

## **Underpinnings of effective country ownership: Lessons from Japan and South Korea as former aid recipients**

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### **Abstract**

What does effective country ownership mean? This study examines the underpinnings of true country ownership of aid programs from the perspective of recipients by drawing from the experiences of Japan and South Korea as former recipients of development aid. In doing so, the paper reviews cases from two World Bank-funded projects in Japan and one Japan-funded investment project in Korea. The Japanese and Korean cases highlight three forms of interrelated capacities that were essential to effective ownership: (1) the capacity to absorb new knowledge and foreign technology from aid projects or internalization; (2) the capacity to extend projects beyond the pilot stage or scaling up; and (3) effective negotiating skills/ability to persuade aid donors to support national priorities and strategies during tough aid negotiations. It recommends that a differentiated, need-based aid approach for a more effective assistance to middle-income countries must be carried out and that new modes of aid delivery that improves scaling up must be introduced to maximize the aid's development outcomes.

**Keywords:** Country ownership, foreign aid, Japan, South Korea, aid effectiveness, scaling up

### **Introduction**

Country ownership is at the centre of debate in foreign aid effectiveness of late. In 2005, it was adopted as one of the five principles on aid effectiveness stipulated in the Paris Declaration. As a basic principle, country ownership recognizes the need for partner countries to exercise effective leadership over their development policies, and strategies and co-ordinate development actions and emphasizes commitment of aid donors to respect partner country leadership and help strengthen their capacity to exercise it.<sup>1</sup> Indeed, the international aid community has embraced it as part of best practices in aid management. Aid donors from the Development Assistance Committee of the Organization for Economic Co-Operation and Development (DAC/OECD) have used it as a standard for aid reform. Yet, more than a decade later since the Paris Declaration, the concept of country ownership has remained rhetoric for many and there is little agreement on its definition. De Renzio, Whitfield, and Bergamaschi (2008) provide a donor-recipient dichotomy of definition noting that aid donors generally refer to it as commitment to policies, regardless of how those policies were chosen while recipient-governments view it as the degree of control that they are able to exercise over policy design and implementation. The

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World Bank (2008) defines country ownership as achieving some sort of a broad consensus among all stakeholders, including aid donors, and sufficient political support regarding the content of development policies and strategies, including the projects, programs, and policies for which external partners provide assistance. Country ownership necessarily requires institutional capacity for defining and implementing a national development strategy (World Bank, 2008; De Renzio, Whitfield, & Bergamaschi, 2008; Ohno I., 2005).

The concept of country ownership as embodied in the 2005 Paris Declaration assumes that aid recipients have development-oriented leaderships and institutional capacity. Stressing the potential dangers of incompetent, corrupt, and inefficient governments providing ‘leadership’ in national development, Cross (2014) argues that country ownership does not have to mean ‘government ownership’ rather it should be perceived as something that is ‘earned’ not ‘granted’ to governments. Since many developing countries lack both capacity and development-oriented leadership, Booth (2011) strongly asserts that country ownership should be treated as a desirable outcome where they do not exist. He notes that achieving development-oriented leaderships in recipient-countries would need donors to pay more attention to their non-aid policies ‘which are known to affect the economic and political systems of developing countries in negative ways’ and for leaders of recipient-countries to address collective action problems that hinder moves towards a more developmental politics (Booth, 2011).

From the brief discussion above, it can be argued that country ownership as a concept can be viewed either as an issue of capacity or as desirable outcome or both. It suggests that there are preconditions that must be in place in order for recipient-countries to exercise strong country ownership effectively. Two of which are highlighted above, namely, institutional capacity and development-oriented leadership. This study asserts that these concepts are not new at all. As former aid recipients, Japan and more importantly South Korea had demonstrated ‘true’ country ownership in defining and implementing their national development strategies. As shown later, their experience reveals that there are three dimensions of institutional capacities that are essential to effective country ownership. These are: (1) the capacity to absorb new knowledge and technology acquired from aid projects or internalization, (2) capacity to extend projects beyond the pilot stage or scaling up, and (3) capacity for leadership with effective negotiating ability to persuade aid donors during tough negotiations to support the recipient’s national priorities and strategies. As will be shown in the succeeding sections, in Japan and more importantly in South Korea, these capacities were achieved as a result of heavy investments in education and administrative capacity during the first wave of American aid.

If country ownership was manifestly embedded in the aid management systems of Japan and South Korea, then why is it that it was not given emphasis? There were a number of obvious reasons for this. First is the nature of the international environment. The cold war incentivized western aid donors to allot their assistance based on strategic rather than development goals thus the aid’s development outcome was not a priority. Second, the debate regarding aid effectiveness took off initially as a question of quantity or how much aid must be provided to have meaningful effects on recipients’ economic growth. Country ownership would come again to the fore only in

the 1990s as debate shifted from issues of ‘how much aid’ to ‘what *kind* of aid’ is effective. Moreover, aid donors generally prefer to finance projects that are deemed important and strategic even if they are not the priority of recipients. This is understandable considering that bilateral aid is funded mainly by taxes and that governments of donor-countries simply want to ensure that their resources are well-spent and not put to waste. Hence, aid conditionality became imperative and has been a standard practice of western aid donors. Today, the conditions that are attached to foreign aid range from economic such as adoption of neoliberal policies based on Washington Consensus to political ones including putting into practice good governance and upholding human rights. Many political conditions attached to western aid in post-2000 are intended to sanction and/or reward recipients (Molenaers, Dellepiane & Faust, 2015). Finally, the global aid architecture has evolved into a donor or supply-driven system where donors disproportionately determine what kind of aid should be provided instead of what recipients need. As a result, aid-dependent recipients in general defer to donor preferences during aid negotiations because aside from the simple fact that donors have more leverage during negotiations, many recipients also lack negotiating skills to persuade donors to support their development priorities. If they do possess effective negotiating skills but do not get what they requested, it is because they do not have political leverage or strong bargaining power. As will be shown later, both Japan and South Korea had used geopolitical leverage during the cold war to their advantage.

The goal of this study is to examine the underpinnings of country ownership based on Japanese and South Korean experiences by way of examining two World Bank projects in Japan and one investment project funded by Japanese reparations payment in South Korea. The two World Bank projects in Japan are the Mechanical/Agricultural Land Reclamation Project in 1956 which received funding of 2.463 million US dollars and the Aichi Water Canal Project in 1957 with 7 million US dollars funding from the World Bank. The Land Reclamation project was aimed at increasing Japan’s agricultural productivity by converting Hokkaido peatland into rice, dairy and mix farms. The Water Canal Project was intended to develop irrigation of surrounding agricultural lands, provide industrial and residential water supply, and generate additional hydroelectric energy for neighbouring areas in Aichi prefecture. Meanwhile, the investment project in South Korea that was chosen for analysis is the construction of Pohang Iron and Steel’s integrated steel mill which was the centre of Korea’s efforts toward industrialization during the Park Chung-hee regime.

In part this study also aims to understand how aid recipients that are transitioning from middle to high-income status have exercised country ownership. It should be noted that projects covered in this study were implemented at the time of Japan’s and South Korea’s economic transformation to advanced-country status. By 1960s, Japan’s economy was already comparable to those of many advanced countries in Europe. It was admitted as member of Development Assistance Committee (DAC, formerly known as Development Assistance Group or DAG) in 1960. Many Japanese regarded this as international acknowledgement of Japan’s successful post-war catch-up effort. Japan held the position of being the second largest economy in the world from 1968 after surpassing West Germany until it was overtaken by China in 2010. The 1950s

and early to mid-1960s can be viewed then as Japan's transition period to high-income status, particularly the period between the end of the Korean War (1953) and the implementation of the first Income-Doubling Plan under the Ikeda administration (1960-64). As mentioned earlier, the land reclamation and Aichi water canal projects were begun in 1956 and 1957, respectively.

On the other hand, South Korea's transition to high-income status took longer than that of Japan. The 2010 White Paper on Korean Official Development Assistance (ODA) mentioned the period 1963-1992 to be Korea's transition to high-income status, the most critical of which was the period 1963-1979 in which the country shifted to capital-intensive heavy and chemical industries. It was during this period when Park Chung-hee envisioned his ambitious goal of setting up Korea's steel industry. Based from official World Bank report, Korea was classified as an upper middle-income country from 1989 to 1994. It graduated to high-income status in 1995 but went back to the status of upper middle-income between 1998 and 2000 when the Asian financial crisis hit. From 2001 onwards, Korea's status has been that of high-income country. In 1993 it was removed from the OECD's list of ODA recipients. It joined OECD in 1996 and became a member of the DAC/OECD in 2010.

Finally, Japan and South Korea were selected as cases for this study since these two are widely recognized country-models that successfully transitioned from being aid recipients to full-fledged providers of foreign aid. As a former aid recipient, Japan received foreign assistance mainly from the United States worth 3.455 billion U.S. dollars between 1946 and 1970 (Takagi, 1995). South Korea, on the other hand, received 4.424 billion US dollars between 1945 and 1979 (Suh & Kim, 2014). As in the case of other Asian aid donors like China and India, both countries started their own bilateral aid programs while they were still receiving aid.

### **Country Ownership, Foreign Aid and Institutional Capacity**

Riddell (2007, p. 25) notes that former President Truman's 1949 inaugural address, particularly Point Four, contained three recommendations of how development aid must be provided, namely, that donors must (1) pool their resources, (2) coordinate their efforts under the United Nations if possible, and (3) ensure that the aid given would enable recipients to use it in ways they saw fit. By emphasizing a recipient rather than donor-oriented international assistance program, the third recommendation above is perhaps the earliest reference to the concept of country ownership principle of aid-giving. But for some reasons, the global aid architecture that emerged in the post-war period was far from these three ideals. Bilateral donors have never established a pool of global fund for international development. Instead, they have focused on coordinating their assistance and adopting best aid practices within the frameworks of the DAC/OECD and the United Nations. These international institutions have led in the aid effectiveness debate which initially centred on the 'ideal' aid quantity and on the official definition of development assistance. Soon after, the DAC/OECD adopted the norm of untying aid and use of political and economic conditions to improve foreign aid's effectiveness.

Bilateral aid donors have also worked toward harmonizing the end goals of international development assistance through the DAC/OECD and United Nations agencies. Since the basic

human needs approach to development emerged in the 1970s and the introduction of the concept of human development in the 1980s the development objective of foreign aid had shifted from mainly promotion of economic growth to poverty alleviation. There was also a marked shift in the nature of aid conditionality that western donors attached to their aid. Prior to the 1990s, the emphasis was in the adoption of neoliberal policies. Today, western donors tend to promote liberal values, democracy, sustainable development, and good governance in their foreign aid programs.

In the last two decades or so, aid donors and recipients alike have become more inclusive and receptive to pursuing a common development agenda for international aid. In September 2000, the largest gathering of world leaders adopted the UN Millennium Declaration which committed all nations to a new global partnership to reduce extreme poverty by 2015.<sup>2</sup> To achieve what was envisioned in this Millennium Summit, the Millennium Development Goals (MDGs) consisting of eight measurable development targets were set out. During a meeting of the International Conference on Financing for Development in Monterrey, Mexico in 2002, developed and developing countries adopted the so-called Monterrey Consensus in which they agreed to take joint actions for poverty reduction. The Consensus also recognized both the need for developing countries to take responsibility for their own poverty reduction and the necessity for rich nations to support this endeavour.<sup>3</sup> Consequently, developed countries committed themselves to increase the volume of their development aid and allocate a significant proportion of it to the achievement of the MDGs.

These developments have brought country ownership back at the core of aid effectiveness debate. Nonetheless, the narrative is disproportionately shaped by perspectives from aid donors themselves. In February 2003, under the auspices of the DAC/OECD the first High-Level Forum on Aid Effectiveness was held in Rome and culminated in the commitment of multilateral and bilateral development institutions and aid recipient-countries to harmonize their operational policies, procedures and practices (OECD, 2018). This gathering was followed by three more Forums held in Paris, Accra and Busan on 2005, 2008 and 2011, respectively. In Paris, five principles in making aid more effective was adopted, namely, ownership, alignment, harmonization, results, and mutual accountability. The principle of ownership acknowledges the crucial role of developing countries in the fulfilment of MDGs through locally generating and owning strategies to end poverty and by enhancing accountability of governments to their citizens.<sup>4</sup>

At present, the principle of country ownership is widely accepted standard of foreign aid reform across donor-countries. Nonetheless, since the Paris Declaration was launched there has been a wide gap between its rhetoric and actual practice in part because of disagreements with regard to its 'true' meaning. As described in the Paris Declaration country ownership is evident when developing countries are able to perform three functions, namely, (1) setting their own strategies for poverty reduction, (2) improving their institutions and (3) tackling the problem of corruption.<sup>5</sup> This description implies that the notion of country ownership relies upon leadership capacity that enables governments of developing countries to perform these functions.

Who and how development strategies are set and what combination of institutions is conducive to effective exercise of country ownership is still a matter of controversy. A popular interpretation among aid recipient-countries is that the government must take the lead in determining the content of national development policy. This view is also shared by some scholars from developed (mainly, Asian) countries. Shimomura and Ohno (2005), for instance, have proposed a state-centred notion of ownership. They argue that true ownership consists of three dimensions in which the state plays a crucial role, namely, (1) the goal of aid which relates to strong national leadership, (2) the scope of ownership which involves the capacity for donor management and policy autonomy and content, and (3) creativity of ideas defined as ‘the capacity to reinterpret relevant elements of exogenous model of the development strategy and adapt them to the prevailing conditions in a particular developing country’ (Shimomura and Ohno 2005, p. 7). The study, however, falls short of explaining why aid-recipient countries have varying capacities when it comes to ownership. The three dimensions of ownership above can be seen as desirable goals especially among developing countries, which are confronted with government inefficiency and corruption.

What kind of leadership does one expect from incompetent and corrupt government? This was the point taken by Cross (2014) when he writes that country ownership does not have to be ‘government ownership’. The World Bank (2008) also cautions that the development strategy to be adopted must have sufficient political support from stakeholders both from within and outside the country. In view of this, country ownership can be viewed as formation of a broad consensus regarding development policies adopted. Booth (2011) implies that this is easier said than done because most developing countries lack what he called development-oriented leadership that enables their governments to establish a consensus due mainly to collective action problem. He concludes that donor-countries should not assume that country ownership exists but rather they must regard it as a desirable outcome and that they can contribute to its formation.

InterAction (2011), an alliance of nongovernmental organizations based in Washington, D.C., provides a definition of country ownership that stresses the role of a country’s population in “conceptualizing, implementing, monitoring and evaluating development policies, programs and processes.” While people participation is desirable, some Third World societies glaringly lack the basic capacity to participate meaningfully in national decision-making processes. A study found that participation has not always resulted to an improvement of the design of aid programs (Winters, 2010). The World Bank (2008) moreover points out that country ownership does not require full consensus within a country but rather means that “the government can mobilize and sustain sufficient political support to adopt and implement the desired programs and policies even in the presence of some opposition.” Country ownership, hence, requires an enabling environment to allow the government to provide a development-oriented leadership whose major function is to mobilize support to development policies to be adopted through people participation and consensus building. The concept of country ownership necessarily brings the state in the development process back in, not to monopolize the process but to provide ‘consensual’ leadership.

The concept of consensual leadership has been used in corporate management studies. For instance, in their study Flamholtz and Randle (2007) come up with leadership style matrix, one of which is consensual leadership. They assert that this leadership style is suitable in a situation where programmability of the task is low and job autonomy is high. A programmable task requires specific steps or directions from a leader for an action to be completed. Job autonomy on the other hand is based on the individual team member's capability. Thus, low programmability of the task and high job autonomy means that minimal direction is needed because highly-motivated and independent team members prefer to work autonomously and to have more flexibility how to accomplish best the task.

Applying this to a country setting which achieved higher level of institutional capacity, donor-countries allow more autonomy to recipient-governments in performing the task of leading the development process and in determining the content of national policies through consensus building. Arguably, the current literature on country ownership applies to a state that has achieved certain level of institutional capacity which enables government to attain political support and consensus for its development policies, and social capacity that enables people to participate meaningfully in the process of national decision-making. In other words, country ownership as a principle of aid effectiveness becomes more acceptable to aid donors when the latter is confident that recipient-countries have the capacity to set up policies for development and poverty reduction. South Korea and Japan had these qualities that enabled them to exercise strong country ownership over aid-funded projects. Japan's Liberal Democratic Party (LDP) provided continuity and stability during its uninterrupted 38-year reign under the so-called 1955 system. Likewise, visionary leaders like Park Chung-hee and Pak Tae-jun played key roles in South Korea's industrial transformation in the 1960s and 1970s.

As a principle of aid effectiveness, country ownership can only be exercised effectively by aid recipients with certain level of institutional capacity. Its concept, however, is ambiguous and unlike economic reforms there is no clear consensus on institutional reforms (Graham, 2002). Broadly, capacity pertains to the "ability of people, organizations and society as a whole to unleash, strengthen, create, adapt, and maintain, capacity over time" (Hosono, Shunichiro, Sato, & Ono, 2011). The notion of institutional capacity as a key component of state capacity "implies a broader focus of empowerment, social capital, and an enabling environment, as well as the culture, values and power relations that influence us" (Willems and Baumert 2003, p. 10). Brown, et al. (2006) identify four spheres of institutional capacity, namely, (1) Human resources – or the technical knowledge and people skills both in the public and private sectors; (2) Intra-organizational – key processes, systems, cultures and resources within organizations such as within government agency; (3) Inter-organizational or agreements, relationships and consultative networks between organizations (say, between government agencies or between public and private organizations); and (4) External Institutional Rules and Incentives or regulations, policies and incentive schemes. The implementation of foreign aid programs requires a mix of these capacities. For instance, infrastructure project like bridge or dam construction entails planning, coordinating, and monitoring skills of implementing government agencies as well as

organizational, technical knowledge and skills of the private contractor. Some level of inter-organizational coordination including national government agency, private contractor, local government and interest groups is also desirable.

It should be noted that institutional capacity building is one of the earliest goals of international development. Indeed, the first U.S. foreign aid program embodied in Truman's Point Four consisted mainly of technical cooperation programs that were designed to strengthen local capacity. The logic behind technical cooperation as a modality of aid delivery in the 1960s was the fact that human capital in less-developed countries was sparse (Arndt, 2000). Stressing its importance Berg (cited in Arndt, 2000, p. 120) mentions that 'technical cooperation was needed not only to help build roads and universities but also to help develop the local capacity to maintain or run them.' Its key goal is to improve efficiency of state and society in implementing and sustaining development programs. More specifically, technical cooperation was aimed at improving bureaucratic competence and efficiency to enable governments of less developed countries carry out various tasks of national development. Nonetheless, after decades of implementing technical assistance bureaucratic incompetence is still a problem in many developing countries. Scholars have identified a number of reasons for its glaring failure. One of which and probably the most important was the supply-driven nature of technical cooperation programs which led to inefficient allocation of resources, weak local ownership, and limited commitment at least based on the experience of donor-countries in Sub-Saharan Africa (UNDP, n.d.).

There is no doubt that quality education and relevant trainings are essential to improving bureaucratic competence. As will be shown later, a considerable amount of assistance that went to South Korea under the Rhee and Park administrations was spent for education and trainings of bureaucrats and elites (Suh & Kim, 2014, p. 65). The government's emphasis on education is complemented by South Koreans' traditional high regard for education. On the other hand, the modernization and reform of Japan's education system took place under the Meiji government as part of its strategy to catch up with the west. In 1886, the University of Tokyo was designated as an imperial university to train elite leaders and technocrats. The Meiji government, during its early years, sent a large number of Japanese students abroad to study and hired foreign instructors to teach in local schools. Elementary education in Japan was free and compulsory from 1907.

Bureaucratic competence is not the only manifestation of institutional capacity. As highlighted in the preceding sections it also includes an enabling environment which empowers private organizations, including the business sector and civil societies to participate meaningfully in the overall development efforts. The 'right' kind of education system is an enabling environment that enhances the capacity of both the state and the society in setting up the goals of development and in building consensus to achieve them. In administering foreign aid, consensus building involves, among other things, getting the support of donor-countries for the recipient's development goals and strategies. In part, this is done during the aid negotiation process where representatives from donor and recipient governments sit down and discuss aid priorities. Here, it



is expected that foreign aid donors would have their own list of priorities. However, with institutional capacity recipient-countries could also persuade donor-countries to align their aid programs to local priorities. To do so, representatives of recipient-governments must be able to identify and utilize whatever leverage they may have over aid donors during negotiations. True country ownership therefore requires a high-level negotiating ability of recipient-governments to get the support of aid donors. This is one of the important lessons that developing countries could draw from the experience of Japan and South Korea as former aid recipients. Both countries were aware of their importance in the U.S. cold war strategy and at various times used this leverage during aid negotiations to their advantage.

Moreover, due to the supply-driven nature of the global aid system donor-countries have disproportionate influence in choosing the programs to be funded by their aid. Aside from effective negotiating skills discussed above, recipient-countries can address this challenge by their abilities to adapt incompatible foreign technologies embedded in aid projects to suit their needs. This is internalization or the ability of aid recipients to acquire know-how and technology from foreign aid projects and to make modifications of them to suit their current, local needs which is quite similar to Shimomura and Ohno's (2005) third dimension of ownership mentioned earlier. As former aid recipients Japan and South Korea had demonstrated these abilities as well. Japanese engineers, for instance, learned new techniques in dam construction from an American consultancy group that was hired for that World Bank project. The Koreans, meanwhile, did not just acquire the basic technology of steel making from Japan but also sought to improve the technology and innovate using locally-generated knowledge.

Another important feature of today's global aid architecture that was still in its infancy stage at the time when South Korea and Japan were still receiving aid was the active engagement of civil society organizations (CSOs) particularly non-governmental organizations (NGOs) in program implementation, monitoring and funding of overall aid effort (for a brief review of NGOs' roles in development see Mitlin, Hickey, & Bebbington (2007). NGOs vary in size, goals, and advocacies but share a number of common features including involvement in humanitarian, social, environmental, and development work; the non-profit nature of their activities; and an image that is distinct from government and other for-profit organizations (Riddell, 2007). The role of NGOs and other grassroots organizations in poverty reduction and development is a key feature of the New Policy Agenda that bilateral and multilateral donors pursued in the 1990s (Edwards & Hulme, 1996). The rise of the Washington Consensus further justified why bilateral and multilateral donors channelled a considerable proportion of their aid through NGOs – that they are “cost effective, flexible, innovative, localized, and committed to the poor” in contrast to inefficient, bureaucratized and urban-biased” state (Bano, 2008, p. 2298).

While the proportion of aid that has been channelled through NGOs increased since the 1990s, questions about their effectiveness as agents of development continue to linger (Banks, Hulme, & Edwards, 2015). For instance, NGOs are criticized for “being unrepresentative of and unaccountable to people for whose well-being they claim to work” (Bebbington, 2005). NGOs also contribute to aid fragmentation or a condition in which too many donors, working on too

many countries, on too many sectors, on too many projects, through too many channels, using too many contractors (Molenaers, Jacobs, & Dellepiane, 2014). Perhaps, the most serious challenge to NGOs and other grassroots organizations involved in administering aid-funded programs is increasing or scaling up the aid's impact (Uvin, 1995). This is because NGO-run aid programs are often small-scale which in many cases fail to extend beyond the pilot stage. Many NGOs, nonetheless, are capable of scaling up the aid's impact even without becoming large (Uvin, Jain, & Brown, 2000).

The literature mentions that there are two ways of increasing or scaling up aid's impacts – (1) by increasing the overall inflow or volume of aid and (2) by scaling up through aid. Broadly, scaling up the impact of aid means achieving its 'transformational impact at the country level' (Chandy, Hosono, Kharas, & Linn, 2013, p. 7). Aid flows 'should not merely support short-lived, one-time and partial development interventions... but should support projects, programs and policies that scale up successful interventions in a country, region or globally to reach the entire target population' (Hartmann & Linn, 2008, p. 2). Scaling up is not often achieved by simply increasing the overall volume of aid. A study by Collier (2006), for example, shows that foreign aid to Africa is subject to diminishing returns and thus doubling aid through conventional aid modalities would not double its impact.

By sheer organizational size, control of resources and extensive network the government is inherently in a better position than NGOs to scale up the aid's impact. The issue of scaling up through aid therefore inevitably brings the state back in and that state relation with CSOs could significantly affect its outcomes. In a study of NGO-government relations in Africa Bratton (1989) shows that political rather than economic considerations tend to influence this relationship. As will be shown later, the cases of Japan and South Korea as aid recipients demonstrate the role of state in scaling up the aid's impact.

### **Foreign aid to Japan (1953-64) and South Korea (1961-92) during Transition**

The success stories of Japan and South Korea as the first and second non-western countries that transitioned into full-fledged aid donors from being recipients are well acknowledged today. Both countries had joined the ranks of advanced, industrialized countries and foreign aid played a catalytic role in their economic transformations. Table 1 below summarizes the foreign aid provided to Japan and South Korea in various years. Nonetheless, scholars and practitioners often tend to ignore the significance of these countries' experiences as aid recipients in the aid discourse. The high-level forum on aid effectiveness held in Busan, Korea in 2011 gave South Korea a chance to showcase its economic miracle and past experience in managing aid. The Japanese and Korean experiences reveal that they continued to receive aid at the time when they graduated to upper middle-income status. Their experiences also provide telling examples of how well-managed aid can contribute effectively to development. Both countries showed strong ownership, alignment, and ability to internalize and scale up aid-funded projects beyond their nominal scope. As will be shown later, their well-managed aid utilization was made possible by high levels of social capital and better quality of institutions already in place. A considerable

volume of foreign aid to South Korea during the first ten to fifteen years were invested in improving the quality of education and in strengthening administrative capacity while Japan underwent reforms in various sectors including education, economy and government during the Meiji era. By late-nineteenth century Japan had a well-functioning, efficient, merit-based, and autonomous bureaucracy.

**Table 1:** Foreign Aid to Japan and South Korea, in million US dollars (various fiscal years)

Program, fiscal year	Source	Japan	South Korea
GARIOA, 1945-49	United States	1,577.5	502.1
EROA, 1949-51	United States	285.5	-
ECA, 1949-53	United States	-	109.2
CRIC, 1950-56	United States, United Nations	-	457.4
UNKRA, 1951-60	United States, United Nations	-	122.1
PL480, 1956-71	United States	-	795.7
ICA, 1953-79	United States	-	2,438.0
Concessional Loans Japan, 1953-1970 Korea, 1962-2001	World Bank	862.9	15,707.47
Export Credit Japan, 1956-1970 Korea	U.S. EXIM Bank	942.0*	?
Other bilateral loans: from Japan		NA	123

Source: Compiled by the author from various sources. \*Takagi (1995, p. 9).

### Foreign Assistance to Japan

Post-war foreign aid allotments to Japan came in two successive waves. The first wave of aid was from the U.S. army-administered Government and Relief in Occupied Areas (GARIOA) program, which became later as the Economic Rehabilitation in Occupied Areas (EROA) (Higuchi, 2013; Suh and Kim 2014). GARIOA/EROA aid allowed Japan and Korea during the early post-war years to secure basic relief goods like food, medicine, fertilizers, and other consumer goods for post-war survival. This type of assistance is reminiscent of the basic commodities or humanitarian relief (or program aid) provided by donors nowadays to post-conflict societies and grant aid extended to least developed countries except that GARIOA/EROA aid was regarded as loans rather than grants by the Japanese government (Higuchi, 2013, p. 31). Japan received a total of about USD1.8 billion worth of technical and financial assistance from this program between 1945 and 1952. Apart from humanitarian relief, GARIOA/EROA aid was also spent for developing social capital. It allowed hundreds of

Japanese students to go to the United States and facilitated the exchange of visits of U.S. consultants and Japanese experts during the US occupation of Japan (Higuchi, 2013).

The second wave of assistance came from the World Bank. Japan's admission to international organizations including the World Bank came only after it signed the Peace Treaty with Allied Powers in 1951. Following Japan's membership, the World Bank expanded its lending to Japan, which, for a while, was its second largest borrower after India (Takagi, 1995). Table 2 below shows the amount of loans that the World Bank extended to Japan between 1953 and 1966. These borrowings complemented the expanding industrial activities within Japan because of U.S. procurements during the outbreak of the Korean War (1950-53). U.S. procurement boosted Japan's economic recovery and rehabilitation by helping it achieve a balanced current account by the end of 1953. Around 1960, the World Bank began to tighten its lending terms to Japan after demonstrating its ability to borrow from international financial markets (Takagi, 1995).

**Table 2:** World Bank Loans to Japan, 1953-1966

Year	Project	Loan (thousand US \$)	Subtotal
1953	Kansai Power plant	21,500	40,200
	Kyushu Power plant	11,200	
	Chubu Power plant	7,500	
1955	Nippon Steel plant	5,300	5,300
1956	Steel plant	2,600	32,400
	Machine tools for car plant	2,350	
	Ship engine plant	1,650	
	Ship engine plant	1,500	
	Kawasaki Steel plant	20,000	
	Agricultural land development	1,330	
	Agricultural land development	1,133	
	Non-project	984	
	Non-project	853	
1957	Aichi Water Project	7,000	7,000
1958	Kawasaki Steel plant 2	8,000	164,000
	Kansai Power plant 2	37,000	
	Hokuriku Power plant	25,000	
	Sumitomo Steel plant	33,000	
	Kobe Steel plant	10,000	
	Chubu-Hatanagi Hydroelectric Power plant	29,000	
	Nippon Kokan Steel plant	22,000	

1959	Miboro Power plant	10,000	54,000
	Hirohata Steel plant	24,000	
	Tobata Steel plant	20,000	
1960	Expressway project 2	40,000	53,000
	Kawasaki Steel plant 3	6,000	
	Sumitomo Steel plant 2	7,000	
1961	Kyushu Power plant 2	12,000	132,000
	New Tokaido Shinkansen (bullet train)	80,000	
	Amagasaki-Ritto Expressway	40,000	
1963	Expressway project 3	75,000	75,000
1964	Expressway project 4	50,000	75,000
	Haneda-Yokohama Expressway	25,000	
1965	Kuzuryu Power plant	25,000	125,000
	Expressway Project 5	75,000	
	Kobe Expressway project	25,000	
1966	Expressway	100,000	100,000
Total			862,900

Sources: Drawn from Kohama (1995, p. 202); cross-checked with Takagi (1995, p. 9)

The table above supports the fact that World Bank loans to Japan were spent mainly for infrastructure and industrial investments. Most projects were steel plant and power plant constructions. Of the 31, only two were spent for agricultural projects. As loan recipient, Japan showed strong ownership in their implementation. One of the two agricultural land development projects was the proposal by Hokkaido Development Authority (HDA) to develop huge tract of undeveloped peatland in the Shinotsu region in Hokkaido into farmland for rice planting. After the war Japan's Ministry of Agriculture and Forestry vigorously sought investments to increase agricultural productivity. In 1953 and 1954 the World Bank missions to Japan suggested that the peatland in Hokkaido should be developed into dairy farming and wheat cultivation instead of paddy fields for rice farming (Nakayama & Fujikura, 2013, p. 59). The Japanese government was surprised by the recommendation but insisted that the Shinotsu peatland must be converted to paddy fields. The HDA led in the negotiations which consequently persuaded the World Bank to agree with the original Japanese proposal of reclaiming the peatland for rice farming. In 1956, the World Bank finally approved the loan for the Mechanical Land Reclamation Project.

In implementing World Bank-funded projects, the Japanese government ensured that they were in close alignment with national development strategies. These aid projects coincided with Japan's first and second Five-Year Economic plans and the period of high growth. The first post-war Five-Year plan was published in December 1955 which aimed, among others, to improve national productivity and industrial rationalization. The second five-year plan covered the fiscal years 1960 to 1965. Apparently, Japan's World Bank loan applications were intended to support

the goals of the five-year plans. Kohama (1995) nonetheless notes that infrastructure received the highest allocation from government loans between 1952 and 1967 while government loans for investment were less than 20 per cent. Indeed, in the above table industrial projects dominated the World Bank-funded loans in terms of quantity but infrastructure projects received the largest amount. It is also interesting to note that the first batch of World Bank loans (1953-1960) were utilized for industrial projects while the second half were mostly allotted for infrastructure projects (1960-1966).

More importantly as aid recipient, Japan showed its capacity in internalizing foreign technologies and knowledge acquired from World Bank projects and in getting them to scale. These abilities were demonstrated in the Agricultural Land Development projects in 1956 and in the Aichi Water Canal project in 1957. The former, also called the Mechanical Land Reclamation Project, was aimed at converting three peatlands into arable paddy fields for rice planting, dairy farming, and mixed farming. The tracts of land covered by the project were the Konsen Pilot Farm (for dairy farming) and Shinotsu peatland (for rice farming) both in Hokkaido and the Kamikita Pilot Farm (for mix farming) in Aomori Prefecture (Nakayama & Fujikura, 2013). Meanwhile, the Aichi Water Canal Project was intended to provide water supply for irrigation, industrial and municipal use in the Aichi Prefecture, and to increase power generation. The World Bank provided funding for both projects in 1956 and 1957.

The reclamation plan of the Konsen Pilot Farm for dairy farming was prepared locally by Japan's Ministry of Agriculture and Forestry and the Hokkaido government (Nakayama & Fujikura, 2013). The Plan introduced the pilot farm approach in Japan which entailed two stages – first, the clearing of land by machines and second, inviting farmers to settle and cultivate the land. Each chosen farmer-settler was provided with a total of 18.8 hectares of farm, 14.4 hectares of which consisted of land for cultivation and the remaining 4.4 hectares would be for hay, fuel wood and dwellings. Each settler was also provided with 10 cattle to raise. Prior to actual settlement, farmers-settlers were also given trainings, 611,000 yen subsidy each farm, and financing of up to 2.5 million yen (Fujikura & Nakayama, 2013). The project's success can be seen by the volume of milk production in the farm. In 1960, milk shipment per farm was 12.2 tons. It increased to 119.7 and 273.8 tons per farm in 1973 and 1983, respectively. The Hokkaido government later adopted the Konsen Pilot project as a model to be applied to as many districts as possible (Fujikura & Nakayama, 2013).

Part of the World Bank funding for the Konsen project was for importation of farm equipment. A total of 46 rake dozers were used for reclamation and cultivation but of these 12 were made in Japan. From the 68 farm implements utilized in the project, 20 were sourced locally (Fujikura & Nakayama, 2013, p. 78). Also, local workers translated the English operating manuals that came with imported equipment into Japanese. Because the project was new at that time, both farmers and training personnel from the local government developed their own management and farming techniques to be implemented in the site. The pilot project soon became a breeding ground for new ideas in dairy farming. Once these ideas were proven

successful in the pilot farm, farmers from other areas adopted them as well (Fujikura & Nakayama, 2013).

Japan's experience with the implementation of the Aichi Water Canal Project is another demonstration of its ability to internalize new knowledge and technology as well as capacity to expand its scope beyond the pilot stage. This World Bank-funded project involved the construction of a huge dam (called Makio dam). The Aichi Irrigation Public Corporation was created as the lead agency to implement and later maintain the facility. The project provided Japanese engineers and officials to learn new things related to dam construction. The first of these was the participation of a consulting firm in a construction project which did not exist in Japan at that time. The World Bank recommended the hiring of an American consulting firm to provide supervision of the construction. Nakayama and Fujikura (2013, pp. 53-54) note that Japanese engineers were amazed at the modern way by which the American consulting firm designed the project in Chicago using only maps and technical data of the project site sent from Japan. The consulting firm also prepared a detailed timeline for construction work. It also refused to renegotiate the contract with Japanese contractors and obliged the latter to complete the work based on agreed specification and timetable. After the project, some Japanese engineers who were involved in the construction established the first ever Japanese construction consulting firm, Sanyu Consultants Inc. (Nakayama & Fujikura, 2013) in 1962.<sup>6</sup> Other large construction firms had also established their own affiliated consulting firms. Many of these consulting firms have been involved in Japanese ODA-funded infrastructure and foreign investment projects around the world.

Japanese engineers and contractors in the project, who were mainly seconded from prefectural governments and from the Ministry of Agriculture and Fisheries, played a crucial role in transmitting to other prefectures the new method of dam construction called rock-fill used in Makio dam. It should be noted that prior to the Aichi project, post-war dam constructions in Japan were based mainly on concrete arc dam type (Nakayama & Fujikura, 2013). The technology as well as the methodology involved in the construction of rock-fill dam was later transmitted by the same Japanese engineers who returned to their respective prefectures upon the completion of the Aichi project. Thereafter, several rock-fill dams were built in Japan including the Miboro and Kuzuryu dams in 1961 and 1968, respectively (Nakayama & Fujikura, 2013).

The project also facilitated transfer of skills to Japanese workers in operating construction machineries that were imported using World Bank loan. Perhaps, the greatest feat in this experience was redesigning some of those machineries to work based on specific needs of the project (Nakayama & Fujikura, 2013). The reclamation of the Shinotsu peatland into paddy fields, which was originally to be developed into dairy farming as recommended by the WB, was challenging. One, bulldozers that were imported using WB loan were of little use in the actual project because they were inappropriate for peatland reclamation. As a result, Japanese engineers had to redesign them so that they would not sink in swamps. Because of the Shinotsu project local manufacturers later started producing commercial bulldozers that could be used in peatland reclamation (Nakayama & Fujikura, 2013).

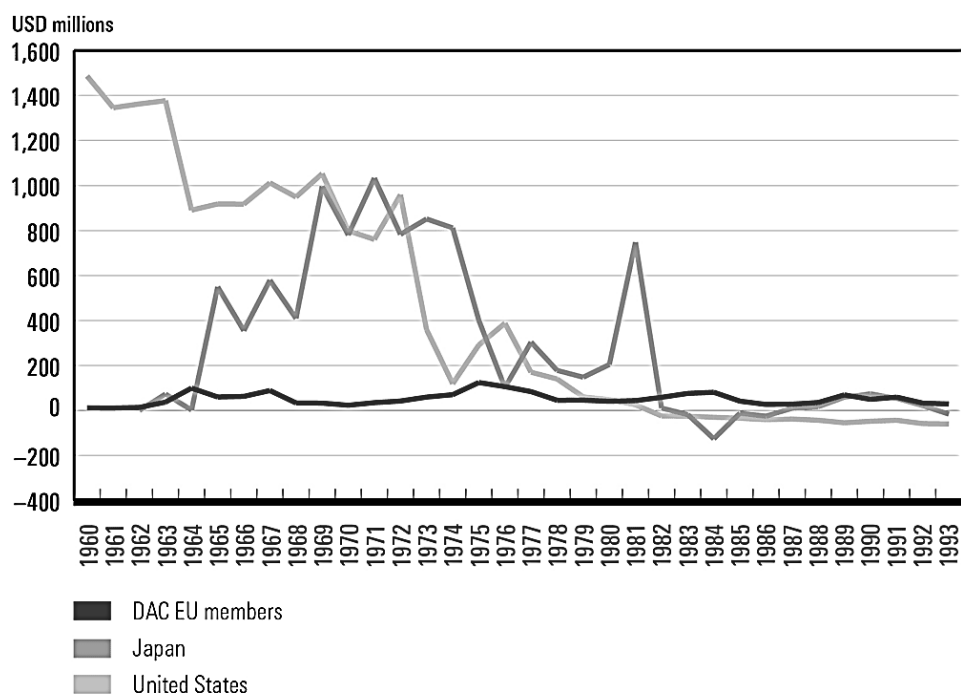
Aside from transfer of technical skills, Japan also benefitted from World Bank loans by acquiring and absorbing new ways of doing things. This is reflected in one of the most well-known WB projects in Japan – the new Tokaido Shinkansen line that connects Osaka and Tokyo. The World Bank loan was 80 million US dollars which was roughly 14.6 per cent only of the total cost. According to Nakayama and Fujikura (2013) in spite of the small share of the WB loan to the total project cost it was necessary to ‘internationalize’ the project. World Bank approval was used as a gauge to measure the project’s ultimate economic feasibility. An approval would also help dispel any scepticism, attract public support, and provide ‘guarantee’ to money borrowed from public and private financial institutions. Moreover, the World Bank taught Japanese planners involved in the project about cost-benefit analysis, rational project analysis, pricing train tickets, and to think about railway line in the context of Japan’s national transport system (Nakayama & Fujikura, 2013). A Japanese engineer who was affiliated with the project mentioned that this knowledge had been applied to every project that they executed and in all extension of railways in Japan (Nakayama & Fujikura, 2013, p. 63).

The above discussion reveals two important prerequisites in successful internalization of technology and knowledge acquired from WB aid projects in Japan. At the time when the country was an aid recipient Japan already possessed advanced technical ability/skills and manufacturing capacity which were developed during the pre-WWII period. Most of Japan’s loans from WB were aimed to reinvigorate technical skills and manufacturing capacity which were complemented by new technology and knowledge absorbed from WB projects. South Korea’s case as aid recipient is quite different. The country had to develop those capacities sequentially in the 1950s through the 1970s.

### ***Post-war Foreign Assistance to South Korea***

Suh and Kim (2014) divide the post-war assistance to Korea into three successive waves. The first wave (1945-49) came from the United States in the form of GARIOA. This assistance consisted mainly of relief particularly food and consumer goods after the Second World War. The second wave (1950-53) of assistance consisted of military aid and emergency relief from the U.S. and the United Nations, respectively, during the Korean War. The start of the third wave of assistance coincided with the end of the Korean War and the founding of International Cooperation Administration (ICA), the precursor to U.S. Agency for International Development (USAID) in 1953. This third wave of assistance to Korea would have the most profound impact on the nation’s economic transformation under President Park Chung-Hee. It also marked Korea’s attempt to diversify its financing sources. World Bank lending to Korea began in 1962 and loans from Japan started, following normalization talks, in 1965. The World Bank funded a total of 128 projects worth 15,701.47 million US dollars between 1962 and 2001. These loans were mainly earmarked for infrastructure, investment, two-step loans and structural adjustment.





**Figure 1:** Bilateral assistance to South Korea, 1950-1993 in million USD

Source: Marx & Soares (2013)

Whether or not foreign aid contributed directly to South Korea's remarkable economic growth is still a matter of controversy. Nevertheless, there is no doubt that U.S. assistance in the 1950s was very important for Korea's survival (Krueger & Ruttan, 1989). In this period, foreign aid inflows financed about 69 per cent of crucial imports and funded the reconstruction of damaged infrastructure following the Korean War. In the 1960s and 1970s, foreign aid supported in various ways Korea's economic transformation. Suh and Kim (2014) show that the core of U.S. assistance to Korea (on top of emergency, relief and military aid) focused mainly on programs that aimed to enhance education and public administration. Between 1955 and 1975 the volume of ICA assistance that was spent for education-related projects in Korea was USD 3.14 million. U.S. assistance had financed the technical training of many Koreans in the United States. On the other hand, the value of aid that aimed to improve public administration and governance in Korea was USD 11.9 million. A considerable amount of this was spent for the enhancement of the Korean military's management skills through various trainings and introduction of special curriculum designed by the U.S. military (Suh & Kim, 2014, pp. 64-65). These aid programs helped to build administrative and organizational capacities which were crucial conditions to the success of South Korea's state-led industrialization under the Park regime.

Foreign aid, moreover, was an important source of investment financing to Korea during its early stage of economic development. The U.S.' PL 480 surplus food program, for instance,

served as payment in kind to rural workers who had engaged in land reclamation and other agricultural projects nationwide (Krueger & Ruttan, 1989). Because foreign assistance to Korea constituted a huge chunk of investment financing source (Kim S.-H. , 2007), which accounted for 42 per cent of overall fixed capital formation in the 1965-1974 period (Krueger & Ruttan, 1989) it enabled the Korean government to effectively constrain or incentivize firms that were dependent more on borrowed money rather than equity capital in their operation (Kwang, 1998). When the U.S. announced in late-50s that aid to Korea could not be increased further in the coming years, it became clear among policymakers that an export-driven strategy was the best viable solution to finance the rising cost of imports. In this vein, foreign aid enhanced the interventionist nature of the Korean state and supported crucially the shift toward an export-oriented economy.

More importantly, the Korean state exercised strong autonomy and ownership of aid programs. Policy recommendations of U.S. negotiators and aid officials were often rejected even in the 1950s when the United States was the sole provider of exceptionally large assistance to Korea. Krueger & Ruttan (1989, p. 234) explain that this was due to U.S.' relatively weak bargaining power because of its political commitment to maintaining the South Korean government amidst the cold war environment. If there is an important lesson that could be drawn from the Korean experience in managing aid, it would be its ability to adapt donor policy preferences to local context. Kim (2013) notes that Korea's aid management strategy was one of adaptation or translation of foreign aid in the local context rather than policy transfer which only reflects the implantation of donor-driven aid projects and preferences. Korea's ability to internalize and absorb technology acquired from an aid project is demonstrated well in the development of Japan-funded integrated steel mill. Not only was this project home-grown, Korean negotiators also showed their adeptness in persuading Japanese contractors to build the steel mill based closely on their required specifications. This project is an example of the so-called full turn-key formula, which is one of the four channels through which technology can be transferred from industrialized to developing countries (Akira, 2000)

### ***The Case of Korea's Pohang Iron and Steel (POSCO)***

The establishment of POSCO under then president Park Chung-hee is at the centre of Korea's industrialization efforts. President Park recognized the political and commercial value of establishing a Korean integrated steel mill and was inspired by Japanese industrialization under the Meiji government. The first of a series of attempts to establish an integrated steel mill began in 1961 which also marked the beginning of Korea's first Five-Year Development Plan. Both the World Bank and the U.S. rejected Park's request for funding. USAID and U.S. Export-Import Bank said that the project was not feasible and that the U.S.' main priority at that time was to use foreign aid to pressure Park to restore civilian rule in Korea (Rhyu & Lew, 2011). On the other hand, the World Bank declined financial support because South Korea lacked capital, technology, market and comparative advantage in the production of steel.

By mid-1960s the government pursued a policy of diversifying sources of credit. POSCO as a state-owned enterprise was established in 1968. In 1969 after intense negotiations at the third South Korea-Japan Ministerial meeting, an agreement was reached wherein Japan would provide Korea 107 million US dollars in reparations and low-interest loans worth 54 million US dollars' worth of credit from Export-Import bank of Japan. Nippon steel and Nihon Kohan conglomerates were chosen to provide technical assistance to POSCO. The decision to help Korea build an integrated steel mill was highly controversial in Japan. The motivations that led to such decision were both political and commercial. Politically, the move was regarded as a contribution to regional security. Commercially, it was seen as an opportunity to increase plant exports to Korea at least from Japanese steelmakers' perspective and for Japanese inroads to South Korea's economy. The project was completed in 1973 and POSCO started production with initially 1.03 ton of steel. By 1992, total production reached 21.1 million tons. In 2000 it became the second largest producer of steel after Nippon steel. It was also privatized in that year. Today, POSCO is one of the largest and competitive producers of steel in the world.

In terms of ownership and alignment, the establishment of an integrated steel mill was in line with Korea's first Five Year Development Plan and overall goal of achieving heavy and chemical industrialization. Koreans, particularly then President Park had been so persistent and used effective bargaining leverage to convince Japanese negotiators to fund the project. Rhyu and Lew (2011) mention that the key to POSCO's success lay as much with Park's manipulation of great power relations as with its state's Weberian internal organizational resources. Apparently, the Koreans were able to internalize Japanese steel technology and on that basis used it to generate new and more innovative local technology. Research institutes on steel production which received funding from the government were created side by side with the establishment of POSCO. To scale up, the main incentive was to make the steel mill profitable. This was done through continuous innovation and research to improve production. After the first integrated steel mill was built, POSCO underwent four phases of expansion which led to, among others, establishment of Kwangyang Steel Mill. In 1970, the Steel Industry Promotion Act was enacted to assist POSCO and future other Korean steelmakers based on performance.

## **Conclusion**

The cases studied here showed that aid programs must be sequential and must complement the actual development needs and level of the recipient country. Aid must be invested to education and capacity building at the early stage of development and moving later to infrastructure and investment projects. The study indicates that capacity for ownership and alignment during economic transition requires strong administrative and educational foundation. A key in making aid effective is the ability of recipient countries to scale up its impact. In the examples discussed governments had played crucial roles in this process. Nowadays, civil society organizations participate in the aid processes, particularly in the aid delivery. It is time to rethink how they can contribute to scaling up projects beyond the pilot stage and the kind of relationship with the state that must be cultivated to achieve this aim.

It took years before the international aid community acknowledged the importance of ownership and alignment in aid effectiveness. This is so because donors pay more attention to their experience than to successful aid recipients' experience. By focusing too much on infrastructure development in their aid programs, Japan and South Korea have been outliers in the aid discourse. The study also shows that the amount of aid matters and so are geo-economics and strategic interests of donors on recipients. The volume of aid that went to Japan and South Korea was huge in comparison to most country aid programs we have today. And finally, the examples shown have demonstrated the importance of harmonization. Both Japan and Korea had borrowed from the US and the World Bank and in the case of Korea from Japan. Aid was less fragmented then because aid donor countries were still few. With the emerging new donors, coordination and harmonization have become imperative for aid effectiveness.

## Endnotes

<sup>1</sup> Copy of the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action is available in <http://www.oecd.org/dac/effectiveness/34428351.pdf>

<sup>2</sup> Copy of the UN Resolution is available in <http://www.un.org/millennium/declaration/ares552e.htm>

<sup>3</sup> The Monterrey Consensus is available in <http://www.un.org/esa/ffd/monterrey/MonterreyConsensus.pdf>

<sup>4</sup> There were several essays and reports by OECD, UNCTAD and other UN-agencies which stressed the importance of country ownership in the pursuit of MDGs. See for instance, [http://unctad.org/en/Docs/alde20091\\_en.pdf](http://unctad.org/en/Docs/alde20091_en.pdf);

<http://www.un.org/esa/socdev/egms/docs/2016/Poverty-SDGs/NareshSinghpaper.pdf>;

<https://www.oecd.org/dac/POST-2015%20Overview%20Paper.pdf>;

<https://www.oecd.org/development/effectiveness/40987004.pdf>

<sup>5</sup> <http://www.oecd.org/dac/effectiveness/parisdeclarationandaccraagendaforaction.htm>

<sup>6</sup> <http://sanyu.tcp.jp/english/company/chronology.html>

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## **Participation in tourism: Cases on Community-Based Tourism (CBT) in the Philippines**

Eylla Laire M. Gutierrez<sup>1</sup>

### **Abstract**

Tourism continues to grow as a significant industry generating economic growth and development in the Philippines. Associated with its success is the participation of communities surrounding tourist destinations. As a result, community-based tourism (CBT) initiatives have emerged to account for community's increasing participation in tourism development. While gaining increased popularity, understanding how local community participation is promoted in such initiatives has become an imperative. It has become necessary to investigate whether CBT has achieved its objective of addressing the inequitable distribution of benefits and negative impacts of tourism development in the country. This study will specifically explore the cases of community participation in El Nido Resorts, Bojo Aloguinsan Ecotourism Association, and Kawit Community-Based Heritage Tourism to understand how local community participation is incorporated in tourism destination development in the Philippines. The findings of this study will pose implications in the development of community-based tourism initiatives and programs in the Philippines and other developing economies.

**JEL Classifications:** L83, Z32, D78,

**Keywords:** tourism, participation, development

### **Introduction**

Tourism has emerged as a significant industry generating economic growth and development in the Philippines. It has become an economic pillar of growth in the services sector of the country together with OFW remittances and the Business Process Outsourcing – Information Technology (BPO-IT) sector (Villegas, 2017). In 2017, the industry's total contribution to the country's GDP was estimated at 12.2 percent (PHP 1,929.3 billion). The industry's contribution was higher by 24.2 percent compared to its contribution last 2016, which was reported at PHP 1,533.7 billion (Philippine Statistical Authority [PSA], 2018). In terms of employment, according to PSA (2018), the total share of employment of the industry to the total employment of the country was at 13.1 percent (5.3 million) in 2017, which is 0.9 percent higher compared to 2016.

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Reinforcing the industry's continuous and sustained upward direction is the increasing tourist arrivals from established and opportunity markets. Recent data from DOT showed that in 2017, approximately 96.7 million domestic tourists and 6.62 million international tourists visited the Philippines (Rocamora, 2018).

Apart from the industry's established economic contributions, tourism continues to form part of the development strategy of the country. In the Philippines, tourism development strategies are underscored in the 1991 Tourism Master Plan, 2011-2016 and 2017-2022 National Tourism Development Plan, and the Philippine Development Plan (PDP) 2017-2022, where tourism is identified as one of the priority sectors that will enhance service exports in the global value chain.

In this light, tourism is perceived as a common resource whose benefits should be readily accessible and felt by communities in the country. A flourishing tourism industry in a locality should ideally serve as a poverty-alleviating tool that stimulates economic activities, while ensuring that benefits "trickle-down" even to the poorest members of the society (Dwyer & Thomas, 2012). Tourism is expected to foster growth and development among communities to which its activities are pronounced. The industry could create jobs, develop backward linkages, improve the quality of life through improvement of infrastructure and basic utilities, training and education (de Kadt, 1979). However, problems on equitable distribution of these benefits continue to persist.

Some cases show that tourist destinations often face problems of *elite capture* where those who hold power have special access to obtain special favors and exemptions for themselves at the expense of the local community. Without effective community participation and ownership, the economic activities generated by tourism may not benefit the community found in a destination (Roxas, Rivera & Gutierrez, 2018). More than the objective of contributing to economic growth and increasing per capita GDP, it must be ensured that development is both sustainable and equitable (Stiglitz, 2002). This is where local community involvement in tourism development becomes necessary.

Community participation helps in the achievement of equitable distribution of material resources, as well as, in knowledge sharing and learning through self-development (Connell, 1997). Participation is therefore essential in promoting long-term development that encompasses transparency and openness (Stiglitz, 2002). With this, Community-Based Tourism (CBT) has been introduced as a mechanism to ensure local community participation in the planning, implementation, and monitoring of tourism development. Identified as one of the important stakeholders in tourism development (Bjork, 2000), local community participation is perceived as an essential element to pursuing sustainable tourism development.

A comparative approach to tourism studies has been used lengthily used in the existing literature. This approach has paved the way to measuring the validity and significance of observations, as well as, to improve the understanding of a subject (Dominguez-Mujica, 2015). In this paper, a comparative lens is used to highlight the similarities and differences



among the variety of features of destinations (Baum, 1999), specifically the level of community participation in tourism development. The comparative case study method will utilize secondary data, specifically the existing literature on El Nido Resorts, Bojo Aloguinsan Ecotourism Association, and Kawit Community-Based Heritage Tourism.

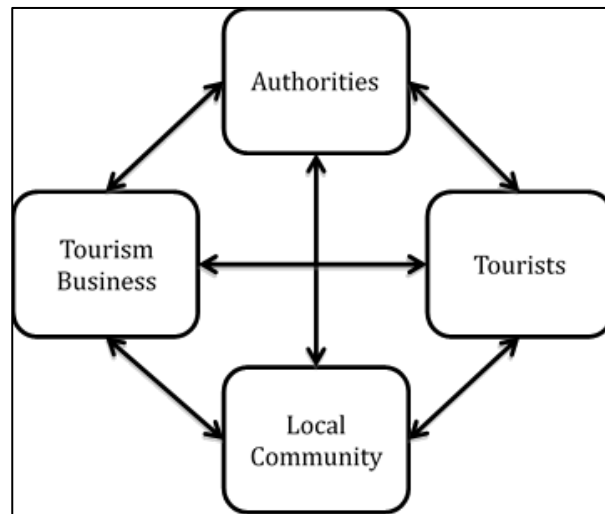
Given this background, this study would like to explore “how local communities participate in tourism development?” This will be done by examining the cases of CBT initiatives in the Philippines, specifically in El Nido Resorts, Bojo Aloguinsan Ecotourism Association, and Kawit Community-Based Heritage Tourism using Arnstein (1969)’s Ladder of Citizen Participation. To address this question, this study aims to do the following:

- To conduct a cross comparative case study on CBT initiatives in the Philippines;
- To determine the level of community participation in tourism development among these cases;
- To understand how community participation is incorporated in tourism development in CBT initiatives.

Since community-based tourism (CBT) initiatives have been gaining popularity, understanding how local community participation is promoted in such initiatives has become an imperative. The findings of this study will pose implications in the development of community-based tourism initiatives and programs in the Philippines and other developing economies.

### **Community-Based Tourism (CBT) and Community Participation**

Local community participation in development initiatives has been a trend for years now. Despite conventionally being viewed as solely falling under government responsibility, successful tourism development has required stakeholder participation. Stakeholder participation is emphasized in Bjork (2000)’s key players framework wherein tourism development is defined as an activity requiring a multi-stakeholder approach. As shown in *Figure 1*, identified tourism stakeholders include authorities, tourism businesses, tourists and local communities. The interaction of each stakeholder is important in ensuring sustainable tourism development. In the same manner, as Okazaki (2008) highlighted, community participation is important in pursuing sustainable tourism.



**Figure 1.** Key Players in Tourism

Source: Bjork (2000)

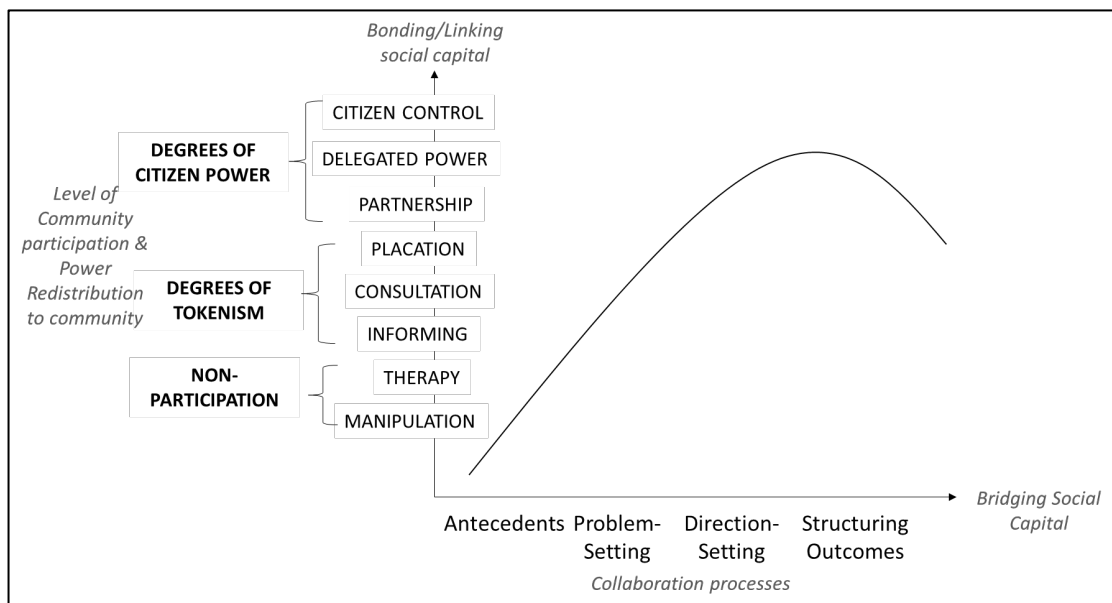
Recent studies have explored the involvement of the local community in the management of tourism destinations (Mena, 2010), wherein community-based tourism is perceived as an alternative form of tourism management (Tokeree and Panyadee, 2013). It is a form of tourism management practice that yields high-level of participation among local community members in income generating tourism activities (Brohman, 1996). The concept of community-based tourism is therefore a venture that is made possible by the concerted effort of various tourism stakeholders, with a specific focus on the participation of the local community.

Haywood (1988) defines community participation as a process of sharing decision-making by involving all stakeholders. Its main objective is to ensure power redistribution, facilitating equal and equitable distribution of both benefits and costs of tourism activities (Arnstein, 1969). To realize these objectives, communities must be empowered through awareness raising and transformative learning processes that allow them to understand the situation they are confronting (Reid, 2003).

While CBT remains an ideal arrangement to pursuing tourism development, many researchers have found problems in its implementation. Addison (1996) found that a participatory approach to tourism development is often time-consuming and lacking financial resources. Apart from the high transaction costs that can be incurred upon its implementation, maintenance costs are also daunting (Getz & Jamal, 1994). Dealing with the community also means dealing with conflicting vested interests and sets of power relations, varying needs and values (Cornwall & Jewkes, 1995). The capacity of local

community members is often insufficient, even if they are given the right to take part in the development process (Gray, 1985).

Despite these challenges, Okazaki (2008) cited reasons why CBT is still the best way to move forward in encouraging participation in tourism development. First, tourist experience is directly influenced by the behavior of locals. Local community members must benefit from tourism activities to avoid hostility and a sense of competition with tourists. Second, tourism image is primarily based on the natural assets of the community including its environment, facilities, and the host community. The conservation, preservation, and maintenance of natural assets highly-depend on how it is being treated by the local community. Third, community involvement in tourism allows protection of natural environment and culture. And finally, sustainable development of tourism is made possible if the socioeconomic development of the community is prioritized. In this light, employment opportunities that help improve income, skills, and institutions of people must be ensured (Jamal & Getz, 2000).

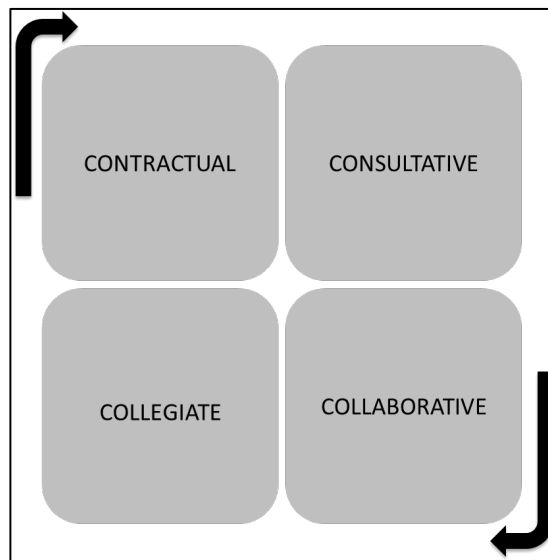


**Figure 2.** Ladder of Citizen Participation

Source: Arnstein (1969)

In understanding the level of participation in CBT initiatives, this paper will discuss examples in the context of Arnstein (1969)'s ladder of citizen participation that explains the steps and categories of the evolution of community participation. This is shown in *Figure 2*. The ladder is comprised of eight *rungs* and three levels of gradual evolution. The eight rungs explain the level of community participation and power redistribution to the communities. The first rung (manipulation) is the stage where participation is used merely for public relations purposes. It is considered the distorted image of participation. The second rung (therapy) is the stage where the values and attitudes of local community

members are adjusted to fit the views of those in power. Third rung (informing) is the stage where community members are informed of their options, responsibilities, and rights, which is considered the preliminary step towards legitimate and valid involvement. The fourth rung (consultation) is where the members are encouraged to express their views and opinions to facilitate full participation in the initiatives. The fifth rung (placation) is where community participation is growing although still considered as tokenism. The sixth rung, partnership, is where community members actively negotiate with those who hold power, thereby facilitating power and responsibility redistribution in planning and decision-making. The seventh rung (delegated power) is where the community members achieve dominant power over planning and decision-making. And finally, eight rung (citizen control) is where the local community is awarded the full control and responsibility in the management and development of tourism destinations.



**Figure 3.** *Modes of Participation*

Source: Biggs (1989)

Complementing this approach to examining the degree of community participation is Biggs (1989)' four modes of participation, namely: contractual, consultative, collaborative, and collegiate shown in *Figure 3*. Each mode refers to the continuously evolving level of participation of communities with the aid of another stakeholder. The first level is the contractual mode. In this mode, individuals are contracted to take part of inquiries and/or experiments, where community members are perceived as subjects of investigation. Consultative mode is when individuals or community members are actively consulted for opinions and suggestions prior to actual intervention. This is where plans are presented to community members for validation. The third mode is collaborative where individual members of the community work together in designing and initiating projects which are subjected to the approval or management of another stakeholder. Finally, the fourth mode,

is the collegiate participation where community members work alongside other stakeholders as colleagues with different but equally valid set of skills and knowledge. In this mode, mutual learning is espoused, and local community members have control over the process of project management. In this context, the modes of participation continuously change, evolve, and progress according to the needs of a situation.

Using Arnstein (1969)'s Ladder of Participation and Biggs (1989)' mode of participation (shown in *Table 1*), three cases of CBT initiatives in the Philippines will be examined in the following sections

**Table 1.** Community Participation in Tourism Development

Levels of Gradual Evolution	Levels of Community Participation (Arnstein, 1969)	Modes of Participation (Biggs, 1989)
Degrees of Citizen Power	Citizen Control Delegated Power Partnership	Collegiate Collaborative
Degrees of Tokenism	Placation Consultation Informing	Consultative
Non-Participation	Therapy Manipulation	Contractual

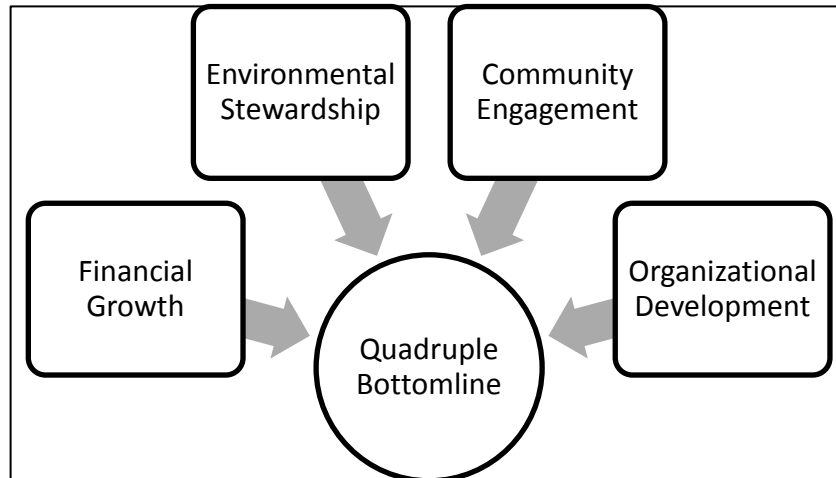
### **Community-Based Initiatives in the Philippines**

Community-based is a dominant form tourism in developing countries, such as the Philippines, where local communities are involved in the process of tourism development. In the Philippines, local community participation is being practiced in several parts of the country. Local community involvement as part of the business strategy of private enterprises is shown in the example of El Nido Resorts. Local community participation in the form of partnerships with non-government organizations (NGOs) is espoused in the example of Kawit Community-Based Heritage Tourism. Finally, a local community-governed tourist destination is exemplified in the operations of the Bojo Aloguinsan Ecotourism Association (BAETAS).

#### ***El Nido Resorts, Palawan***

El Nido Resorts (ENR) is a multi-awarded and internationally recognized sustainable resort in the Philippines, owned and operated by the Ten Knots Development Corporation (TKDC). It operates in several island resorts: Lagen Island Resort, Miniloc Island Resort, and Pangulasian Island Resort, Apulit Island Resort, and the Lio eco-tourism estate development for 30 years now. ENR focuses on sustainability and resilience through the quadruple bottom line strategy shown in *Figure 4*. The Quadruple Bottom Line Strategy is

underpinned by (1) financial growth, (2) environmental stewardship, (3) community engagement, and (4) organizational development.



**Figure 4.** *El Nido Resorts' Quadruple Bottomline Strategy.*

Source: Laririt (2015)

The strategy builds on the triple bottom line strategy proposed by Elkington (1994), which cites the importance of striking the balance among economic, social, and environmental benefits of tourism development. The element of organizational development is introduced in the quadruple bottom line approach.

For El Nido Resorts, the strategy is implemented by integrating both the community and employees of El Nido to a series of training and learning opportunities that facilitate discussions on environmental management, conservation and preservation such as the “Be G.R.E.E.N. (Guard, Respect, Educate, El Nido)” learning program. ENR offers its best practice by combining sustainability efforts from the national government, NGOs, private sector, and the local communities to achieve genuine ecotourism. ENR management ensures that the local community is actively taking part in the planning of policies, implementation, up to the monitoring and evaluation (Laririt, 2015).

ENR exemplifies a tourism management practice whereby private businesses incorporate local community participation in their tourism development strategy. In this example, local community is seen as significant stakeholders whose opinions and views matter in the pursuit of development.

#### ***Kawit Community-Based Heritage Tourism (CBHT)***

The municipality of Kawit is sheltered in a total of 13.40 sq. km. land area, which has a total of 23 barangays, with a population of 76, 405 in the year 2007. According to the Provincial Tourism Office of Cavite, Kawit is the second location, next to Tagaytay City,

with the most number of tourist arrivals in 2014 with a total of 190, 242 visitors as shown in *Table 2*.

**Table 2.** Visitor Arrivals in Cavite, 2015

<b>City/Municipality</b>	<b>Domestic</b>	<b>Foreign</b>	<b>Total</b>
<b>Amadeo</b>	6,723	1,196	7,919
<b>Cavite city</b>	67,115	16,742	83,857
<b>City of Dasmarinas</b>	4,759	297	5,056
<b>General Trias</b>	2,501	184	2,685
<b>Kawit</b>	188,594	1,648	190,242
<b>Magallanes</b>	1,621	-	1,621
<b>Maragondon</b>	28,025	302	28,327
<b>Tagaytay City</b>	3,613,143	-	3,613,143
<b>Trece Martires City</b>	9,267	25,613	34,880
<b>TOTAL</b>	3,921,748	45,982	3,967,730

Located in a coastal area, Kawit had an array of local industries such as fishponds, rice paddies, salt beds, mangrove forests, and other coastal area industries. Producing a variety of crops, Kawit also had a thriving agricultural industry, producing a variety of fruits. Artisan and traditional industries are also located in the municipality such as *Pandayan* shops or knife-making shops. These industries were once considered lucrative before land and water areas were converted to residential industries (The Provincial Government of Cavite, 2014).

Community-based tourism has been applied Kawit through the Community Based Heritage Tourism (CBHT) framework of Fundacion Santiago. The framework provides programs, lectures, and neighborhood tours to the local community, allowing them to discover for themselves their cultural wealth, their history and heritage sites, while introducing them to income-generating practices in the venture towards sustainable heritage. It involves development interventions that utilize a bottom-up approach, aimed at alleviating poverty primarily by fostering the historical, cultural, and environmental wealth of a specific locality. The organization has specifically identified the framework's participants as those that are 'less in life'—members who have been out of school, housewives in search for other sources of income, etc. (Villalon, 2013).

Under the CBHT framework in Kawit, the members of the local community together with the Cavite El Viejo Heritage Tourism Association participated in the activities aimed at raising awareness about Kawit's history and culture. Emphasizing on the value of historical narratives in heritage tours, Fundacion Santiago provided a series of lectures, which allowed the participants to rediscover their locality's history and culture. Alongside these lectures, an activity on mapping possible tourism sites and industries were conducted. At the end of the series of trainings and preparations, a Kawit Heritage tour was created.

Exemplified in this example is local community participation in the form of partnerships with non-government organizations (NGOs) such as the Fundacion Santiago.

### ***Aloguinsan Ecotourism Association***

The Bojo Aloguinsan Ecotourism Association (BAETAS) is formed in 2009, with the help of the local government, the Department of Trade and Industry (DTI), and other local organizations. The operations of BAETAS has already received several international awards recognizing their initiatives that foster community-based ecotourism: in 2017, it became the recipient of the ASEAN Tourism Award (ASEANTA) for the Best Community-Based Tourism (CBT) in Southeast Asia; in 2016, it was recognized by Green Destinations as one of the 100 "sustainable" destinations in the world; in 2015, it was awarded for Best Community-based Tourism Initiative at the Tourism InSPIRE Award by the Pacific Asia Travel Association (PATA) (Quintas, 2017). Since its establishment, BAETAS has provided livelihood opportunities for more than 50 family members to date (Cacho, 2015). Through the tours it organizes, BAETAS showcases the natural areas as well as the culture of the community - the Bojo River Village Tour features a cruise down the river guided by a fisherman showcasing a variety of flora and fauna (Limpag, 2015). Shown in this CBT example is the over-all management of local community members of a tourism destination.

### **Conclusion**

The cases discussed in this study exemplified how local communities can be actively involved in pursuing tourism development initiatives, albeit in varying levels. For all three cases, the involvement of other stakeholder groups (i.e., local government unit, non-government organization, and tourism business) in initiating and/or encouraging local community participation can be observed. While the degree of involvement varies, it can be deduced that stakeholder involvement remains critical in pursuing any tourism initiative, including CBT.

As espoused by Bjork (2000)'s framework, the participation of all tourism stakeholders is important in ensuring that the costs and benefits of tourism development is accounted for and equitably distributed. Thus, for local communities to actively participate in tourism development, they must be informed and be made aware of their ability to be involved. People empowerment follows, where effective partnership becomes necessary. Such forms of partnerships are rooted in the cause of knowledge training and sharing which enhances the capacities of individuals and the rest of the community to act (Williams, Srivstava, Corbridge & Veron, 2003). In this process, the level of community participation evolves.

As reflected in this study, the level of participation in this context can be understood using Arnstein (1969)'s participation ladder and Biggs (1989)' mode of participation that helps identify the levels of community participation. *Table 3* provides a summary of the classification of each initiative in the participation ladder.



**Table 3.** The Ladder of Participation and Modes of Participation: The Cases of CBT in the Philippines

Levels of Gradual Evolution	Levels of Community Participation	Modes of Participation	CBT examples in the Philippines
Degrees of Citizen Power	Citizen Control	Collegiate	Bojo Aloguinsan Ecotourism Association
	Delegated Power Partnership	Collaborative	Kawit Community-Based Heritage Tourism (CBHT)
Degrees of Tokenism	Placation Consultation Informing	Consultative	El Nido Resort Community Involvement
Non-Participation	Therapy Manipulation	Contractual	

It can be deduced that local community participation in the context of ENR is in between the fourth rung, “consultation” and fifth rung, “placation” stages wherein locals are encouraged to express their opinions, as well as, to participate in the implementation of tourism initiatives. Using this framework, it can be concluded that local community participation is in the tokenism stage. In the Quadruple Bottom Line Strategy, the element of local community participation is fostered as part of ENR’s daily operations in pursuing tourism sustainability. The local community in El Nido is seen as partners in pursuing sustainability whereby constant consultations are made before any tourism policies are implemented.

In the case of Kawit Community-Based Heritage Tourism (CBHT), it can be deduced that local community participation is falling in between the sixth and seventh rung, “partnership” and “delegated power” respectively. In this example, local community negotiates with those in power, thereby promoting redistribution of power and responsibilities in planning and decision-making. With the help of Fundacion Santiago, the local community of Kawit is capacitated to facilitate its own tours without necessarily needing government support. The local community in this example has the dominant power over decision-making – how it will govern its tours, its facilitation, and how it can continuously involve and train other members of the community. Using the participation ladder, this level of participation can be classified as local community having citizen power.

Finally, the example of the Bojo Aloguinsan Ecotourism Association (BAETAS), can be classified into the eight and highest rung in the participation ladder, “citizen control.” Years of local government assistance and facilitation allowed and enabled the local community in Bojo to take full control of the management and policy in the development of the tourism destination. Local community in this case is awarded full control of the Bojo

River Aloguinsan tour. The management of the tours allow community members such boatmen, fishermen, housewives, etc. to facilitate and actively take part in the tours.

In addressing the question posed in this study, it can be observed that the level of community participation in tourism activities and development varies and continuously evolves. The participation of local communities in tourism development varies from being part of a consultation group, a partner in supporting initiatives, and in actual delegation and control over the projects (Biggs, 1989). The examples provided in this paper showcases how diverse forms of community participation is in the pursuit of tourism. It can be concluded that there exists a participatory approach in tourism development in the form of CBT initiatives. While the industry continues to grow and expand for the years to come, the achievement of sustainable tourism development can only be achieved if local community participation is incorporated. As emphasized by Arnstein (1969), the ladder of citizen participation aims to explain the necessary steps and varying levels of community participation in tourism development. In conclusion, CBT remains to be an example on how local community participation is incorporated as an indispensable element in pursuing development.

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## **Greater access to finance as driving factor for sustainable development among tourism-related SMEs in the Philippines: An empirical framework**

John Paolo R. Rivera<sup>1</sup>

### **Abstract**

Access to capital funding and other forms of financing is a vital element in the sustainability and competitiveness of SMEs. It allows SMEs, particularly in the tourism industry, to partake in the global economy and seize the opportunities accompanying globalization. We propose a method to address the question of how to empower SMEs participating in the tourism industry to have easy access to financing offered by commercial and universal banks. To address this, there is a need to survey SMEs engaged in the tourism industry and discuss with financial institutions on how to liberalize their policies to provide financing. A-priori results include the need to build the capacity of SMEs to become financially sustainable. Such will allow us to craft policy recommendations on how SMEs can gain and increase their access to financing.

**JEL Classifications:** L20, Q20, Q56

**Keywords:** access to finance, development, SMEs, financial sustainability

### **Introduction**

The global economy has been driven by the rapid growth experienced in Asia's developing world, post-Global Financial Crisis (GFC) in 2008. However, the enduring effects of the GFC characterized by economic slowdown in advanced economies, Eurozone debt crisis, and unstable capital flows introduce more complexities and risks in the global economy (Asian Development Bank [ADB], 2014). It makes the world more volatile, uncertain, complex, and ambiguous (VUCA) as coined by Bennett and Lemoine (2014).

These adverse macroeconomic shocks are being alleviated by the role of small and medium sized enterprises (SMEs) – defined as business organizations serving as one of the economic pillars of Asia-Pacific economies. That is, SME development in the region is critical for robust national economies. With globalization, economies have been characterized as VUCA calling for policymakers to design inclusive SME sector development policy frameworks to encourage enterprise growth from different perspectives (ADB, 2014).

To do this, financing SMEs is a fundamental strategy in developing this sector. From the lesson taught by the recent financial crisis, it has become essential for economies to advance innovative financing models outside conventional micro financing

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avenues. Offering longer-term financing opportunities, such as capital market financing, for emerging enterprises is a newly incipient agenda in SME financing (ADB, 2014). Contemporary developments also demand for the amplification of policy and regulatory activities to cover newfangled areas such as crowd funding, asset-based financing, block chain technology, seed and early stage finance, and SME cluster financing. These are essential because SME financing also has to be abreast with evolving global issues such as rapid climate change, rising unemployment, and worsening poverty. Accordingly, a holistic policy framework better serving various SME financing needs is a critical component for SME development at the national economic level.

Characterized as being dynamic, SMEs are considered vital elements in advancing an economy's growth and development through the generation of meaningful employment and innovation (Aldaba, 2011). Their difficulty in accessing financing has been quoted as one of the foremost restrictions explaining their meager performance and low competitiveness. Obtaining financing from banks and other sources has always been the primary challenge for SMEs to start up, innovate, grow, and develop their enterprises.

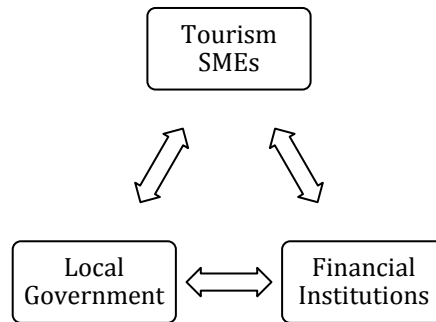
In a survey steered by the Philippines Institute for Development Studies (PIDS) and the Economic Research Institute for ASEAN and East Asia (ERIA), cited by Aldaba (2011), results have indicated that the shortage of working capital to finance new business plans, difficulties in obtaining credit from suppliers and financial institutions, insufficient equity, and expensive cost of credit are the barriers to finance access.

As such, we have established that financing is a vital factor for SME competitiveness as well as sustainability. By making financing accessible to SMEs, most especially in the tourism industry, will allow them to "exploit and participate in the global economy" (Aldaba, 2011) and grab the opportunities that comes with the ASEAN Economic Community (AEC). In this study, we would like to address the research question of **how can SMEs participating in the tourism industry have easy access to financing offered by financial institutions**. To answer this, the following research objectives are set:

- **To pin down what is known about access to finance in the ASEAN region** in order to assess the gravity of the issue. This can be done by conducting a critical review of existing literature in order to: (1) identify what strategies are still relevant in this contemporary period; (2) identify best practices that will lead to benchmarking; and (3) update the stock of knowledge in the literature for policy implications.
- **To draw conclusions and policy recommendations** on how SMEs can gain and increase their access to finance.

When tourism enterprises operate sustainably and competitively, they contribute numerous socio-economic benefits to communities throughout the country (and the region on a macro perspective). It has been established that both private sector and local government units (LGUs) are instrumental to sustainable development since they create

the infrastructure, policies, and planning measures required for tourism. They upkeep tourism businesses while adjusting practices that conserve resources and safeguard community interests.



**Figure 1.** A tripartite relationship in tourism SME financing

Adding the role of financial institutions would make the picture more compelling a tripartite relationship amongst the players in the tourism industry (see *Figure 1*). Likewise, training those SMEs most involved in tourism can: (1) lead to improved coordination among national government agencies and among financial institutions; (2) create opportunities for local communities; and (3) ensure that the economic, financial, social, and environmental impacts of tourism are advantageous to stakeholders.

### **Literature Review: SME Financing**

It has already been established that financial development and economic growth are coupled. That is, dependable financial systems are crucial in driving economic development (Beck et al., 2007; Levine, 2005; Wurgler, 2000 as cited by Tacneng, 2011). According to the Consultative Group to Assist the Poor [CGAP] (2010), policymakers worldwide have stressed the necessity to create inclusive financial systems to increase economic opportunities for SMEs and newly established enterprises, particularly in developing economies. They are the enterprises that most often struggle in accessing external financing. From our previous discussion, this difficulty impedes them from taking advantage of growth potentials and harnessing their productivity operations.

With globalization, financial systems in developed and developing economies have progressed through rapid technological innovation and deregulation that enhanced the openness and competition among financial markets (Tacneng, 2011). Globally, there has been an increase in the number of financial regulators with the role of increasing financial access to SMEs specifically for developing economies.

Tacneng (2011) also argued that it is critical to assess the various characteristics of banking market structures as these stimulate the obtainability of financial services to SMEs. There is a conventional view contending that competition can lead to enlarged credit supply and reduced interest rates, making credit accessible even to prospective firms and small enterprises. That is, banking competition boosts entrepreneurial activity.

Meanwhile, there is a relationship lending perspective or an information-based hypothesis that highlights the prominence of market power in aiding new enterprises to establish long-term relationships with financial institutions, subsidizing them and extracting rents in some periods (Petersen & Rajan, 2005). In other words, more concentrated banking markets result to higher availability of credit.

Furthermore, empirical studies done by DeYoung, Goldberg, and White (1999), Bonaccorsi di Patti and Dell’Ariccia (2004) and Carbo-Valverde, Rodriguez-Fernandez, and Udell (2009) provided an ambiguous relationship between bank competition and bank market structure on SME access to financing. Their results are not applicable to the developing economies of ASEAN because their studies were done in developed economies (i.e. United States, Western Europe) where SMEs are subjected to flexible institutional borrowing restrictions. This implies that access to finance is best studied at the local level. More so, the tourism industry in every economy is unique. The successes in various destinations may be likely due to the efforts of their respective local government units enabling financial institutions to relax some of its rigid policies. As such, there may be a need to let local financial institutions decide on the measures they want to employ for granting access to credit and define measures that are consistent with their organizational and institutional goals.

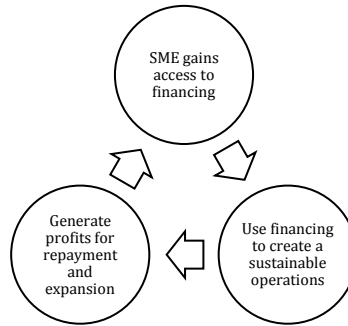
Aldaba (2011) conducted a study utilizing consultations with key stakeholders exposed concerns about the incapacity of enterprises to access financing due to the rigorous and voluminous requirements of financial institutions. “Firms find it hard to borrow due to the collateral requirements and the long time it takes to process their loan applications” (Adaba, 2001, p. 311). Moreover, the following reasons were disclosed: firms find that (1) the minimum loan requirement and short repayment period too restrictive; (2) loan restructuring is difficult; (3) high interest rates charged by financial institutions to firms; (4) lack of access to venture capital funds; (5) absence of financial packages; (6) and the limited access to information on fund sources.

Aldaba (2011) also underscored the viewpoint of financial institutions where they expressed their apprehensions about the bankability of SMEs and the high risks involved in SME lending due to SMEs’ lack of appropriate financial management capacity.

It is also noteworthy that both SMEs and financial institutions mentioned the shortfall of the government to create policy frameworks that will address the concerns mentioned (Aldaba, 2011).

Hence, it has been apparent from the studies cited that there is a systemic and circular problem here – banks will only lend to SMEs if they are operationally sustainable and financially viable. However, SMEs will be operationally sustainable if they have access to funds. Thus, as a research gap, there is a need for an optimal strategy to break this vicious cycle without making a party worse off (see *Figure 2*). To do this, it is crucial to create a business environment with lower information asymmetry between SMEs and financial institutions.

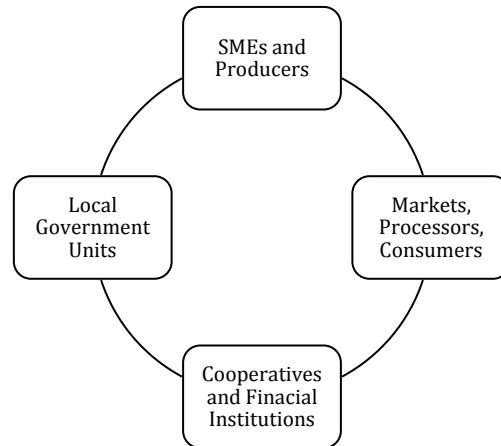




**Figure 2.** The cycle of SME financing.

### Framework

We appeal to the framework behind LandBank of the Philippines’ *Todo Unlad* Program (Total Development Options – Unified LandBank). It is LandBank’s flagship program for countryside development. Through its several lending programs and support services, *Todo Unlad* connects cooperatives, LGUs, private corporations, SMEs, and non-government organizations (NGOs) in specific areas around an integrated development project. It veers away from fractional efforts in developing an area. Instead, it extends loans and other support services to all key players in a predetermined area to guarantee that all efforts lead to an integrated area development.

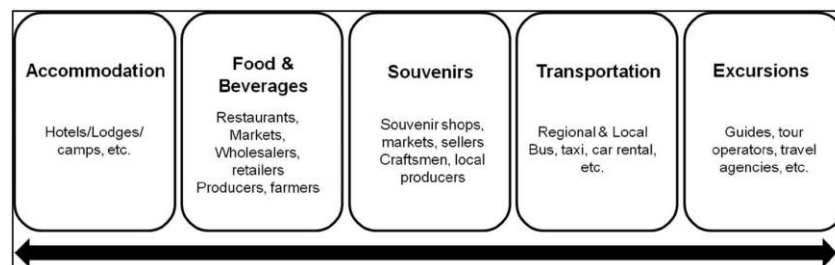


**Figure 3.** The value chain of SME financing.

*Todo Unlad* aims to achieve countryside development by linking producers to markets and processors, strengthening cooperatives, and LGUs (see *Figure 3*). Specifically, it anticipates to increase agricultural productivity, expand basic infrastructure, and eventually facilitate the way towards rural industrialization and to transfer partially or wholly, the ownership and management of productive assets to cooperatives. Its projects are composed of a combination of two or more of any of the following loans and services: (1) local government lending, (2) commercial lending, (3) cooperative lending,

(4) production or post-harvest facilities financing, (5) market matching and production, marketing and management agreements, (6) cooperative strengthening, (7) LGU advisory services, (8) trade financing, (9) and integrated loan packages for agrarian reform communities.

From our discussion above, it can be construed that there will be certain firm-level characteristics that will enhance or reduce an SMEs' access to financing such as, but is not limited to - firm's number of years of operations, leverage, financial position, financial performance, demographic characteristics of the owner (age, educational attainment), employee characteristics, credit reputation, among others. These are necessary but not sufficient factors for financial institutions. A logistic regression equation will represent this.



**Figure 4.** The tourism value chain  
Source: Rivera and Gutierrez (2019)

For sufficiency conditions, we argue that for financial institutions to grant ease of access to credit, **SMEs must be an active participant of its respective value chain** (see *Figure 4*). This signals financial institutions that there is a vehicle by which a borrower SME can repay when debts come due. Being part of a lucrative value chain is becoming easier especially for tourism-related SMEs because of the growing diversity of international tourists with varied tastes and preferences, which facilitates SMEs to broaden potential offerings (Christian, Fernandez-Stark, Ahmed & Gereffi, 2011). Furthermore, according to Christian et.al (2011), the rise of digital tourism compelled enterprises to establish Internet presence by creating platforms that not only promote a destination but also include functions such as online reservation systems for local hotels and tour operators. This allowed smaller local firms direct access to the market as in *Figure 3*.

Tourism-related SMEs can take advantage of the rapidly expanding international tourism to be part of a value chain. This expansion, according to Christian et.al (2011), can be attributed to the decreasing costs of travel, developments in travel technologies that shorten travel time, and the growth of information technology (IT) allowing a traveller to easily learn about potential new destinations. SMEs may take advantage of value chains existing within the five stages of travel employed by Clawson and Ketch (1966): (1) anticipation; (2) travel to the site; (3) on-site behavior; (4) return travel; and (5) recollection.

In recent years, Google released its own version of the five stages of travel as cited by Tengco (2014): (1) dreaming, (2) planning, (3) booking, (4) experiencing, and (5) sharing. While challenges endure due to the inherent nature of the tourism industry (i.e. seasonal nature, sensitivity to high transportation costs, concerns about safety, and fluctuating tourism preferences), the industry still provides meaningful employment opportunities for many developing economies in a wide range of services, from accommodation to transportation, food services, and guiding.

### **Proposed Empirical Framework**

This section will describe the data requirements, sources of data, and treatment of data in various objectives of this proposal. To address the research question, there is a need to develop a survey questionnaire that will capture the firm-level characteristics (financial position, financial performance, and other relevant constructs) of tourism-related SMEs that facilitated or hindered their access to finance. By random sampling, there is a need to identifying SME-respondents who will participate in the survey. A minimum of 30 tourism-related SMEs from the Philippines will form part of the sample.

After gathering the data, an empirical model will be developed to show the relationship of the exogenous variables in the survey with the likelihood that access to finance will be granted by financial institutions. A functional form will be specified as in Equation 1.

$$ACCFIN_i = f(\mathbf{v}FINPOS_i, \mathbf{v}FINPER_i, \mathbf{v}DEMOGR_i) + \varepsilon_i \quad (1)$$

Where:

$ACCFIN_i$  = a dummy variable indicating whether an SME was granted access to finance by a financial institution. This assumes a value of 1 if granted; and 0 otherwise. This endogeneous variable will be captured by the survey questionnaire.

$\mathbf{v}FINPOS_i$ ,  $\mathbf{v}FINPER_i$ , and  $\mathbf{v}DEMOGR_i$  are vectors capturing financial position, financial performance, and demographic variables that can influence  $ACCFIN_i$ . Financial position variables can include assets, liabilities, and equities. Financial performance variables can include revenues and costs. Demographic variables can include age of the firm, age of the owner, educational attainment of the owner, among others. These variables will be captured by the survey questionnaire.

$\varepsilon_{it}$  = stochastic disturbance term that captures all other variables not included in the model. Equation 1 will be transformed into a binary logistic regression that will be estimated using Maximum Likelihood Estimation (MLE) (Gujarati & Porter, 2009).

To augment empirical results, there might be a need to conduct a focused group discussion (FGD) involving tourism-related SMEs and financial institutions. Here, it is essential to invite several SMEs who had experiences acquiring financing from banks and other formal channels. To balance the discussion, it would be necessary to include financial institutions known for having programs that cater to SME financing and development such as the Development Bank of the Philippines (DBP), LandBank of the

Philippines, Veterans Bank of the Philippines. As mentioned earlier, this will allow us to see the situation from the perspective of borrower and lender. At the same time, we would be able to validate the empirical results and add other necessary and sufficient constructs that were not captured by our empirical model. The FGD can also serve as a venue for both SMEs and banks to reduce information asymmetry between them in terms of preferences and logistical requirements.

## Conclusion

At the onset, the literature and the a-priori expectations point to the necessity of building the capacity of tourism-related SMEs. Such capacity-building programs will enable SME's to learn the business techniques that are necessary in operating enterprises - a qualification that banks look for. Likewise, in the discussion table between SMEs and experts from financial institutions, there is a huge likelihood that the information asymmetry in the industry will be reconciled. Consequently, SMEs would be capable of creating a business environment in their respective enterprises that will give them the credibility to be granted access to financing. Similarly, they will be able to think strategically about their intended interventions and the key requirements for successful access to financing.

The empirical framework proposed would be able to point to policy makers and regulators areas for intervention that will allow greater access to financing especially to SMEs. However, this can only be functional with the availability of data. As such, researchers would be able to estimate the impact multipliers in order to derive causal relationships and determine specific policy frameworks to support SME through greater access to least cost financing.

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## The role of tourism businesses to promote local destinations in Japan to attract international tourists

Rodolfo Delgado<sup>1</sup>

### Abstract

Japan has a privileged geographical location, unique landscape, abundant marine resources, and extensive social, historical and cultural resources. The country has a distinctive customer service based on welcoming hospitality known in Japanese as “*omotenashi*”, outstanding kindness and friendly service staff who work hard to satisfy the needs and demands of domestic and international tourists. However, international tourists have expressed concerns and frustrations with Japanese staff working at hotels, hostels and restaurants during their travels in the country due to their inability to communicate and cross-cultural sensibility. Tourism businesses would be able to maximize the opportunity of promoting and marketing local communities to increase the number of international tourists and to advertise the tourism destination and its branding. These efforts will increase economic development and the livelihood of local residents in the tourists’ destination while providing sustainability to the cultural and natural resources of the local communities. Japanese tourism businesses also need to invest in the human resources development by providing appropriate English and intercultural communication training to bridge the language and cross-cultural communication barriers with the international tourists for a satisfying tourists experience.

**Keywords:** Tourism, Businesses, Promote, Communities, Intercultural, Communication.

### Introduction

This research paper analyzes international tourists’ feedback on English proficiency and international communication of Japanese staff working at hotels, hostels and restaurants. International tourists have expressed their frustrations and challenges at the time of communication with the tourism service staff because of this language and cultural barrier.

The general objective of this research is to determine the challenges of international tourists traveling in Japan.

The specific research objectives consist of:

1. To describe the challenges of foreigners communicating with managers and staff working at hotels, hostels and restaurants;
2. To analyze how the managers and staff need to improve the tourists’ services to satisfy the needs of international tourists;
3. To find out the need of English and Intercultural Communication training for managers and staff in the tourist businesses.

A survey conducted in the Hakone area was aimed to determine the experience of international tourist traveling to diverse regions in Japan and communicating with Japanese managers and staff in the tourism industry specially hotels, hostels, and restaurants. A total of fifty-six (56) international tourists were interviewed regarding their experience.

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The respondents revealed that their most commonly visited places during their travel to Japan were: Hakone, Nikko, Tokyo, Kamakura, Kyoto, Osaka and Nara. Other destinations of key interests for international tourists are Hiroshima and Nagasaki. Meanwhile, other local destinations were not visited because of the lack of information on these places.

According to Kotler, Bowen, and Makens (2014) for businesses and marketing organization understanding customer behavior can be challenging and difficult within a single market. Consumers from different countries can have similarities in terms of values, attitudes, and behavior. Therefore, international businesses need to be able to adapt their services to meet the international tourists needs.

The questionnaire consisted of five questions to find out the tourists' perceptions, behavior and experiences of traveling in several locations in Japan and their first encounters communicating with Japanese staff and managers at hotels, hostels, and restaurants.

The results could be summarized into intercultural communication and misunderstanding with Japanese managers and staff in the tourism industry. International travelers to Japan expressed their concerns and communication challenges with Japanese staff working at hotels, hostels and tourists' venues because they were not able to communicate and express their opinions, comments and feedback.

Therefore, Japanese employees and managers in the tourism industry could invest in English and intercultural communication training to be able to meet international communication service standards expected by tourists.

## **Literature Review**

### ***Intercultural Communication and Tourism***

Described by Ting-Toomey & Chung (2005), intercultural communication is the study of diverse communication styles among cultural groups. It is important to take into considerations these differences because it contributes to the understanding of cultural behavior, patterns, and traditions of the host country. It also helps business executives and staff to improve second language acquisition by imitation of cultural patterns of behavior and understand the relationship that exist with language and culture. Another aspect to take into consideration is body language because staff in tourism can learn to read what the customer is trying to express.

Business executives, managers and staff working in the tourism industry can create cultural awareness and expectations in Japanese tourism organizations like hotels, hostels and restaurants by finding out how their staff perceive the cultural protocol of the organization, the expectations and business promise as an organization in the service industry. Then, they can learn the foreign cultural perspectives, customs, and traditions as well as the international protocol and behavior expected in cross-cultural communication interactions. Culture and personality are two aspects to be taken into consideration in intercultural communication, because it cannot be generalized that all people of the same culture behave similarly, even if they have a homogeneous cultural patterns and behaviors like Japanese people do (Delgado, 2015).

### ***Understanding direct and indirect communication.***

According to Ting-Toomey & Chung (2005), individualism takes into consideration the individual identity compared to the group identity, individualism values over collectivism values, self-efficiency over the group dynamics. Collectivism considers the group members interdependence, harmony and collaborative mind-set. Hofstede, Hofstede, & Minkov (2010), describes Canada, United States, Great Britain, New Zealand and Australia as individualistic countries and Japan, Costa Rica, Philippines, South Korea and Indonesia as collectivistic societies.

In the tourism service industry is important to understand the difference between direct and indirect communication styles because Japanese, other Asian nations people, may have distinctive intercultural communication styles and patterns of behavior. Westerners may show their emotions directly, while, Japanese could find this way of communication a little bit too direct and aggressive (Delgado, 2015).

### ***Open-Mindedness and a flexible attitude***

Open-Mindedness in intercultural interactions with foreigners is highly recommended for the Japanese tourism organizations because welcomes the recommendations of travelers to improve the quality of the service and increase customer satisfaction and repeat business (Delgado, 2015). International tourists may not understand Japanese management core values based on their business rules and policies. Therefore, they may face some challenges regarding the interaction with Japanese staff at hotels and tourist businesses, and they behavior may be rigid because they are following the business rules and policies of the organization. The managers can motivate the staff to have an open-mind about cultural values and behavior abroad, to be able to understand the different perspectives and have a more internationalized perspective of doing business. (Delgado, 2015).

Managers and staff in international business need to have a flexible attitude to understand interactions with foreigners because there is a lot of ambiguity in intercultural communication (World Economic Forum, 2017). Managers need to help their staff to become international citizens and more globalized to be able to cope with the changing demands of the international tourists at local and global scale and their future working environment (Delgado, 2015).

## **Destination Management and Marketing**

### ***Tourism management***

Recent information of the business, environment, and sustainability of tourists' destinations is key for its development and continue preservation. Technological innovation is another aspect that contributes to the rapid change of our economies, the increase of consumption and competition. The present world conditions and increasing social environment has predicted the growth of tourism and emerging destinations in the next decade. Senior citizens for example, is a segment of the market that will continue to growth (Moutinho, 2018).

Porter (2011) described the nations' competitive advantages as depend on the know-how of organizations and businesses to innovate in technology, products and services. If this theory is applied to the tourism industry, businesses in this field will continue to growth if they listen to the international tourists and adapt to the rapid demand of the



tourism products and services. It is key that businesses will be specialized on certain products and services because it will boost the competitive advantage of the region. Therefore, developing niche markets in the tourism industry is important to diversify the future economic growth of local destinations, not only with one but several attractions.

### ***Building a Brand Value***

Tybout (2005) describes a brand as a group of associations to a name, concept, or symbol related to a product or service. Leaders in the tourism industry oversee building relationships with organizations, companies that help promoting the tourist products and service to boost the brand value and the positioning of the destinations. Boosting the branding strategies will increase recognition of the tourist destination.

### ***Developing new tourists' destinations***

Travel agents and operators can organize tours' packages to meet the needs, demands, and interests of international tourists. These initiatives will contribute to develop new travel attractions in local communities, creating value added for the products and services will increase the benefits of the services, solve the problem of overcrowded tourists' destinations, and improve the socio-economic, and cultural development of the region.

As mentioned by Delgado (2017) the government, companies and non-for-profit organizations can add value to the branding and positioning of the new destination by specializing on niche tourists' experiences.

In the development of tourists destinations "Dredge (1999) identified three characteristics: (i) that tourists generating markets and destination regions are separated geographical entities; (ii) that the complex and multi-scale nature of destinations means that their conceptualization must be a flexible hierarchical structure adapted to suit different sales, locations and market characteristics; and (iii) that destinations can be single locations or 'chained' in that they can be a set of geographically separate locations linked through travel patterns or touring routes" (Wang, 2011).

Destination management and marketing must be developed taking into consideration the values and needs of domestic and international tourists. Therefore, businesses in the tourism industry play a protagonist role in finding out the behavior of travelers to their businesses and destinations. Governmental organizations, companies and non-for-profit organizations must join efforts to promote the marketing of the destination because businesses are not the only responsible to creating value to the tourists' experiences. International tourists can share their experiences with family members and friends to persuade them to visit local communities in Japan and travelers' feedback will contribute to organizational improvement, destination development and innovation to continue growth as sustainable develop destinations (Delgado, 2017).

Carrying capacity (CC) is defined by the number of people that can visit a destination without compromising the natural, cultural, and social sustainability of the resources for future generations. Carrying capacity contributes to the environmental management and preservation of the tourist destination also the well-being of the communities depending of the economic development of these resources. Determining the number of people entering national parks, art galleries and museums will contribute to make decision on the number of people that will be rotated in a specific place in a given time (Chougule, 2011).

## **Japanese Tourists Destinations**

Japanese tourists' destinations in local communities have a lot to offer in terms of leisure and travel activities, companies and government organizations need to continue to attract international tourists to its cultural and ecological attractions. "Local communities have the opportunity to brand, market and advertise the local tourism attractions among these tourist attractions are hot springs, temples and shrines, ecotourism or nature travel, cultural tourism, national parks, staying at Japanese hotels: *Ryokan* and animation in Japan" (Delgado, 2016).

The number of international tourists continue to increase, "According to Japan National Tourism Organization (JNTO), the estimated number of international travelers to Japan in December 2018 was about 2.6 million (+4.4% from the previous year, increased by 110 thousand), recording the highest figure so far. The total number of 2018 reached to 31 million (+8.7% from the previous year)" (JNTO, 2018).

### ***Hot springs***

Japan has many hot springs all over the country and local communities like Beppu in Oita Prefecture and Atami in Kanagawa Prefecture have organized themselves to attract international and domestic tourist to their infrastructure. Other prefectures like Nagano, Hiroshima, Yamanashi and Gunman are not far behind and continue to attract many tourists (Delgado, 2016).

### ***Temple and Shrines***

"Japan has a wealth of religious architecture - Kyoto alone is estimated to have well over 2,000 temples and shrines. But it is not just in the large cities where the visitor will find Buddhist temples and Shinto shrines - nearly every village in Japan will have a local shrine or temple. Many temples and shrines in Japan are set in well-tended garden spaces and are often connected with local festivals and other events." (JV, 2019).

Meanwhile, the city of Kyoto is facing problems of over-tourism and it is presently looking for alternatives to better manage the number of tourists visiting the city and distribute the number of international tourists to different cultural sides within the city.

### ***Ecotourism or nature tourism***

Japan has rich natural resources like mountains, rivers, and oceans that tourists can enjoy all year around. In the summer travelers can enjoy hiking and, in the winter, they can go skiing and snowboarding. (Delgado, 2016).

"Ecotourism aims to activate local economies by providing tourists with opportunities to experience local attractions accompanied by competent interpreters while preserving local resources such as the natural environment, culture and historical heritages sites. The concept of ecotourism is based on conservation and preservation of unique local resources. The keywords are environmental conservation, originality of the locals, and excitement." (JES, 2017)

### ***Cultural tourism***

There is also a huge potential to develop cultural heritage tours and visits. Japan has fifteen world cultural heritage sites which represents a lot of opportunities to market cultural tourism in Japan and invite domestic and international tourists to discover the

beauty and the essence of these world heritage sites and many other cultural attractions that Japan has to offer (Delgado, 2016).

### ***Niche markets***

There are opportunities to increase the demand of inbound tourism in Japan by promoting local communities' tourist services to specific niche markets. For example, the elderly population whom represent an important market visiting Japan and has the income and time to explore diverse local destinations. "When the Visit Japan Campaign started in 2003 in order to increase the number of foreign visitors to Japan, promotion projects overseas focused on the five prioritized markets. In 2011, they cover 15 prioritized markets. By carrying out promotions targeted at markets where the number of travelers to Japan is large at present and markets where the number of travelers to Japan is expected to grow in the future" (JG, 2012).

### ***Authentic visit***

Tochigi and many other prefectures have started a program to welcome foreigners at Japanese residents' houses at local communities. Visitors have the opportunity of experiencing Japanese local cultural, traditions, life style, cultural aspect of the region and enjoy delicious Japanese homemade food (JT, 2019).

### **Methodology**

The methodology for this manuscript was based on qualitative research. A qualitative-survey was conducted to collect the data of this research project (Silverman, 2011).

This research included a literature review and exploratory research about intercultural communication, destination management and marketing and tourism. The participants in this research were international tourists, males and females between the ages of 20 and 59 years old. They were international tourists from Asia, North America, and European countries.

The hypothesis stated that international travelers to Japan are having English communications challenges, cultural misunderstanding and issues with Japanese staff and management at tourism businesses like: hotels, hostels, and restaurants due to the lack of English and Intercultural Communication understanding in the organizations visited by the international tourists

The theoretical framework in this study is based on intercultural communication, destination management and marketing of tourism. Hofstede, Hofstede, & Minkov (2010), explained the importance of understanding intercultural communication among diverse groups to create synergies across cultures and build harmonious relationships. According to Kotler, Bowen, and Makens (2014) discuss the importance of developing growth strategies as an essential aspect of the corporate culture and making profitable growth an objective of the company is key for continue success. Marketing the benefits of the travel experience will maximize the positioning and branding of the experience because the products and services have value-added and meet the demand of local and international customers.

## **The Survey**

The survey was conducted in the Hakone area, Kanagawa Prefecture during the Spring, Summer and Fall of 2017. The questionnaire given to international tourists had the purpose of understanding their critical thinking and experiences of English and intercultural communication interactions with Japanese people in the service industry. International tourists were approached in hotels, hostels, restaurants and train stations. They were asked to provide information regarding their experience traveling in Japan consisted of the following questions:

1. Where do you travel?
2. Did you have opportunity to communicate with Japanese people at hotels and restaurants?
3. Did you have any communication problems and/or misunderstandings with Japanese people? How did you solve the communication problem?
4. Regarding communication, what measures and/or improvements can be adopted to make your visit to Japan more pleasant?
5. Where are you from?

## **Research and Discussions**

The major challenge expressed by the international tourists during their travel experience in Japan was the lack of English communication skills of the Japanese staff at hotels, hostels, and restaurants.

Fifty-six of the international tourists interviewed mentioned the need to have more English information about tourist destinations where the tourists will find smooth transitions and reach destinations. The international tourists interviewed expressed the lack of promotion available of new tourists' destinations in Japan. They mentioned getting lost in the train stations and platforms because of the lack of English and the challenges and opportunities to improve tourism in the local communities if more information in English is available:

Ten percent of the international tourists mentioned the challenges of ordering food because the lack of English menus.

Five percent of the international tourists showed concerns about not being able to communicate in Japanese and fear of traveling to local areas and getting lost because of the language barrier.

Two percent of the international tourists expressed their challenges and complexity of finding information regarding bullet trains schedules and buying tickets. Japan rail companies can provide better information online regarding the booking of bullet train seats for traveling in the country.

Two percent of the international tourists expressed their experience as a back in time journey where they were able to experience the history of the country, nature and harmony of Japan.

Two percent of the international tourists showed concerned about the usage of public WIFI and rental of pocket WIFI before arriving at the airport in Japan.

Two percent of the international tourists expressed the lack of vegan food in restaurants.

***Global skills, Creativity, Staff training and development on language and culture***

Japanese managers and service staff should receive training to understand peculiarities of global citizens. They should explore creative and innovative ideas to implement and accelerate business growth and find new ways of doing things instead of what Japanese service are used to doing.

Businesses need to be able to have English culture and language understanding and knowledge to be able to serve international markets. Having a diverse work force will contribute to innovate the organization operations locally and internationally. Having employees with diverse cultural backgrounds will contribute to facilitate the promotion of the business to international markets. Businesses owners will need to learn how to market their products and services to international markets and maintain business sensibility of the cultural differences of international markets and find out new ways to reach their international customers by either email, phone calls, and social media.

Japanese executives, managers and staff should be able to improve their English communication skills to satisfy the needs of the international tourists. They should also be able to learn intercultural communications competence skills, for example:

***Watching international news***

Reading international news will help to build understanding of the economic, political and social environment of countries around the world. Tourism service staff should be informed about the international economy and how it affects international businesses.

Making foreign friends will be a competitive advantage for employees in the service industry because it will contribute to expand their networks and international understanding.

Understanding the international mission of the tourism organization where the employees work, will help boost understanding of the partnerships, perspectives, mission and vision of the organization.

International travel for either business or pleasure will contribute to communicate with foreign people and gain international perspectives, opinions and knowledge of cultural differences.

Hiring international staff will improve the competitive advantages of companies that would like to globalize its local operations because they have the expertise and know-how of dealing with international travelers, can speak several languages and understand intercultural communication.

***Flexibility, Open-mindedness and Willingness to understand international cultures***

Japanese managers and staff can learn about the importance of flexibility when dealing with international tourists in businesses and intercultural communication by better understanding the needs of the international tourists and provide services that meet the needs of the visitors. Employees in the service industry must think about costumers first and meet the end needs of the international travelers. Japanese organizational culture needs to adapt to international standards to accommodate the needs and wants of international tourists.

Employees in the tourism industry can become more open-minded by understanding and adapting to the needs of the foreign tourists and meet their expectations. For example, if some international travelers in Japan would like to have extra pillows in their rooms,

the staff at the front desk of the hotel should not be asking questions of the reason of the request, and the pillows should be provided as soon as possible.

Willingness to understand foreign travelers' needs. For example, Japanese employees in the travel industry may prioritize customer needs before the rules of the organization. It is not about the rules, it is about the customers' needs and willingness to provide customer satisfaction. The Japanese staff at hotels and restaurants need to understand the needs of the customer to improve the quality of the services. However, cross-cultural communication and understanding is lacking, therefore, employees in the tourism industry may feel like having a disadvantage in terms of international communication and cultural understanding because international tourists mentioned their concerns about not being able to communicate in Japanese and uncertain avoidance of traveling in Japan because of fear of been lost in a foreign country.

### ***Acknowledging Cultural differences***

The Japanese rules can be a little bit rigid to understand for international tourists. For example, if tourists would like to have extra towels in the room, (additional towels are provided in Western hotels without cost) Japanese hotels may charge an additional fee to lend more towels and this extra charge may be a surprise for the international tourists at the time of checking out of the rooms. Therefore, the cost of providing extra amenities should be included in the total cost of the room. Japanese service industry needs to become more "foreign" friendly in terms of providing a Japanese service nationally and locally with an international feel that matches the foreign service expectations.

Intercultural communication is essential to improve the skills of the service staff independently of the nationality of origin. The service industry employees should be exposed to intercultural communication competences that meet international standards to serve travelers visiting Japan.

### ***Marketing tourism niche markets***

During the research process, it was observed the need of creating and developing more tourists' destinations or niche marketing tourism for specialized tourist destinations because international tourists were traveling to the same destinations, none of the tourists interviewed mentioned the Shonan area and places like Hadano, Odawara, Fujisawa, Yokohama, Yokosuka and Miura peninsula. 2% percent of the international tourists mentioned Kamakura. Therefore, the niche of community-based tourism can be developed and attract international tourists that would like to have a close encounter with Japanese local communities. For example, creating home-stay programs for international tourists can be a growing segment of tourism in the Japanese market because international tourism curiosity to discover Japanese local culture.

### ***Internationalization***

It is important to take into consideration the economic environment and the global competition that local organizations face and are strongly looking to internationalize their operations in the local communities. Innovation of services play an important role to promote an image of internationalization of small hotels, hostels and restaurants. Small businesses looking to internationalize must take into consideration several aspects in our global economy environment and how it impacts society. International competition has a direct effect on local competition to attract international travelers, business security for future operations become a priority to business owners.

### ***Contribution to the local communities***

It represents an important aspect to promote the hotels and restaurants' services in terms of promoting its contribution to sustainable development and environmental efficiency in the local communities. Businesses can promote and market its services in terms of providing low impact to the environment and contributing to sustainable development by recycling materials to market its operations locally and internationally. Taking into consideration the quality of service, the infrastructure of the business and human capacity building are important aspects to continue growing as an organization that have ethics and corporate social responsibility.

Technology and communication should help companies to facilitate the business operations and logistics. It represents essential aspects for organizations to continue to growth and innovate in the market place. Computer networks should be able to share data and communications with each other; therefore, organizations will require to update its technology and communication systems to remain competitive in the market place.

### **Conclusion**

Objective 1 stated: To describe the challenges of foreigners communicating with managers and staff working at hotel, hostels and restaurants. In conclusion, intercultural communication is essential to improve the quality of the service that Japanese staff provide to international tourists in the Japanese tourism market. International travelers to Japan expressed their concerns and communication challenges with Japanese staff and managers working at hotels, hostels, restaurants and tourists' venues because they were not able to communicate and expressed their opinions, comments and feedback.

There is a need for more English signs on the train stations, platforms, and buses terminals because several tourists' expressed concerns and frustration when getting lost in the platforms, train and buses terminals.

Japan is perceived as an expensive place to travel. Therefore, it should be marketed and position with an image of a country were travelers of all budget ranges are going to be able to travel.

More information about new destinations and existing destinations should be provided because many of the international tourists interviewed mentioned the lack of brochures in English.

Objective 2 mentioned: To analyze how the managers and staff need to improve the tourists' services to satisfy the needs of international tourists. In conclusion, marketing and branding represent an important aspect for hotels, hostels and restaurants' services in terms of promoting its contribution to sustainable development and environmental efficiency in the local communities. Businesses can promote and market its services in terms of generating low impact to the environment, contributing to sustainable development, and well-being and economic development of the local communities. Taking into consideration the quality of service, the infrastructure of the business and human capacity building are important aspects to continue growing businesses that have ethics and corporate social responsibility in the tourism industry.

Objective 3 was defined: To find out the need of English and Intercultural Communication training for managers and staff in the tourist businesses. In conclusion, Japanese managers and staff should be able to improve their English communication

skills to satisfy the needs of international tourists. They should also be able to learn intercultural communications competence skills to become global citizens in their local communities and improve the levels of communication with guests. Traveling in Japan should be an easy transition were travelers can easily communicate with Japanese locals, at hotels, hostels, and restaurants and have access to English information about local destinations.

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