

# ROLE OF ODA IN ECONOMIC DEVELOPMENT

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As for those countries which are implementing open door policy and expanding their foreign trade, the ODA (official development assistance) and FDI (foreign direct investment) are paid special attention to. In this article, we refer only to ODA which plays an important role in the development strategy of developing and less developed countries.

## 1. Outline of ODA

ODA includes non-refundable aids and soft loans (in terms of interest, time of extension and payment) given by governments of developed countries, international organizations and non-governmental organizations.

Non-refundable aids are often of technical assistance, mainly transfer of technology, knowledge, experience via international experts' activities. These aids are sometimes humanity ones including food, pharmaceutical, or other goods. So they can hardly been used for development investment. In addition, these aids are usually accompanied by some conditions for reception, prices. The

recipient may not accept such conditions and too high prices. As a result, it should be careful to use this kind of ODA.

Soft loans from ODA can be used for development investment. They have following properties:

- Low interest rate: For example, Japanese ODA in goods worth 45.5 billion yen lent to Vietnam in 1992 had an interest rate of 1%, the World Bank's loan for upgrading the National Highway 1 had no interest, only fee of 0.75%.

- Long term of credit: Japanese term is 30 years, the World Bank 40 years.

- Long extension: usually from 5-10 years, for Japanese loans 10 years.

Those countries often use ODA for investing in socio-economic infrastructure projects, making favorable conditions for production and life, and foreign investment attraction.

## 2. Role of ODA in developing countries' economic development

Regarding countries which are

realizing industrialization, capital is an indispensable factor and precondition. Especially in the current situation, the scientific and technological achievements allow these countries to shorten their history of economic development, overcome their backwardness and take full advantage of the late comers. But to do that, the need for capital is very great. As a result, in the early stage of industrialization, they have to depend on foreign sources of capital, mainly ODA and FDI.

Certainly FDI aims at high profits and the number of investment projects cannot be unlimited, so to attract this kind of capital is not easy.

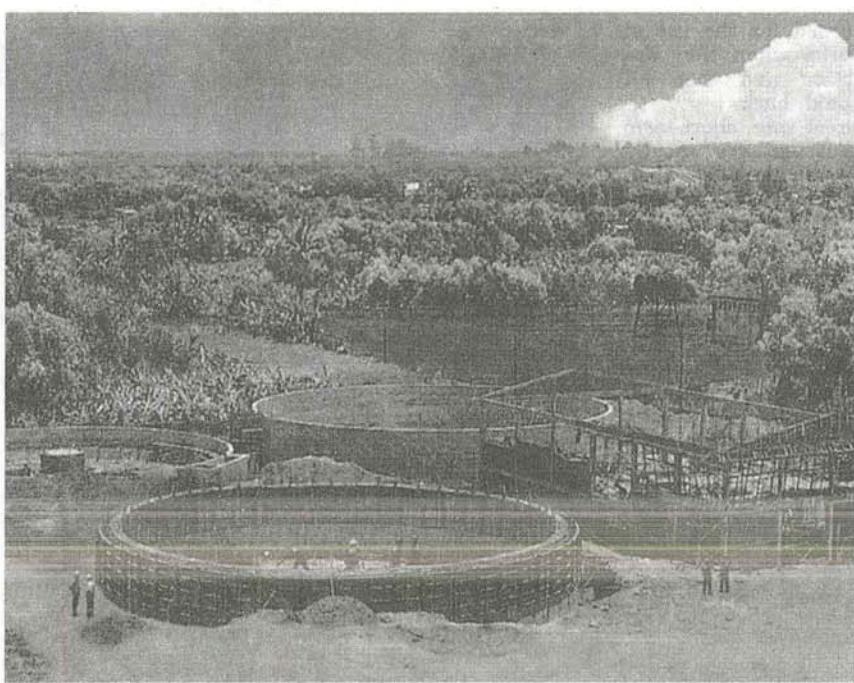
In contrast, ODA is funded by governments of developed countries, international organizations, and NGOs, to help developing and less developed countries. Therefore, the capital source has certain preferences which these countries use to deal with their shortage of capital and build a favorable climate for foreign direct investment and domestic investment. So it plays an important role in economic development of developing and less developed countries.

Firstly, ODA can inject capital to the development process.

For example, in the early stage of industrialization of NICs and ASEAN countries, foreign aids had significant meanings.

Taiwan has used foreign aids and capital to meet about 50% of total investment. After its savings increased, it could reduce dependence on foreign aids.

The South Korea obtained 81.2%



of total American aids in the 1970-1972 period. Therefore, it could ease the tension of investment requirement and reached its economic targets.

Most of Southeast Asian countries are poor and backward after recovering their sovereignty and independence. To develop infrastructure which requires huge funds and the refundment time is slow, developing countries, on the whole, and Southeast Asian ones, in particular, have to use ODA capital. According to the World Bank's reports, from 1971 to 1974, the Philippines used 60% of its ODA to build infrastructure; in Thailand, Singapore, Indonesia, many infrastructure projects involving in air ports, sea ports, expressways, schools, hospitals, centers for scientific research, were derived from ODA capital. Japan and South Korea also depend on ODA to modernize their infrastructure.

In Vietnam, the ODA capital is not only used for developing infrastructure, but also for settling the state budget deficit. For example, in 1998, of an ODA worth US\$2,380 million, Vietnam spent 35% for capital construction, 17% for education, 3% for the State budget and 45% for relending. After 6 years of ODA recovery in Vietnam, international donors have committed around US\$15,550 million, including US\$2,200 million in 1999 and US\$500 million for economic restructure. This amount of US\$500 million will be soon disbursed to boost the reform of state-owned enterprises, trade liberalization and banking system restructure.

In reality, due to the preferences of ODA capital, some countries are usually afraid of debt burden, but in my opinion, that is the fear of those countries managing and using ODA ineffectively. This burden will be lessened if the ODA is used effectually.

Secondly, non-refundable aids will help recipients to acquire modern scientific and technological achievements and thus develop their human resources.

The ODA brings to recipients important benefits such as modern technologies, equipment and advanced management. Donors also give priority to the development of human resource. This is just basic and sustainable benefit given to recipients. I want to present the form of technical assistance of Japanese, the biggest ODA donor in the world to illustrate this role.

The technical assistance is a major component of Japanese official development assistance. It includes many various forms and projects such as training workers, providing experts, equipment and materials; conducting surveys on development.

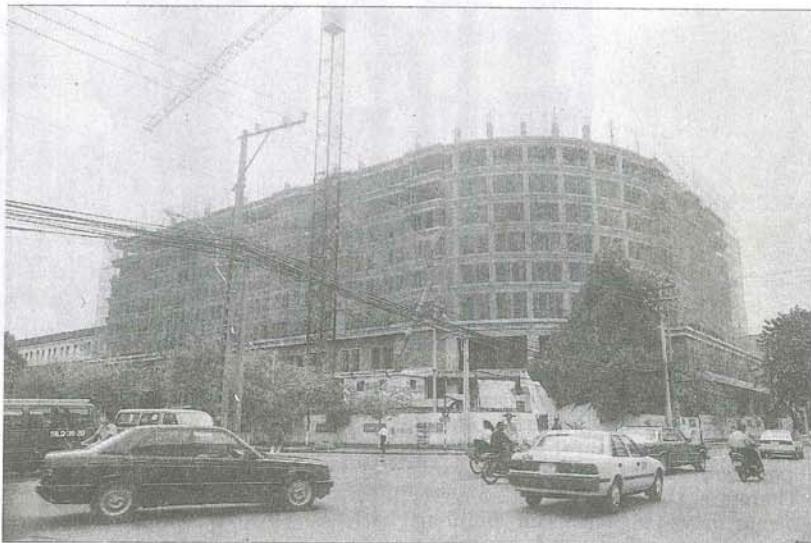
The projects on training workers are realized in Japan or in the third country; in which Japan will provide aids or experts, incur costs of training and other means. This system contributes to technical cooperation between developing countries and technical transfer.

Programs on providing experts help developing countries make sur-

other areas 4%.

In addition, Japan also sent missions to make surveys on development to developing countries with the aim to provide their governments with basic data and essential information to decide on policy. In this form, the study on feasibility makes up a large fraction of surveys on development with a view to checking the success probability of projects in terms of economics and finance.

Development surveys also help improve the technology level of developing countries. The technology transfer will be conducted via surveys



veys with a view to finding solutions for their socio-economic development.

After the World War II, Asian countries have been major cooperative partners. In 1982 fiscal year alone, Asia received 59.5% of total Japanese experts; in the 1954-1990 period, total Japanese experts sent to projects amounted to 32,034, including Asia 18,947 (59.14%), Africa 2,564 (8%), Middle East 2,702 (8.4%), Latin America 5,766 (17.9%), Europe 216 (0.67%), Oceania 477 (1.48%) and other areas 1,362 (4.25%). In technical assistance programs, experts specialize in agro-forest-fishery, public works and services, mining and industry and community health care.

Projects providing equipment and materials along with technical training in Japan attained good results in cooperation. From 1964 to 1987, there were 910 cases Japan provided ODA of this kind, worth around 17.7 billion yen, of which Asia and Oceania accounted for 43%; Middle East 28%; Latin America 25% and

in cooperation with local engineers or these engineers will be trained in Japan to analyze data and information collected from surveys.

Thirdly, ODA helps developing countries perfect their economic structure.

To developing countries, economic challenges including foreign debts and deficit of international balance of payments are inevitable and increasing. To settle this problem, they have to perfect their economic structure by coordinating with the World Bank, the International Monetary Fund and other international institutions to restructure the economy. They plan to change public sector-centered policy into private sector-oriented one. But to implement the restructure, the governments require huge amounts of capital, thus, they have to depend on ODA. From 1987 to 1989, Japan offered 61,700 million yen to 26 African nations and US\$600 million to Mongolia, Peru and other countries in Asia, Central and South America

for economic restructure. From 1993 to 1995, Japan granted some US\$700 million to developing countries.

Fourthly, ODA helps attract FDI and expand domestic development investment.

As we know, to lure foreign investors to pour their money in particular areas, the host country

and East European countries contributed to the Government's revenues.

After 1979, the western capitalist countries and China terminated their aids and the official development assistance came mainly from former Soviet Union and other countries in the socialist bloc.

Vietnam in 1993, the assistance has been revived quickly. Until now, there are thousands of socio-economic projects completed in Vietnam with the ODA contribution. The facts also indicate the capital source has decisive meanings to the country's development.

In short, in the developing and



must assure good investment environment (socio-economic environment, system of policies, stable legislation), secure profitable investment with low cost and high return. Therefore, the Government's investments have to focus on building new infrastructures and improving the system of banking and finance. Then the Government depends on official development assistance due to its restricted budget. Once the investment environment is improved, the FDI flow will increase and has good effects on domestic investment and the country's sustainable economic development.

On the other hand, the utilization of official development assistance for infrastructure improvement will make favorable conditions for local investors to concentrate their projects on production and business with high profitability.

Obviously, the ODA is not only an important source of supplementary capital to developing and less developed countries but also spurs FDI attraction and expands domestic investment for these countries.

To reconsider the Vietnam's history of receiving and using ODA, we see in late 1970s when the national production and income was still too low, the non-refundable aids from the former Soviet Union

Structure of budget collection (%)

	1976	1977	1978	1979	1980
1. Local revenue	55.2	65.5	68.0	59.2	62.8
2. Foreign loans and aids	44.8	34.5	32.0	40.8	37.4

From 1986 to 1990, foreign aids to Vietnam were derived from SEV countries. Seventy percent of the Soviet Union's aids were conducted through imports of equipment for Russian projects and compensation for trade deficit between Vietnam and SEV countries.

Until 1990, Vietnam had received total ODA valued at Rub12.6 billion from the former Soviet Union. At the peak of donation (1986), the ODA amount reached 1,800 million ruble through 100 projects.

Thanks to the Russian aids, some important projects of the country have been set up and made many significant impacts on the economy such as the Hòa Bình Hydropower Plant, the Tri An Hydropower Plant, the Phả Lại Thermopower Plant, the Bỉm Sơn Cement Plant, the Lào Cai Apatite Mine, the Thăng Long Bridge, etc.

But when the Soviet Union and East European countries collapsed, the official development assistance to Vietnam was interrupted. When the U.S. lifted its embargo against

less developed countries' path to economic development, the outward policies and ODA play crucial roles. It is a supplementary source of capital to those countries, helps them absorb scientific and technological achievements, develop their human resources, perform economic restructure, promote FDI attraction and make favorable conditions for expansion of domestic investment

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