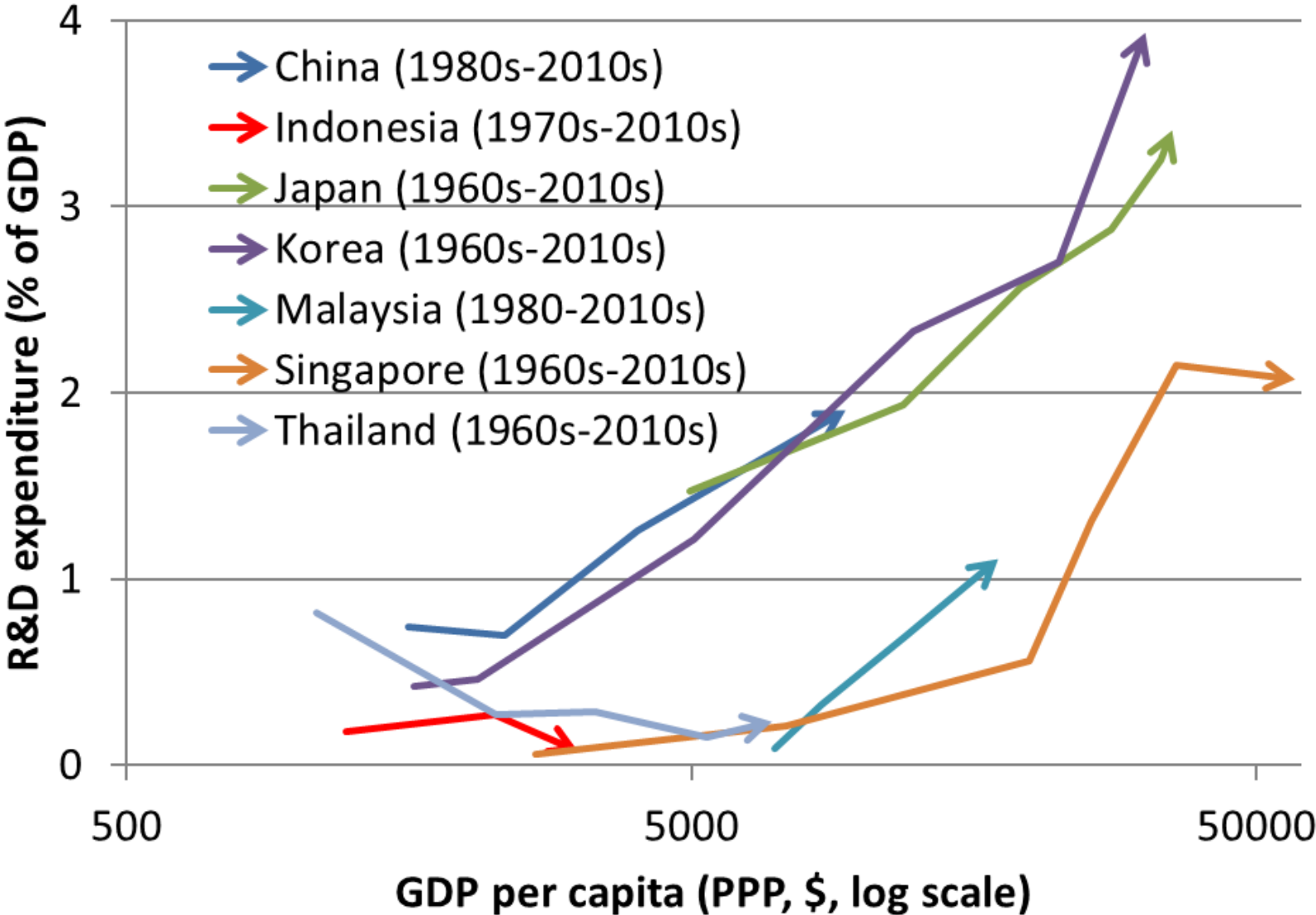


Stagnant R&D Activities in Emerging Economies



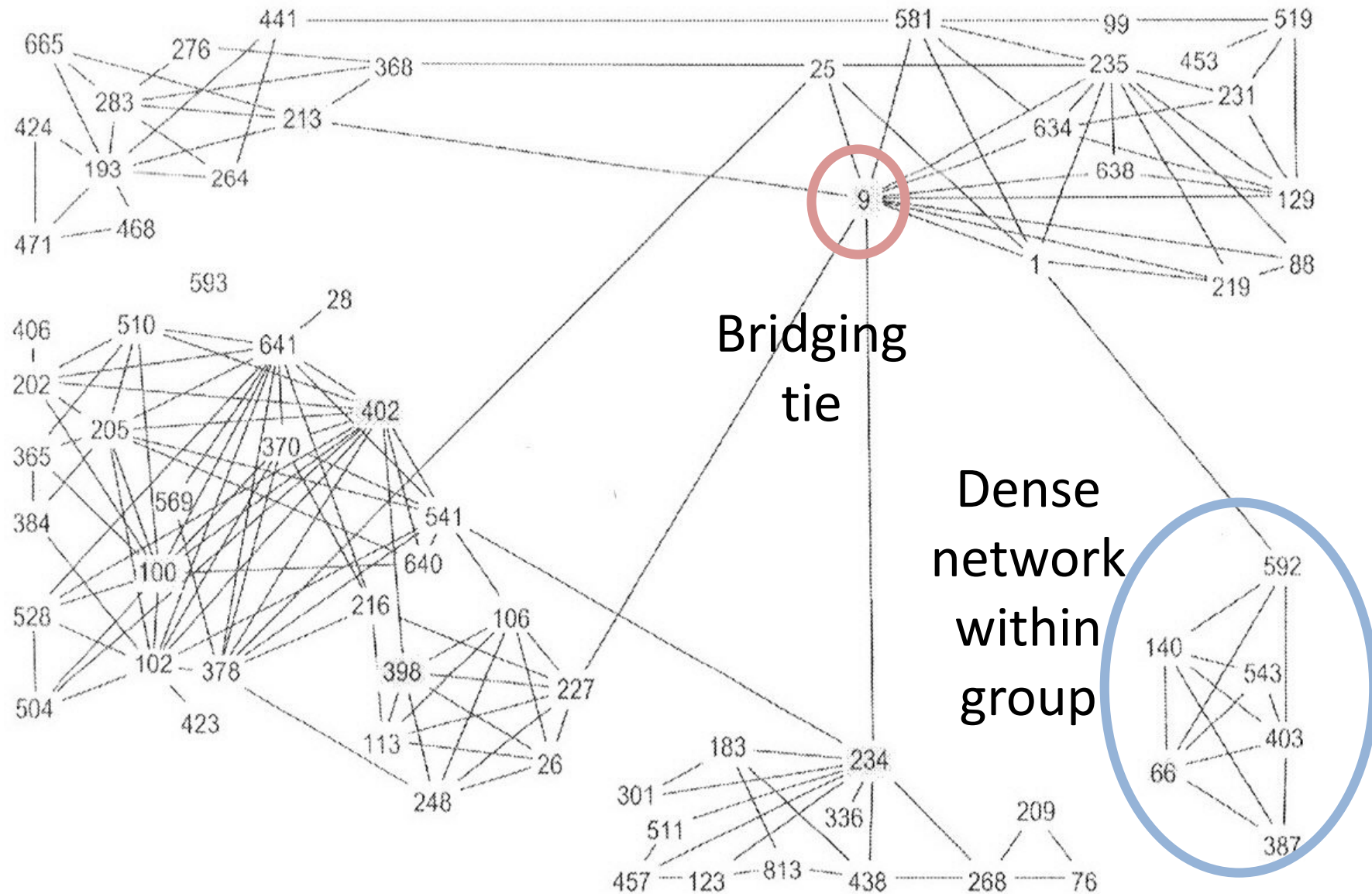
Source: IMD World Competitiveness Online, <https://worldcompetitiveness.imd.org/>

Stagnant R&D Activities in Emerging Economies



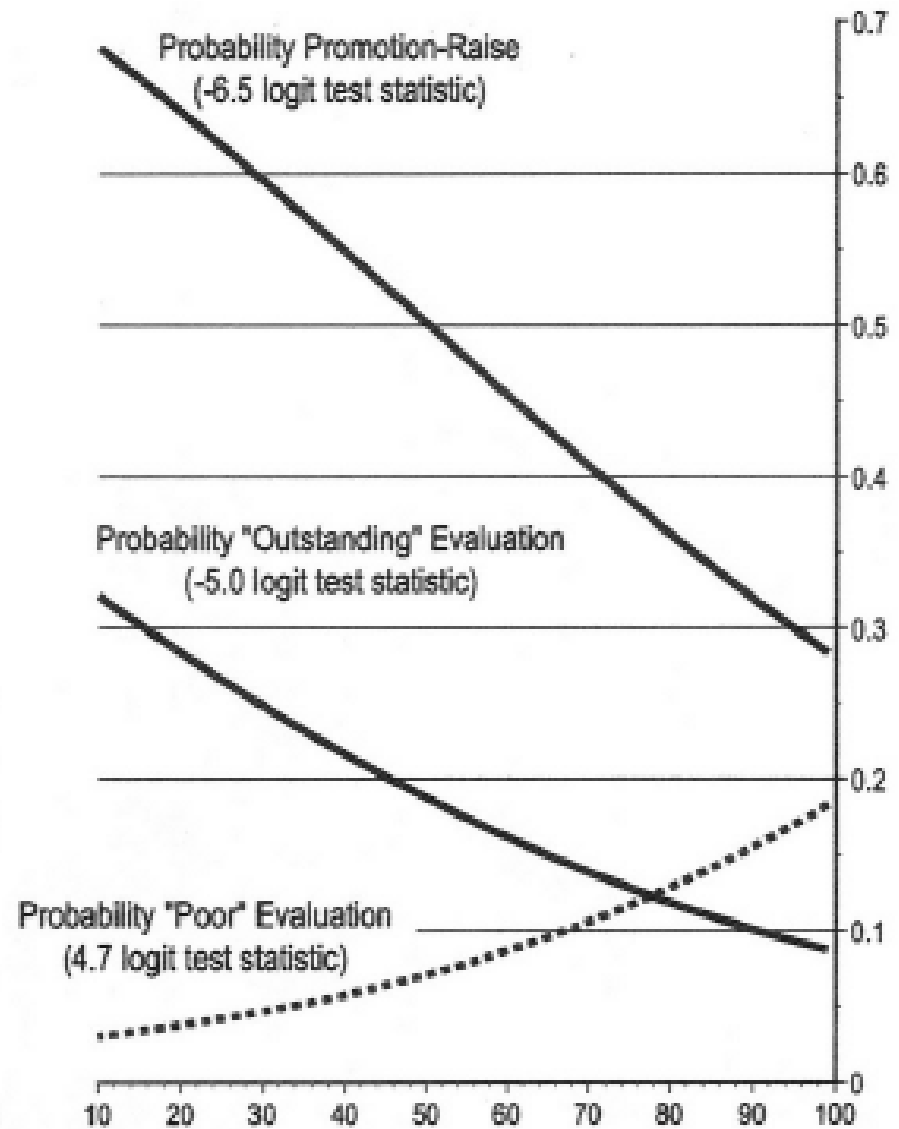
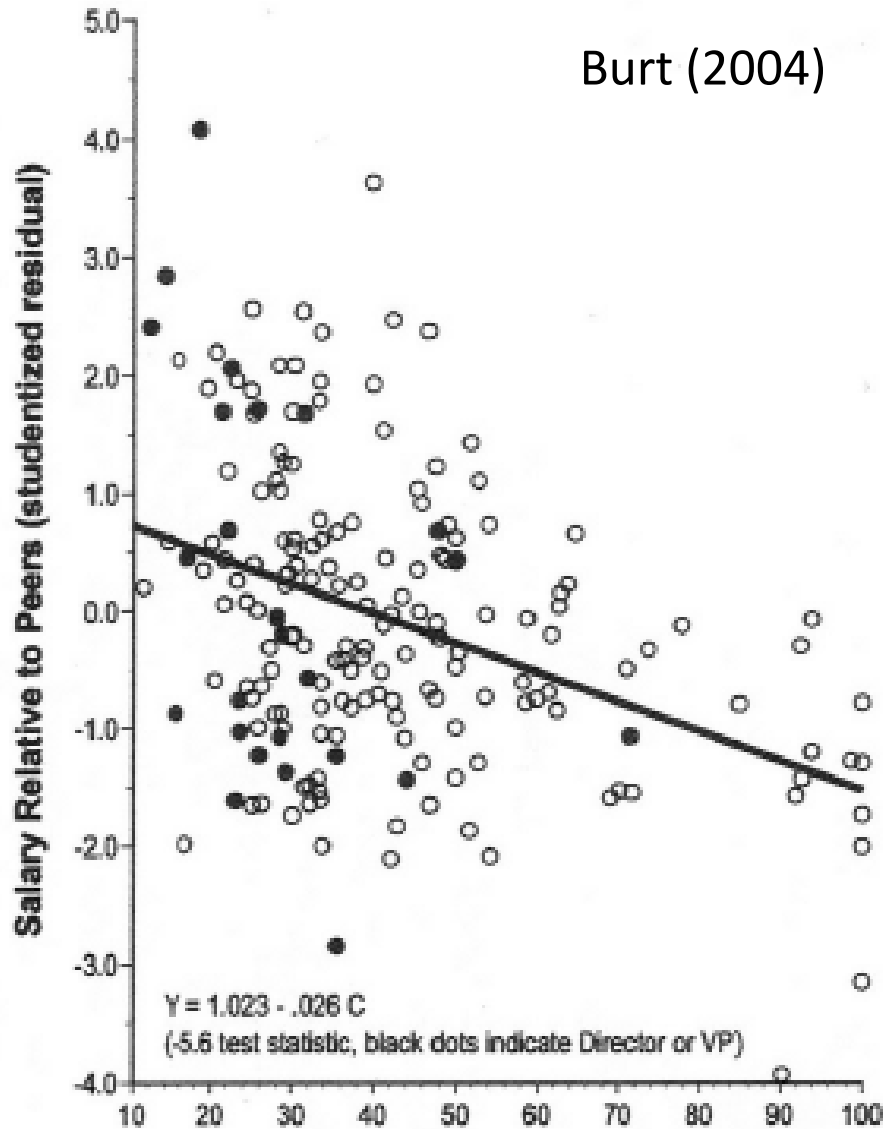
Source: PWT9.0, IMD World Competitiveness Online, <https://worldcompetitiveness.imd.org/>

Network of employees in a company



Network diversity → performance

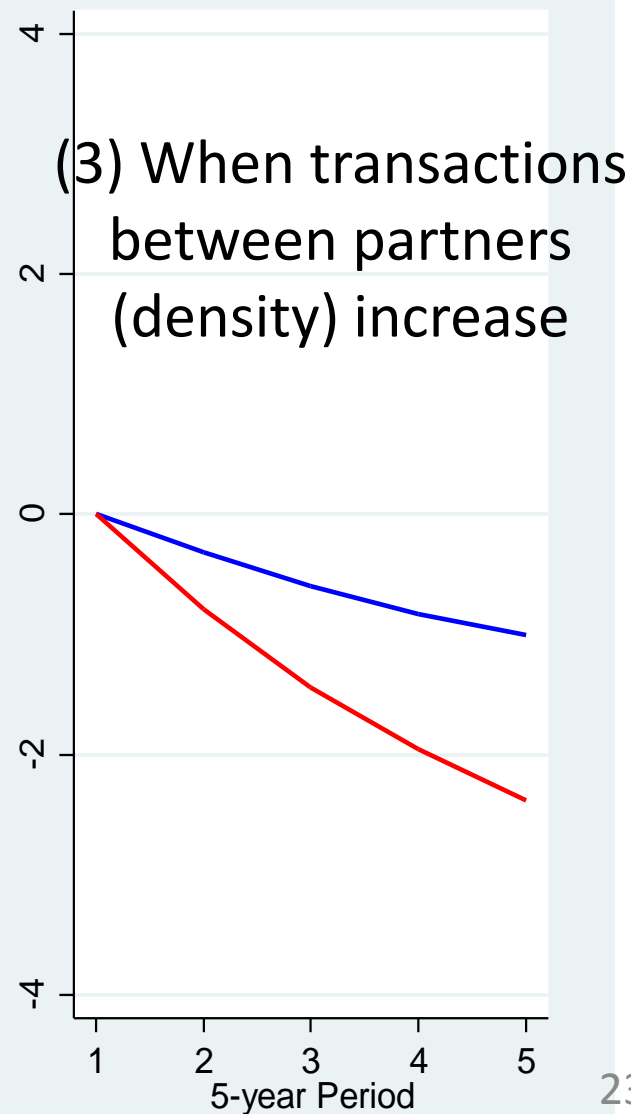
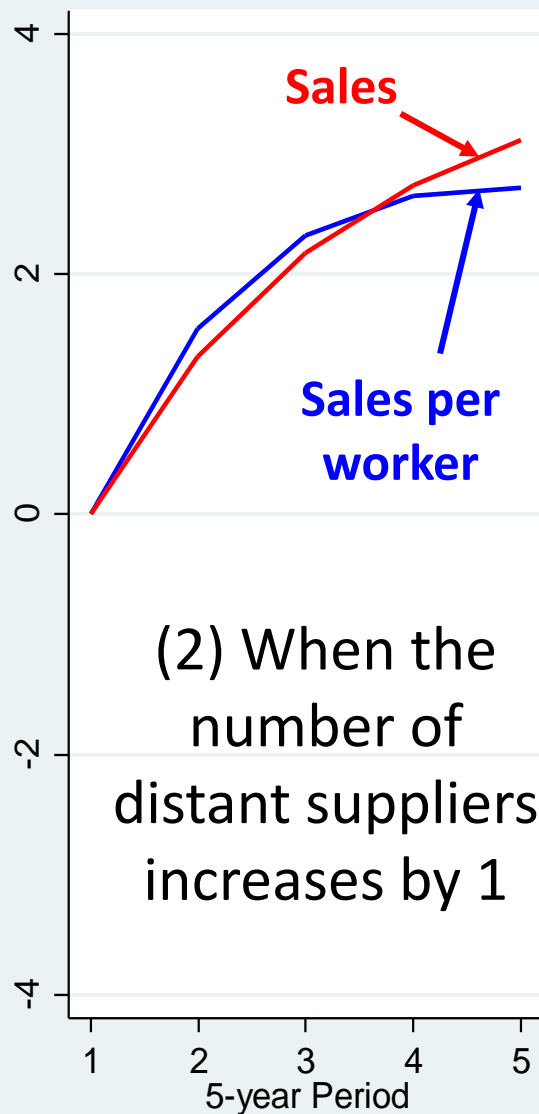
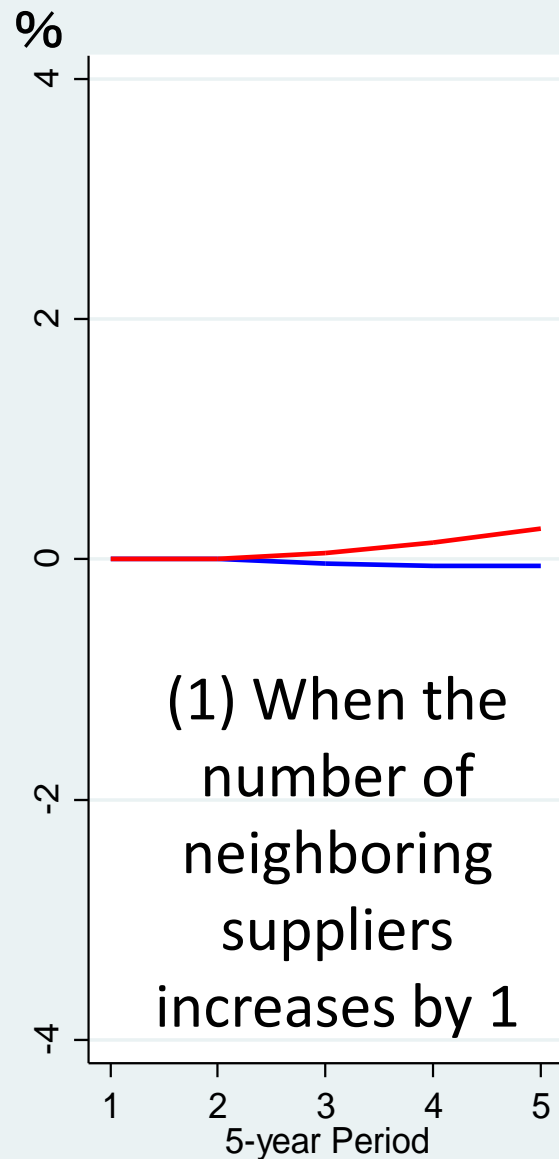
Burt (2004)



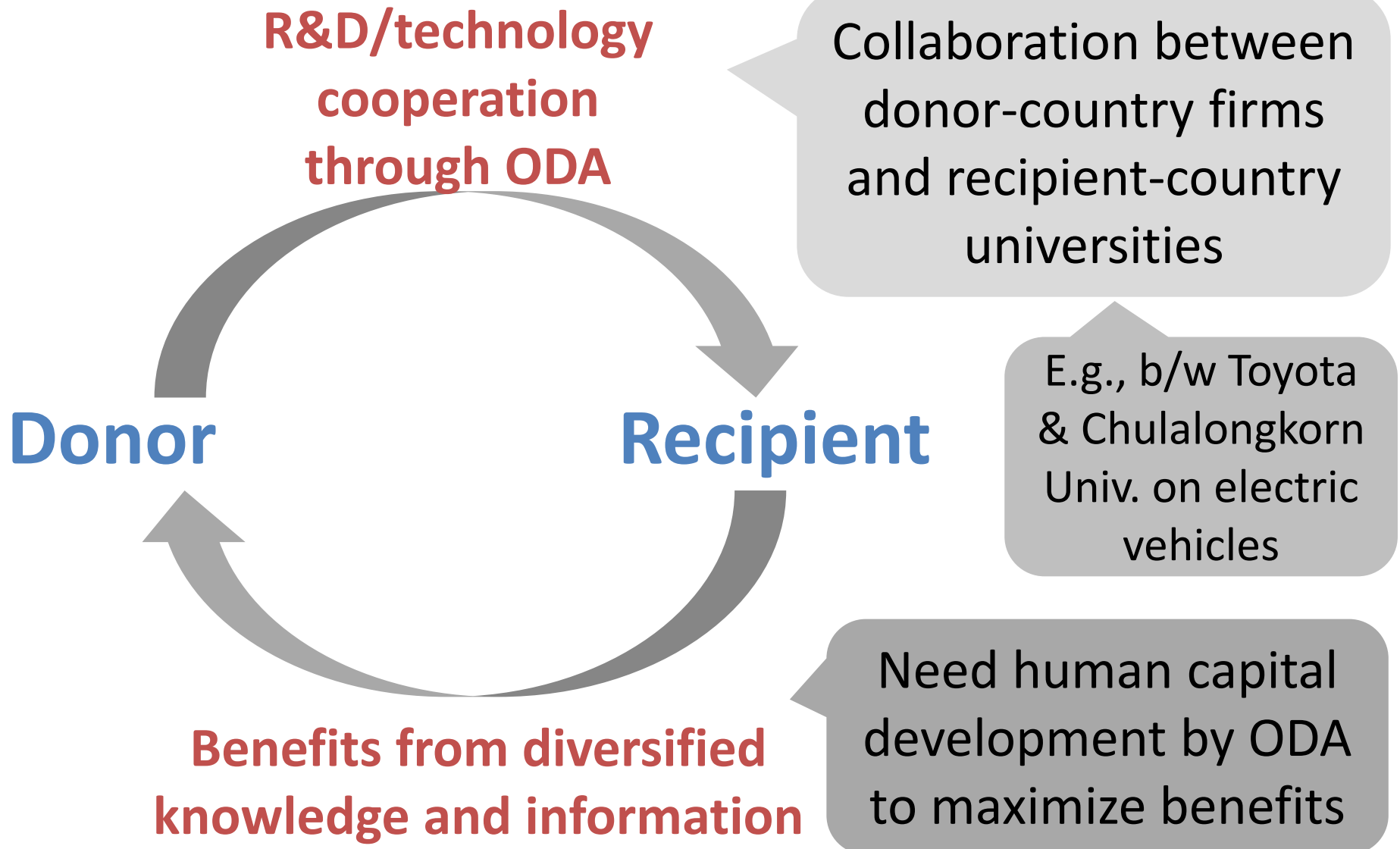
“Constraint” (a measure of diversity of partners; small value → more diverse) 22

Knowledge diffusion through supply chains in Japan

Todo, Y., Matous, P., and Inoue, H., 2016. The strength of long ties and the weakness of strong ties: Knowledge diffusion through supply chain networks. *Research Policy* 45.



Further Win-win Relations



Summary

To promote win-win relations between private firms in donor countries and citizens in recipients, ODA should:

- develop supporting industries to promote FDI
- promote trade between two countries
- finance infrastructure projects
- promote knowledge exchange between the two