THE UNTYING OF JAPANESE AID: NEW OPPORTUNITIES FOR TRADE AND INVESTMENT
The Private Investment and Trade Opportunities (PITO) project seeks to expand and enhance business ties between the U.S. and ASEAN private sectors. PITO is funded by a grant from the United States Agency for International Development (AID) with contributions from the U.S. and ASEAN public and private sectors.

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Manabu Fujimura*

INTRODUCTION

Japan's sudden ascendance as an aid power in the past several years has received considerable attention, especially in contrast to the aid fatigue which has kept the aid levels of other major donor countries relatively stable throughout the 1980s (see Figure 1). The growing interest in Japan's aid by the recipients, other donors, and the Japanese public has forced a major reorientation of the goals of this aid. One of the major criticisms of Japan's Official Development Assistance (ODA) is that it is more commercially oriented than humanitarian-based and is designed to serve the Japanese private sector through large-scale loan aid projects which promote Japanese exports to the recipient countries. Aid projects to develop industrial infrastructure in Asian countries are often seen as a support for Japanese industries to advance into their markets.

In the past several years, however, Japan has been making an effort to change her aid policies to be more in tune with policies of other donor countries. Japanese aid is now expected to play a more significant role in sustaining world peace and prosperity and can no longer be used to support only national

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Figure 1
ODA Performance of Major Donor Countries
(1980-1990)

ODA can be seen as one of the areas in which Japan has been urged to open up, coordinate her actions with other developed nations, and recycle her surpluses to developing nations.

Most importantly for the U.S. private sector, these changes have included the untying of loan aid projects which allows participation of third-country as well as recipient-country contractors. The untying of Japanese aid presents myriad long-run opportunities for foreign firms, and as important recipients of Japanese ODA, the ASEAN nations are countries in which this untying will likely yield significant benefits to U.S. firms.

Information on the aid implementation process is being disclosed to the Japanese and foreign public. Yet, the emerging commercial opportunities available with the untying of Japanese aid have not been well publicized. As retold in a January 8, 1992 Wall Street Journal article quoting Department of Commerce officials, "that Japan's ODA projects are open to bids from non-Japanese contractors is a well-kept secret to U.S. companies."

The main purpose of this paper is to introduce the Japanese development assistance program and describe its changing nature with the goal of identifying possible areas for the participation of foreign firms, particularly firms from the United States. The paper highlights the implementation process of loan projects and the development study program, areas in which the untying of aid is in progress and foreign participation from recipient and third countries is expected.
JAPAN'S ODA PROGRAM

Goals of Japanese ODA

Japan's foreign aid was initially directed to formerly colonized countries such as the Philippines, Myanmar (Burma), Indonesia, and Vietnam in the form of reparations after World War II in the 1950s. The next stage of foreign aid was targeted at Southeast Asia, with its abundance of natural resources. The goal of this second stage of foreign aid as stated in the first Economic Cooperation White Paper published by MITI in 1958 was export promotion (particularly of plants and machinery) and import of raw materials necessary for production. Later ODA was used to provide infrastructure to facilitate Japanese direct foreign investment flows into the region. It was not until the 1980s, with the emergence of Japan's huge trade surpluses and strong economic performance, that Japan's ODA changed from commercial self-service to burden-sharing in international security and recycling of the country's current account surplus.

Size and Composition of Japanese ODA

As is clear from Table 1, Japan has grown to be the second largest aid donor in the world, close behind the United States. However, Japan has the lowest grant share in its ODA composition, implying that its policy differs considerably from other donors. This low grant share is due to the high percentage of concessionary loans in Japanese ODA, which is in part due to the ODA program's focus on East and Southeast Asia, where it is argued that there is less need for outright grants.
### Table 1: Quality of ODA of DAC countries

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<tbody>
<tr>
<td>Norway</td>
<td>1,207</td>
<td>1.17</td>
<td>216.9</td>
<td>99.7</td>
</tr>
<tr>
<td>Netherlands</td>
<td>2,592</td>
<td>0.94</td>
<td>141.0</td>
<td>87.6</td>
</tr>
<tr>
<td>Denmark</td>
<td>1,171</td>
<td>0.93</td>
<td>182.6</td>
<td>98.7</td>
</tr>
<tr>
<td>Sweden</td>
<td>2,012</td>
<td>0.90</td>
<td>213.2</td>
<td>100.0</td>
</tr>
<tr>
<td>Finland</td>
<td>846</td>
<td>0.63</td>
<td>142.3</td>
<td>94.4</td>
</tr>
<tr>
<td>France</td>
<td>6,571</td>
<td>0.55</td>
<td>91.9</td>
<td>73.1</td>
</tr>
<tr>
<td>Belgium</td>
<td>891</td>
<td>0.45</td>
<td>71.0</td>
<td>87.0</td>
</tr>
<tr>
<td>Canada</td>
<td>2,470</td>
<td>0.44</td>
<td>88.4</td>
<td>97.8</td>
</tr>
<tr>
<td>West Germany</td>
<td>6,330</td>
<td>0.42</td>
<td>79.8</td>
<td>68.5</td>
</tr>
<tr>
<td>Australia</td>
<td>955</td>
<td>0.34</td>
<td>60.7</td>
<td>100.0</td>
</tr>
<tr>
<td>Italy</td>
<td>3,395</td>
<td>0.32</td>
<td>62.8</td>
<td>76.9</td>
</tr>
<tr>
<td>Japan</td>
<td>9,069</td>
<td>0.31</td>
<td>72.8</td>
<td>43.2</td>
</tr>
<tr>
<td>Switzerland</td>
<td>750</td>
<td>0.31</td>
<td>83.0</td>
<td>100.0</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>2,467</td>
<td>0.28</td>
<td>45.2</td>
<td>98.1</td>
</tr>
<tr>
<td>Austria</td>
<td>389</td>
<td>0.25</td>
<td>37.1</td>
<td>48.8</td>
</tr>
<tr>
<td>New Zealand</td>
<td>93</td>
<td>0.22</td>
<td>26.1</td>
<td>100.0</td>
</tr>
<tr>
<td>United States</td>
<td>10,166</td>
<td>0.19</td>
<td>30.8</td>
<td>92.6</td>
</tr>
<tr>
<td>Ireland</td>
<td>56</td>
<td>0.16</td>
<td>13.9</td>
<td>100.0</td>
</tr>
<tr>
<td>DAC Total</td>
<td>54,420</td>
<td>0.35</td>
<td>65.2</td>
<td>75.6</td>
</tr>
</tbody>
</table>

**NOTE:** a. DAC refers to Development Assistance Committee countries.

On the other hand, Japan had the highest ratio of untied aid in 1989 (78 percent). This high ratio is due to the fact that while grant recipients are generally required to purchase goods and services only from firms from the donor country, loans tend to be less tied; and Japanese ODA has a large loan element.

In terms of geographical distribution of ODA, Japan has traditionally given priority to Asian countries, based on close

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geographical, economic, historical, and cultural ties (Table 2). Asia accounted for 75 percent of Japan's ODA in 1975, 67.8 percent in 1985, and 59.3 percent in 1990. Some Asian countries like South Korea have graduated from receiving Japanese ODA, and the distribution of Japanese ODA has become more diversified to deal with other parts of the world which continues to suffer from poverty and underdevelopment. Nonetheless, as can be seen in Table 3, the ASEAN-4 countries (Indonesia, the Philippines, Thailand, and Malaysia) are still the top recipients of Japanese ODA.

Administration of ODA

In addition to criticisms regarding the commercial nature of Japanese ODA, Japan's administrative structure has been subject to complaints. The most serious arguments relate to the understaffing of the aid administration offices, a shortage of development economists, understaffing at aid implementation agencies, and a shortage of aid-related officials in overseas diplomatic establishments. Compared with other donor countries, Japan's ODA program has fewer aid administrators who handle a larger amount of aid; ODA per staff in Japan was US$5.6 million in 1989, compared to US$2.2 million for the United States, US$1.8 million for Canada, and US$1.6 million for the United Kingdom.²

It is apparent that improvements in the system and personnel have not kept up with the rapid expansion of ODA

² Ibid, 73.
Table 2  Geographical Distribution of Japan's Bilateral ODA (Net disbursement)

<table>
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<tr>
<td></td>
<td>US$m m</td>
<td>%</td>
<td>US$m</td>
<td>%</td>
</tr>
<tr>
<td>Asia</td>
<td>638</td>
<td>75.0</td>
<td>1,732</td>
<td>67.8</td>
</tr>
<tr>
<td>Northeast Asia</td>
<td>76</td>
<td>8.9</td>
<td>392</td>
<td>15.3</td>
</tr>
<tr>
<td>Southeast Asia</td>
<td>426</td>
<td>50.1</td>
<td>962</td>
<td>37.6</td>
</tr>
<tr>
<td>Southwest Asia</td>
<td>133</td>
<td>15.6</td>
<td>375</td>
<td>14.7</td>
</tr>
<tr>
<td>Unspecified</td>
<td>3</td>
<td>0.4</td>
<td>3</td>
<td>0.1</td>
</tr>
<tr>
<td>Middle East</td>
<td>90</td>
<td>10.6</td>
<td>201</td>
<td>7.9</td>
</tr>
<tr>
<td>Africa</td>
<td>59</td>
<td>6.9</td>
<td>252</td>
<td>9.9</td>
</tr>
<tr>
<td>Central and South America</td>
<td>47</td>
<td>5.6</td>
<td>225</td>
<td>8.8</td>
</tr>
<tr>
<td>Oceania</td>
<td>5</td>
<td>0.6</td>
<td>24</td>
<td>0.9</td>
</tr>
<tr>
<td>Europe</td>
<td>0</td>
<td>0.0</td>
<td>1</td>
<td>0.0</td>
</tr>
<tr>
<td>Other</td>
<td>11</td>
<td>0.3</td>
<td>122</td>
<td>4.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>850</strong></td>
<td><strong>100.0</strong></td>
<td><strong>2,257</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>
expenditure in recent years. To make up for the shortage of personnel, government agencies contract out feasibility studies, implementation, and monitoring work in the field to the private sector. Japanese aid is primarily "request based," i.e., project proposals must be made by the recipient countries for consideration by the Japanese administration. However, where recipient countries lack the ability to identify reasonable projects or programs, project identification is typically conducted by private consultants and trading or engineering firms in hopes of securing a major part of the projects. Thus it is no surprise to find that projects tend to be large-scale and high technology-oriented.

Finally, unlike other major donors who have unified aid organizations such as USAID in the United States, BMZ in West

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3 This practice is common among other donors as well, including the International Bank for Reconstruction and Development and regional development banks.
Germany, and CIDA in Canada, Japan's aid structure is fragmented depending on the type of aid. Moreover, the ODA budget is divided among many ministries and agencies, increasing the complexity of Japan's aid structure.

Approximately 90 percent of the ODA budget is controlled by the Ministry of Foreign Affairs (MOFA) and the Ministry of Finance (MOF). Policies relating to the provision of loan aid (yen credit) are determined on the basis of consultation among four ministries: the MOFA, the MOF, the Ministry of Trade and Industry (MITI), and the Economic Planning Agency (EPA). Grant aid is administered by MOFA in consultation with MOF. MOFA also determines the content of technical cooperation administered by the Japan International Cooperation Agency (JICA) on the basis of consultations with related ministries and agencies.

Although MOFA represents a unified interest of the Japanese government in negotiation with the governments of developing nations, it is often the case that interministerial rivalry and fragmented budget allocation across many ministries and agencies make decision-making difficult and time-consuming. It is more likely, therefore, that only the well-established associations in the private sector (which are discussed later) or insiders who have experience with bureaucrats can keep track of precise and first-hand information on aid decision-making. Nonetheless, it is essential for new entrants to study the basic bureaucratic structure in Japanese foreign aid to understand the decision-making process of ODA.
Ministry of International Trade and Industry (MITI). MITI has the most extensive power in almost all of the industrial sectors in Japan, and the most elaborate and comprehensive network of former officials in the private sector. Though MITI’s ODA budget is relatively small, its influence on ODA policy in the four-ministry system can be powerful.

Traditionally, MITI prefers aid projects in Asia, particularly large-scale projects that will serve Japanese industries through market expansion rather than basic human needs. Projects related to development of natural resources in Asia and the Middle East are also MITI’s priority areas.4

MITI’s recent aid initiative is the New Asian Industries Development Plan (New AID Plan) announced in 1987. Contrary to the conventional market-seeking aid projects in the past, the Plan aims at promoting export of manufactured products from the Asian countries. This can be seen as an attempt to reinforce economic relations with the countries in the fast-growing region while trying to restructure the Japanese domestic economy to be less dependent on exports.

Ministry of Foreign Affairs (MOFA). MOFA acts as Japan’s official window to ODA recipients. Any aid request must go through MOFA either at home or abroad. MOFA also articulates Japan’s policy for ODA through its publications such as Japan’s ODA (also known as the ODA White Paper). Naturally, MOFA’s position is most sensitive to international expectations.

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Despite its extensive authority over ODA, MOFA seriously lacks implementation, evaluation, and research staff at home and abroad, even with the help of JICA. Unlike MITI, MOFA does not have a wide private sector network that acts to bring information and make MOFA aware of the potential needs of recipient countries. Instead, the Ministry relies on grassroots nongovernmental organizations (NGOs) for information on the needs pertinent to identification and aid implementation. Ways to establish the NGOs' network and better support their activities are currently being sought.

**Economic Planning Agency (EPA).** The EPA is a relatively young ministry and acts as a coordinator among economic ministries. The Coordination Bureau of EPA acts as the coordinator in the four-ministry system. Though EPA has a budget of yen loans which goes to OECF for loan implementation, the amount of the budget and the corresponding influence seems limited.

**Overseas Economic Cooperation Fund (OECF).** The OECF was established in 1961 as an implementing agency of yen loans. In 1966, OECF provided its first government-to-government loan to South Korea, setting the precedent for subsequent yen loans to Asian countries.

The MOF has considerable power over the OECF and the presidency of the Fund is usually occupied by an MOF transfer. The MOF attempts to impose the same concepts of financial accountability on OECF as it does on the Export-Import Bank.\(^5\)

\(^5\) Ibid, 47.
However, due to the difficulties of repayment by heavily indebted recipients, the budget deficit of the Fiscal Investment and Loan Program (FILP) of the OECF is expanding.\textsuperscript{6} With the limited number of overseas representatives and because of the request-basis principle, the OECF cannot directly be involved in project finding; it only assists recipients in doing so. Naturally, project finding tends to be monopolized by private sector entities such as general trading firms (with their advantage in having established connections and information in recipient countries) and consulting firms (with their advantage in technical appraisal of projects).

\textit{Japan International Cooperation Agency (JICA)}. JICA was created in 1974 as the sole executing agency of government-sponsored technical cooperation. Its function ranges from the provision of grant aid to the training of foreign technicians in Japan, the dispatch of Japanese technical experts to developing countries, infrastructural development study, the administration of the Japan Overseas Cooperation Volunteers (Japanese version of the Peace Corp), and promotion of emigration of technicians.

Roughly speaking, JICA implements grant aid (not all of it), whereas OECF implements loan aid (all of it). Most of the grant aid is under a tied basis whereas most of the loan aid is untied.

\textsuperscript{6} The FILP is the so-called second budget of the OECF and is financed from the Fund's General Account (MOFA, \textit{Wakakuni no Selfu Kaihatsu Enjo}, 161).
THE ROLE OF THE PRIVATE SECTOR

As mentioned above, the request-basis principle and lack of aid implementation staff abroad together enable Japanese private businesses to engage actively in project finding. Field survey missions dispatched by the government agencies may often be dependent on information provided by private agents stationed in the recipient countries.

As Japan's ODA gradually opens up to foreign participation, it is expected that joint management of Japanese aid projects with foreign agents from other donor countries as well as recipient countries will become more frequent. The move in this direction should be conducive to better international recognition of Japanese aid and its sound implementation.

Since the private sector can be a quick window through which to grasp the Japanese aid administration system and a channel for foreign participants, important actors are reviewed below.

Development Consultants

The consulting industry in Japan has a short history as it only began after World War II. Hence, the idea of contracting out engineering consultation to private firms is rather new.

Because of this short history, Japanese consultants are generally specialized in engineering and are weak in information collection, public relations, socioeconomic analysis, and overall project management. In domestic development projects, the government traditionally does the planning and leaves only the
hardware portion to the consultants. This practice has made the firms weak in terms of their overall planning skills. This situation applies to foreign aid projects as well. Whereas Western development projects are managed by professional consultants from planning to supervision, Japanese-style projects are managed by the government and contractors, leaving consultants to work on only the engineering portion.

Consulting firms can play a major role in project identification and formation. However, given their small scale and the lack of funds and overseas staff, they cannot do this alone. The consulting firms tend to cooperate with trading firms and their large mother companies, or depend on financial assistance of various associations. With a few exceptions like Nippon Koei and Pacific Consultants International, these consulting firms depend on trading firms for information on development needs.

With the recent trend of ODA untying and increase in program-type aid, Japanese consultants are pressured to further develop their software ability and to compete and cooperate with Western consultants to survive.

Aid-Related Associations (Enjo Kanren Dantai)

Since the start of Japan's foreign aid in the 1950s, the Japanese government has supported and nurtured Japan's yet immature consulting industry. Appendices I and II give the names, fields of specialization, and contact points for the major aid-related associations in Japan. These associations stand between the private consulting firms and the government min-
istries, and function as an information center and mediator between ministerial interests and member firms' interests (see Figure 2).

Figure 2

Aid-related associations are supervised by their ministries in return for subsidies or contracts such as project identification missions and participation in JICA missions. These associations may send project finding missions by themselves or contract the mission out to their member firms.

Because of the close relationship with their supervising ministries, project formation may well be influenced by the interests of the ministry and may, in turn, influence the project selection by recipient governments. The typical composition of the staff in these associations would be dispatchers from member firms, career staff within the associations, and former staff from the government.

One inroad for foreign participation in Japan's ODA may be to become a member of one of these associations or to contact
them for information. These associations may become efficient coordinators if offers of cooperation from foreign firms are in fact in the interest of the member firms.

**Sogoshosha [General trading firms]**

Twelve major trading firms maintain a total of about 6,400 Japanese overseas staff, of which about one-half are stationed in developing countries. In contrast, overseas staff that are dispatched from aid-implementing agencies (i.e., MOFA, OECF, and JICA) together amount to only 1,415 individuals. Trading firms address the needs of both commercial and noncommercial projects on a daily basis and have close contacts with the public and private sectors in developing countries, whereas official implementing agencies are working under the request-basis principle and are seriously understaffed. Hence, trading firms play a major role in project identification. Their activities are based on a global network of information and competition in finding and bidding for projects.

Advantages of **sogoshosha** in project formation are their financing, coordinating, and bidding capabilities. When a project is identified, they consider whether it can be financed by the Ex-Im Bank, the OECF, or commercial banks. Using their network at home and abroad, they find the best mix of fund sources. When a project is a large-scale infrastructural development pro-

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ject, an international consortium may be formed. During the visit of Japanese official missions, trading firms may give detailed information to consultants and government officials. Cooperating with consultants, they may give advice to recipient governments for preparing aid requests. And finally, at the time of international tender for procurement, they may prepare competitive offers based on up-to-date information using their global network.

While the main purpose of trading firms has been to obtain project contracts, the recent shift in the bidding process towards untangling has increased the cost of project findings for trading firms. Advance investment in project generation may not necessarily lead to successful bidding; ODA is no longer considered by trading firms to be a source of sure-fire business opportunities. However, ODA will not be eliminated from the business lines of these trading firms; rather the costs and benefits are increasingly seen as a part of regular commercial operations.

To reduce the cost of project findings, these trading firms are now willing to collaborate with local and Western firms to share the associated costs. This tendency is eminent in Asia, for which a large part of aid takes the form of a general untied loan. For example, Western technologies in energy development, transport systems, and telecommunications have a relative advantage over Japanese technology and may be well-suited to a cooperative relationship. Environmental protection

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technology is another area in which the Japanese would be interested.

PROJECT CYCLE OF YEN LOAN

As noted above, all loans are administered by the OECF. The loans are first categorized into two major types: project-type loans and program-type loans. The major part of bilateral loans are project loans, which are discussed in this section.

Project Identification

Identifying a project that will meet key development needs is the first step in generating an ODA project. Because of the request-basis principle and the shortage of aid staff, implementation agencies like the OECF cannot directly conduct identification. A project proposal may originate from the borrower government, a bilateral or multilateral aid agency, a private sector agency (Japanese or foreign), etc. Where the borrower government is not capable of formulating its development policy or identifying projects, Japanese private sector agents frequently assist the government in project identification using their business networks abroad. Neither the Japanese government nor the borrower government can possibly match the speed and coverage of project identification of, for example, the Japanese sogoshosha. Daily searches by the sogoshosha for commercial projects may well turn into potential aid projects.
**Project Formation**

Formation, or a feasibility study, is the next step and involves more detailed examination of the project’s economic, financial, and technical feasibility. In addition, in response to the heightening international concern about the environmental impact of aid projects, the OECF formulated its general guideline on environmental consideration in 1991. The feasibility study is an important step for passing OECF’s appraisal later on.

Actors involved in this feasibility study can be JICA, aid implementation agencies in the borrower country, multilateral organizations,\(^9\) other bilateral aid agencies,\(^10\) and private sector agents.\(^11\)

**Loan Request**

The borrower government formally requests the Japanese government for an OECF loan through the Japanese embassy in the borrower country. The most important document to accompany the request is the feasibility study (F/S).

The implementation program (I/P) for the project is usually used as a supporting document. The I/P will contain: (1) a priority of the project, (2) financial and budgetary plans for covering

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\(^9\) Feasibility studies conducted by the World Bank, the Asian Development Bank, UNDP, UNIDO, etc., may lead to yen-loan projects or joint-finance projects with these agencies.

\(^10\) Even surveys by USAID may be considered as a basis for yen loans depending on the borrower country's development needs and plan.

\(^11\) Experienced trading firms or consulting firms can provide important assistance to the borrower in conducting feasibility studies and preparing necessary documents to be submitted to the Japanese government and the OECF.
the cost in addition to the OECF loan, and (3) details of the items that should be financed by OECF.

The borrower country prepares either a "long list," which arranges many projects in order of priority, or a "short list," which focuses on a few important projects to be financed, depending on the capability of adjusting differing interests within the borrower government.

Examination of the Project

The project request is examined first by the Project Committee formed in OECF. Points to be checked are: whether the F/S and I/P provide an adequate basis for a decision, whether other financial institutions or aid organizations have already financed the project, whether the project is to be financed by the Ex-Im Bank instead of the OECF, and whether the recipient country has a specified loan quota for the fiscal year.\(^\text{12}\) The result of this initial examination will be reported in the study group formed by the four ministries and the OECF.

Dispatch of the Japanese Government Mission

Next, the Japanese government will dispatch a mission to consult with the borrower government. The OECF participates as an observer in these meetings. Unlike U.S. ODA, this need

\(^{12}\) Among yen-loan recipients are those the Japanese government set to be annual recipients. These countries include China, Indonesia, Thailand, the Philippines, Malaysia, India, Pakistan, Bangladesh, Sri Lanka, and Egypt. Note that this list reflects the continued importance of Asia.
for the government mission and the OECF mission reflects the Tokyo-centered decision-making of Japanese aid.

*Dispatch of the OECF Appraisal Mission*

Prior to the decision of the yen loan and exchange of notes (E/N), the OECF dispatches a mission to analyze the viability of the project.13

*Japanese Government Consultation and Decision-making*

The OECF mission returns and reports the results to the four ministries and once more the agencies consult with each other. When the provision of the yen loan is decided, the amount of the loan, the interest rate, the payment term, tying status, etc., are discussed.

*Exchange of Notes (E/N) and the Loan Agreement (L/A)*

Following the decision, the Japanese government announces the provision to the recipient government through an international conference or a Japanese embassy overseas. Then the two governments enter into negotiations on the key terms and conditions of the loan. When an agreement is reached, the two governments sign and exchange official notes

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13 Points to be examined are: (1) necessity and priority of the project, consistency with economic policy, socioeconomic effects of the project; (2) technical viability; (3) financial viability; (4) implementation program; (5) ability of the implementing agency of the borrower country; (6) necessity of consultant and terms of reference; and (7) problems involved in the supervision and maintenance of the project.
to confirm the agreement. Subsequently the OECF and the recipient government sign the Loan Agreement.

Employment of Consultants

At this point, the project enters the construction stage. After the loan agreement, the implementor of the project is basically the recipient country. But employment of consultants and engineers and contract bidding requires confirmation from the OECF.

In most cases, for the engineering portion of the project, consultants will be employed through international competitive tender. The employed consultant will review the F/S, draw up the details of design (D/D), and prepare the documents for procurement tender (see Box 1).

The criticism from abroad, particularly from other donor nations, is directed at the employment of consultants under a LCD untied basis which excludes third-country consultants. If Japanese consultants are employed for yen-loan projects, they often draw up specifications that only Japanese contractors can meet.

But this situation is changing rapidly. Because of the yen appreciation, Japanese consultancy does not always guarantee procurement from Japan. Moreover, consultants for the con-

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14 Tenders are held in accordance with OECF’s Guidelines for the Employment of Consultants by OECF Borrowers.

15 On average, 5 percent of the total loan amount is used to employ a consultant as an implementing agent for the borrower (Engineering Consulting Firms Association, Keizai Kyoryoku Enjo ni Okeru Kigyo to Kokka ni Arikata [Roles of firms and nations in economic cooperation], Tokyo: ECFA, 1990).
Box 1: The Process of Tender

The process of the tender for deciding the consultant is as follows:

1. The recipient government (agency) makes a list of several consultants who meet the required terms of reference.

2. The OECF confirms the list. When the OECF finds that the list does not include capable consultants, it provides information on additional consultants upon request from the recipient. * 

3. The recipient agency sends the listed consultants' requests for submission of the project proposal within 45–60 days.

4. The proposals are evaluated on their content, ability of managers and staff, past experiences, etc. OECF's guidelines emphasize technical advantage of the consultants more than price competitiveness

*As more tenders come under a general untied basis, the OECF will need information on consultants from other developed countries. Unlike JICA, the OECF does not have a formal registration system of consultants, but stores information through its questionnaire which is conducted every other year (Engineering Consulting Firms Association, Development Consultant, Tokyo: International Development Journal, 1988). Foreign entrants are advised to file contact addresses with the OECF.

The construction industry in ASEAN, for example, have attained a high level of expertise through experience with Japanese aid projects, and some can now compete and cooperate with Japanese consultants.

According to the OECF, the Japanese government is also relaxing the consultant tying condition, country by country,
toward a general untied basis. The trend for each country can be seen in OECF's annual reports.  

Procurement and Disbursement

Following a public announcement in newspapers of the recipient country, procurement of goods and services needed for the project's construction is conducted through international competitive bidding. Disbursement of loan funds is made as a project progresses in response to requests for disbursement by the borrower.

The tying status of procurement has been dramatically improved in favor of non-Japanese contractors (Table 4). Today, virtually no procurement is tied, and more than 80 percent of all procurement is tendered under a general untied basis.

When procurement performance of untied yen loans is examined by country (Table 5), an increase in the LDC's share and a steep decrease in the Japanese share are noticeable, mainly due to the rising cost of procurement from Japan. The share of other OECD members has been increasing as well.

---

16 For example for FY 1989, yen-loan projects in China and Korea were mostly general untied including the consulting portion. For ASEAN (not including Singapore and Brunei), out of 39 loan projects agreed upon for FY 1989, 18 were general untied for both the consultancy portion and the main contract.

17 Procurement is to be carried out in line with the OECF's Guidelines for Procurement under OECF Loans. The OECF reviews the procurement procedure, such as prequalification and tender documents, as specified in the L/A from the viewpoint of economy and efficiency.
Table 4  ODA Loans By Tying Status (E/N basis)

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>General Untied</th>
<th>LDC Untied</th>
</tr>
</thead>
<tbody>
<tr>
<td>1987</td>
<td>6,975</td>
<td>4,299</td>
<td>2,563</td>
</tr>
<tr>
<td>Amount (¥100m)</td>
<td>100.0</td>
<td>61.6</td>
<td>36.7</td>
</tr>
<tr>
<td>Share (%)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1988</td>
<td>10,611</td>
<td>8,212</td>
<td>2,399</td>
</tr>
<tr>
<td>Amount (¥100m)</td>
<td>100.0</td>
<td>77.4</td>
<td>22.6</td>
</tr>
<tr>
<td>Share (%)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1989</td>
<td>9,827</td>
<td>7,911</td>
<td>1,916</td>
</tr>
<tr>
<td>Amount (¥100m)</td>
<td>100.0</td>
<td>80.5</td>
<td>19.5</td>
</tr>
<tr>
<td>Share (%)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1990</td>
<td>10,030</td>
<td>8,467</td>
<td>1,564</td>
</tr>
<tr>
<td>Amount (¥100m)</td>
<td>100.0</td>
<td>84.4</td>
<td>15.6</td>
</tr>
<tr>
<td>Share (%)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 5 Procurement Share by Nationalities Under General Untied Yen Loan (% in value)

<table>
<thead>
<tr>
<th></th>
<th>FY 84</th>
<th>FY 85</th>
<th>FY 86</th>
<th>FY 87</th>
<th>FY 88</th>
<th>FY 89</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>66</td>
<td>52</td>
<td>48</td>
<td>38</td>
<td>28</td>
<td>25</td>
</tr>
<tr>
<td>United States</td>
<td>3</td>
<td>4</td>
<td>3</td>
<td>4</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>Other OECD</td>
<td>7</td>
<td>11</td>
<td>14</td>
<td>12</td>
<td>17</td>
<td>20</td>
</tr>
<tr>
<td>LDC</td>
<td>22</td>
<td>28</td>
<td>32</td>
<td>40</td>
<td>45</td>
<td>48</td>
</tr>
<tr>
<td>Local costs</td>
<td>2</td>
<td>5</td>
<td>3</td>
<td>6</td>
<td>5</td>
<td>0</td>
</tr>
</tbody>
</table>

Nevertheless contracts for the consulting portion still seem to be dominated by Japanese or recipient consulting firms in the immediate past. According to the list of successful bidders in OECF’s FY89 and FY90 annual reports, out of 56 yen-loan projects tendered in Indonesia, Malaysia, Thailand, and the Philippines, 46 consulting contracts were given to Japanese consultants, 19 contracts went to recipient consultants, and no contracts went to other OECD members. For the main construction part, however, 35 contracts went to Japanese firms, 26 contracts to host-country firms, and 10 contracts to third
countries (2 to South Korea, 2 to France, 2 to the Netherlands, and one each to the United Kingdom, Sweden, Italy, and Brazil).

POSSIBLE AREAS FOR FOREIGN PARTICIPATION

As is clear from the project cycle described above, an individual project follows a long process from identification to evaluation. The whole cycle may take 3–5 years or longer, depending on the recipient’s situation such as its debt burden and policy changes.

Although it is still difficult for foreign agents to enter into consulting and engineering contracts, the trend is toward relaxation of tying status. For the time being, collaborating with experienced Japanese consultants in ODA may bear fruit. Foreign consultants may participate and learn the aid system by subcontracting from Japanese consultants. In general, Japanese consultants are strong in engineering but are less so in general management and economic evaluation of projects. They are strong in designing hardware such as dams and bridges but less so in software. Thus, there are some areas in which foreign consultants can form partnerships with their Japanese counterparts.

LDC consultants such as those in ASEAN, who are gaining experiences through partnerships with Japanese firms, will expand their capabilities in executing aid projects. The consultants in these developing countries can also be a source of subcontracts or joint projects for new foreign entrants.
Regarding procurement for yen-loan projects, some third-country contractors have already been successful in tenders. Some OECD contractors, as well as contractors from Taiwan and Korea, have taken advantage of their price competitiveness against Japanese contractors which suffer from yen appreciation. Where specification by consultants is met, there is a good chance that a firm will win the project bid (see the case studies in Appendix III).

Unlike the loan aid that has been discussed so far, Japan's bilateral grant-based aid (consisting of grant aid and technical cooperation) is mostly tied. One of the exceptions is the Development Study Program administered by JICA. The purpose of this Program is to improve the survey and planning skills of the recipient country government. The budget allotted for development surveys each year is 1.5–2.5 percent of the total ODA budget. JICA concludes about 500 contracts with consulting firms annually and more than 60 percent of the studies are conducted in Asian countries. Among the different types of studies, feasibility studies account for the majority.

In April 1987, a new system was set up to enable non-Japanese to participate in consultant teams employed by JICA. Though foreign firms cannot register, individual consultants can join in survey teams, as Japanese consulting firms, in submitting their proposals, may include non-Japanese individuals in their teams under certain conditions. The maximum percentage of foreign participation (in terms of person/month) is currently set at 25 percent but will likely be raised to 50 percent some time
soon. This flexible measure is partly a response to increasing demands by Japanese consulting firms for foreign nationals as complementary manpower and a response to external pressure.

Participants may be either (1) non-Japanese staff duly employed by the registered Japanese consulting firm with proper status of residence granted under the Immigration Control Act, or (2) foreign individuals employed provisionally on a project contract basis by nominated Japanese consulting firms. The non-Japanese individuals may be independent consultants or staff members of foreign consulting firms with which the Japanese consulting firms have business arrangements.

As of June 1991, there have been 67 actual cases (about one-third of the total number of conducted development studies) of foreign participation in which 92 non-Japanese of various nationalities joined the survey teams. Of these 92, 25 were from the recipient countries and the remaining 67 were from third-party countries.

The main purposes of the joint survey for Japanese firms are to accumulate experience and information which non-Japanese consultants have, and to make up for the team members they are not able to find in due time. According to JICA’s findings, about 70 percent of the Japanese firms who used non-Japanese consultants intend to expand the opportunities of joint survey.

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18 Information obtained from an interview with a JICA official.

SUMMARY

Japan's persistent current account surplus and pressures to take corrective measures have led to a fundamental policy shift to domestic demand-led economic growth. Economic structural adjustment in this direction is now a priority in Japan's policies and the government is making an effort to mobilize industries away from an export-oriented bias. The New AID Plan initiated by MITI is a good example of the government's effort in this direction.

While Japan tries to reduce her surplus with market liberalization efforts and voluntary export restraints, ODA as well as private direct investment abroad will also play an important role in recycling the surplus to the rest of the world. In addition, ODA can be used as part of its burden-sharing responsibilities in the region.

As this paper shows, the Japanese aid system inherently requires involvement of the private sector and, in turn, allows room for foreign participation. As the aid process becomes untied, foreign private agents will have a greater chance for participation in an expanding area of opportunity. Using their resources and expertise, foreign firms can compete and cooperate with the Japanese private sector and make better use of Japan's ODA. This would lead to sound implementation of Japanese aid and would benefit the recipient countries as well. Future prospects and suggestions for foreign participation in Japan's ODA are:
1. Aid-related ministries and agencies are under pressure to disclose information. "Internationalization" is the catch word in virtually all sectors in Japan. Foreign entrants are advised to visit the related agencies and organizations in Tokyo. Information will also be available at overseas branches of agencies such as OECF, JICA, and JETRO.

2. Loan aid by OECF is being untied. Also, though grant aid is basically tied, consulting services for JICA's development studies program is a possible area of foreign participation. Foreign entrants are advised to keep abreast of the news of agreed loan projects (through major English newspapers, Japanese embassies, OECF branches, etc.) and check with the OECF as to whether each project will be general untied or LDC untied for the consulting service portion. If the consulting portion is general untied, third-country agents may consider participation in the tender depending on the prospect of winning. If the project is not general untied, collaboration with Japanese trading firms and consulting firms which have been involved in project identification may be considered. To participate in JICA's study program, it is important for foreign consultants to obtain information and approach Japanese consultants by appealing to the consultants' own sales points. With the overall untying trend, Japanese firms are also under pressure to compete and cooperate, and would thus be more open to cooperation.

3. Japan's fragmented aid administration will not be streamlined in the immediate future. (The government's official position is that establishment of a new unified aid ministry will further
complicate the current four-ministry system.) Foreign entrants must take the time to learn the basic decision-making process. Ways to be an insider include recruiting an experienced Japanese, becoming a member of an aid-related association, or having business arrangements with Japanese consulting or trading firms.

4. *ODA alone will not pay for the cost of entry.* Aid projects (yen loan) will take several years in materializing. Foreign entrants, if intending to engage in the whole process, must bear the cost of project formation. Going it alone would be difficult. In addition, becoming an insider or establishing a partnership with a Japanese firm will take time and cost a considerable amount of money. Foreign entrants are advised to begin with other commercial activities such as trading and consulting services. Like Japanese sogoshosha, consideration of ODA as one Japan-related activity is recommended. If the entrant is not ready for full-scale involvement with the Japanese, it is safe to limit the involvement to one area, a particular country, or a particular industry, in which the entrant has strength, and relate this specialty with ODA using existing business relations.

In sum, the untying of Japanese aid presents many opportunities. But these opportunities can generally be tapped only if foreign firms take time to learn the Japanese ODA system and engage in a variety of trial-and-error exercises. As is true overall, to make it in the Japanese market, one must be in for the long haul.
## APPENDIX I
Top 20 Consultants in Japan (FY 1988 and 1989)

<table>
<thead>
<tr>
<th>Award No.</th>
<th>Award Amount (Billion)</th>
<th>Field of Specialty</th>
<th>Special Relation</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 1988</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nippon Koei</td>
<td>60</td>
<td>2.6</td>
<td>General</td>
</tr>
<tr>
<td>Pacific Consultants International</td>
<td>38</td>
<td>1.4</td>
<td>General</td>
</tr>
<tr>
<td>Kokusai Kogyo</td>
<td>20</td>
<td>1.1</td>
<td>Aerial survey</td>
</tr>
<tr>
<td>Yachiyo Engineering</td>
<td>28</td>
<td>1.1</td>
<td>General</td>
</tr>
<tr>
<td>Sanyu Consultants</td>
<td>26</td>
<td>1.0</td>
<td>Agriculture</td>
</tr>
<tr>
<td>Pasco International</td>
<td>7</td>
<td>0.7</td>
<td>Aerial photography</td>
</tr>
<tr>
<td>Kokusai Rinkai Kaihatsu Kenkyu Center*</td>
<td>10</td>
<td>0.6</td>
<td>M. of Agriculture</td>
</tr>
<tr>
<td>Nihon Tetrapod</td>
<td>4</td>
<td>0.4</td>
<td>M. of Transportation</td>
</tr>
<tr>
<td>Unico International</td>
<td>7</td>
<td>0.3</td>
<td>Petrochemical</td>
</tr>
<tr>
<td>Nihon Gijutsu Kaihatsu</td>
<td>9</td>
<td>0.3</td>
<td>Irrigation, transportation</td>
</tr>
<tr>
<td>Kenseitsu Gijutsu Kenkyusho</td>
<td>7</td>
<td>0.3</td>
<td>General</td>
</tr>
<tr>
<td>Dengen Kaihatsu</td>
<td>6</td>
<td>0.3</td>
<td>Electric power</td>
</tr>
<tr>
<td>Taisyo Consultants</td>
<td>15</td>
<td>0.3</td>
<td></td>
</tr>
<tr>
<td>Nihon Ringyo Gijutsu Kyokai</td>
<td>6</td>
<td>0.3</td>
<td>Forestry</td>
</tr>
<tr>
<td>Nippon Jogesuido Sekkei</td>
<td>6</td>
<td>0.3</td>
<td>Water system</td>
</tr>
<tr>
<td>Katahira Engineering</td>
<td>5</td>
<td>0.3</td>
<td>Roads</td>
</tr>
<tr>
<td>Intl Engineering Consultants Assoc.*</td>
<td>9</td>
<td>0.3</td>
<td>M. of Construction</td>
</tr>
<tr>
<td>Nihon Giken</td>
<td>15</td>
<td>0.3</td>
<td>M. of Construction</td>
</tr>
<tr>
<td>Nihon Telecommunications Consulting</td>
<td>4</td>
<td>0.3</td>
<td>Telecommunications</td>
</tr>
<tr>
<td>JETRO*</td>
<td>4</td>
<td>0.3</td>
<td>MITI</td>
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</tbody>
</table>
APPENDIX I (continued)

<table>
<thead>
<tr>
<th>FY 1989</th>
<th>No. of Contracts</th>
<th>Award Amount (¥billion)</th>
<th>Field of Specialty</th>
<th>Special Relation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nippon Koei</td>
<td>69</td>
<td>3.6</td>
<td>General</td>
<td></td>
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<tr>
<td>Pacific Consultants International</td>
<td>40</td>
<td>1.8</td>
<td>General</td>
<td></td>
</tr>
<tr>
<td>Yachiyo Engineering</td>
<td>29</td>
<td>1.1</td>
<td>General</td>
<td></td>
</tr>
<tr>
<td>Kokusai Kogyo</td>
<td>22</td>
<td>1.0</td>
<td>Aerial survey</td>
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</tr>
<tr>
<td>Sanyu Consultants</td>
<td>27</td>
<td>1.0</td>
<td>Agriculture</td>
<td>M. of Agriculture</td>
</tr>
<tr>
<td>Dengen Kaihatsu</td>
<td>11</td>
<td>0.8</td>
<td>Electric power</td>
<td>M. of Transportation</td>
</tr>
<tr>
<td>Kokusai Rinkai Kaihatsu Kenkyu Center*</td>
<td>12</td>
<td>0.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pasco International</td>
<td>9</td>
<td>0.5</td>
<td>Aerial photography</td>
<td></td>
</tr>
<tr>
<td>Taiyo Consultants</td>
<td>11</td>
<td>0.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asahi Koyo</td>
<td>4</td>
<td>0.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nihon Ringyo Gijutsu Kyokai</td>
<td>12</td>
<td>0.4</td>
<td>Forestry</td>
<td>M. of Agriculture</td>
</tr>
<tr>
<td>Nihon Gijutsu Kaihatsu</td>
<td>14</td>
<td>0.4</td>
<td>Irrigation, transportation</td>
<td></td>
</tr>
<tr>
<td>Unico International</td>
<td>7</td>
<td>0.4</td>
<td>Petrochemical</td>
<td></td>
</tr>
<tr>
<td>Asia Air Survey</td>
<td>1</td>
<td>0.4</td>
<td>Topographic mapping</td>
<td></td>
</tr>
<tr>
<td>Nippon Jogesuido Sekkei</td>
<td>6</td>
<td>0.3</td>
<td>Water system</td>
<td></td>
</tr>
<tr>
<td>JETRO*</td>
<td>6</td>
<td>0.3</td>
<td></td>
<td>MITI</td>
</tr>
<tr>
<td>Kaigai Tetsudo Gijutsu Kyoryoku Kyokai*</td>
<td>6</td>
<td>0.3</td>
<td></td>
<td>M. of Transportation</td>
</tr>
<tr>
<td>Intl Development Center of Japan (IDCJ)*</td>
<td>9</td>
<td>0.3</td>
<td></td>
<td>six ministries</td>
</tr>
<tr>
<td>Kensetsu Gijutsu Kenkyusho</td>
<td>7</td>
<td>0.3</td>
<td>General</td>
<td>M. of Construction</td>
</tr>
<tr>
<td>Toden Sekkei</td>
<td>5</td>
<td>0.3</td>
<td></td>
<td>Tokyo Electric Power Co.</td>
</tr>
</tbody>
</table>

NOTE: * Nonprofit organizations.

APPENDIX II
Major Aid-Related Associations

Engineering Consulting Firms Association (ECFA)

Kasumigaseki Bldg. 32 F
Kasumigaseki 3-2-5, Chiyodaku
Tokyo Japan 100
Tel: 03-3593-1171
Fax: 03-3595-2489

Yr. of establishment: 1964
Field of specialty/Supervising ministry: general/MITI,
M. of Construction

International Engineering Consultants Association, Japan (IECA)

Kojimachi 5-3-23, Chiyodaku
Tokyo Japan 102
Tel: 03-3263-4821
Fax: 03-3230-4030

Yr. of establishment: 1956
Field of specialty/Supervising ministry: construction/
M. of Construction

Japan Consulting Institute (JCI)

Hibiya Park Bldg.
Yurakucho 1-8-1, Chiyodaku
Tokyo Japan 100
Tel: 03-3213-8551
Fax: 03-3213-8822

Yr. of establishment: 1957
Field of specialty/Supervising ministry: industrial plants/MITI
Japan Transport Consultants Association (JTCA)

No. 15 Mori Bldg.
Toranomon 2-8-10, Minatoku
Tokyo Japan 105
Tel: 03-3501-1462
Fax: 03-3501-1466

Yr. of establishment: 1973
Field of specialty/Supervising ministry: transportation/
M. of Transportation

International Development Center of Japan (IDCJ)

Kyofuku Bldg.
Tomioka 2-9-11, Koto-ku
Tokyo Japan 135
Tel: 03-630-6911
Fax: 03-630-8120

Yr. of establishment: 1971
Field of specialty/Supervising ministry: economics/MITI,
MOFA, EPA, M. of Transportation, M. of Construction,
M. of Agriculture, Forestry and Fishery

KEIDANREN: Japan Federation of Economic Organizations

Ohtemachi 1-9-4, Chiyodaku
Tokyo Japan 100
Tel: 03-3279-1411
Fax: 03-3246-0574
APPENDIX III
CASE STUDIES IN THAILAND

CASE 1

The Laem Chabang port construction project, part of the Eastern Seaboard Development Plan, is one example in which firms from OECD countries won a portion of a yen-loan project.

Laem Chabang, one of the two major port construction sites, is located about 130 kilometers southwest of Bangkok and only 15 kilometers north of Pattaya Beach. The idea of constructing a port in this location was conceived about 20 years ago when the Bangkok port, which has too shallow a water level to accommodate large ships, began to show the country's lack of capacity to deal with an increasing amount of cargo.

First, the Thai Government commissioned a Dutch consultant to conduct a survey in the early 1970s and Laem Chabang was considered to be a suitable site. The Port Authority of Thailand (PAT) undertook the purchase of the land and negotiated with the World Bank for the financing of the port construction. While the Bank took much time in deciding the financial support, the Thai government looked to Japan, instead, for the finance source.

Upon request, JICA conducted a development survey and came up with a large-scale development plan in which the Laem Chabang port would be able to accommodate large ships and an
export-oriented industrial complex would be built in its hinterland. It was decided that 70 percent of the total cost would be financed by a yen loan and 30 percent by the Thai government (local cost portion). In 1984 and 1985, 4.2 billion yen and 12.3 billion yen were disbursed for port construction, respectively. They were given under general untied procurement and LDC untied consultancy. For consultants, Pacific Consultants International from Japan and three Thai consulting firms (Southeast Asia Technology, Asian Engineering Consultants, and AR Group Consultants) were selected to form a joint venture. Details of design began in 1984. Upon D/D, all buildings were designed in line with Thai specifications, and materials were chosen to go along with either the Thai industrial standard or the American and Japanese (JIS) standard used in Thailand. The intent was to procure as much material as possible in Thailand.

D/D by the joint consulting group was completed in 1987 and PAT held an international tender in April 1987. Nine bidders participated in the bidding and four groups were selected: Italian Thai (Thai general constructor), Ohtoyo Construction (Japan), Daito Industry (Japan), and Dredging International (Belgium). Construction began in December 1987. The Thai firm took charge of reinforcement of the coast and construction of the breakwater, buildings, roads, and electric system. The Japanese firms were in charge of procuring caisson and building wharves, and the Belgian firm was given responsibility for
dredging and reclamation. In terms of the distribution of the total amount of the award, 62 percent went to the Thai firm, 18 percent to Japanese firms, and 20 percent to the Belgian group.

Italian Thai is the top constructor in Thailand and led the joint construction work with competence. The Japanese consultant evaluated highly the ability of the Thai firm in terms of project management.

This example shows that in the case of Thailand, the construction industry had already developed a capability to compete successfully with Japanese contractors in bidding and Japan only had an advantage in the high-tech portion of the project. It can be said generally that the labor-intensive portion of construction work in ASEAN is in favor of local contractors due to their price competitiveness. Yet, in a large-scale infrastructural development project like this one, joint construction is probably most desirable with the work being divided into specialized components depending upon the characteristics of the project. Foreign contractors with a particular field of specialty stand a good chance of successful bidding, especially when Japanese competitors are suffering from the high cost of Japanese equipment because of the yen appreciation.

CASE 2

This is a case in which a European contractor beat a Japanese competitor and won the main contract of a yen-loan project.

In 1983, a ¥70 billion loan was agreed upon with the Thai government for modernization of the Thai railway system. Out of this total project, about ¥4.6 billion was to be directed to design, supply, installation, and maintenance of signals for 114 stations nationwide.

In January 1989, based on the D/D completed by a Japanese consultant, the State Railway of Thailand held a tender for the signalling system in Bangkok. Surprisingly, GEC-General Signals, a division of General Electric Company of the United Kingdom, won the bidding against competing bidders from WABCO (part of Westinghouse of the United States) and Mitsui of Japan. (WABCO was disqualified for technical non-compliance.)

GEC was helped by the fact that some earlier signalling work had been done by the British arm of U.S. Westinghouse and GEC could argue that their system would be compatible with the existing one. Apart from technical criteria, GEC also underbid Mitsui's offer by a huge amount. (Mitsui's offer was Baht 4.29 billion while GEC's offer came down to Baht 1.7 billion.) Mitsui could not adjust the price down because of the
yen appreciation. This is the largest contract ever won by the United Kingdom in Thailand.

This case also shows that technological edge and price competitiveness together enable third-country firms to enter into Japan's seemingly closed aid administration, and even outperform formidable competitors like Mitsui.


SUMMARY

The two examples presented here show that third-country and host-country contractors can succeed in outbidding Japanese contractors for projects funded by the Japanese aid program. In both cases, the consultant contract had been awarded to a Japanese firm under LDC untied condition, and tenderers had to meet the specifications prepared by these Japanese consultants. Although the specifications usually favored Japanese contractors, non-Japanese firms were chosen for the main contract of these projects. The move toward untying of consultancy should further facilitate the entry of foreign contractors.
TABLE SOURCES


Table 2: MOFA. 1991. P. 82.


Table 4: MOFA. 1991. P. 158.

No. 1  Is the United States Missing the Boat in ASEAN?
        Pearl Imada, William E. James, and Michael Plummer

No. 2  Indonesia: A Sleeping Giant No Longer
        Robert McCleery

No. 3  Thailand: The Sixth Dynamic Asian Economy
        Pearl Imada

No. 4  Malaysia: The Next NIE?
        William E. James and Pearl Imada

No. 5  The Philippines: Positioning for a Turnaround
        Manuel Montes

No. 6  Singapore: The Next Lap
        Michael Plummer

No. 7  Opening the Door: The Philippine Foreign
        Investment Act of 1991
        Victoria S. Licuanan and Cecilia C. Carlos

No. 8  The Legal Framework for Investment in ASEAN:
        Investment Regulations and Incentives
        Janis Y. Togashi and Pearl Imada
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