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Beyond Bailouts: What Japan's Return Means for Pakistan's Development Finance

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SYNOPSIS

After a break of almost a decade, Japan is considering resuming Official Development Assistance (ODA) loans to Pakistan. It is being speculated, amid improved macroeconomic indicators and a positive IMF review in 2025, that the main reason for the suspension of the program in 2017 was the deteriorating economic situation of the country. If the resumption of loans is materialized, Pakistan would get a chance to diversify external financing away from its dependence on the IMF and China. The historical track record of Japan's economic assistance shows ODA loans can help Pakistan in gaining long term investments in infrastructure development, energy, and disaster management sectors, among others. Thus, ODA offers Islamabad an opportunity to shift its economy away from ventilator support to long-term sustainable economic growth.

Japan's international aid agency is considering restarting its [loan program](#) for Pakistan under Tokyo's Official Development Assistance Program (ODA). Japan has historically been an important development partner of Pakistan through its international aid agency named Japan International Cooperation Agency (JICA). Till 2022, Tokyo has provided Islamabad with [\\$11.7 billion](#) in economic and development assistance. While economic assistance under ODA in the form of loans, grants, and technical cooperation was [\\$7,385.13 million](#) from 2012 to 2016.

The resumption of ODA is good news for the country as it has struggled to meet the financial requirements of the development sector during the past few years. The Public Sector Development Program budget allocation has shrunk from 2.6 percent of GDP in 2018 to just 0.08 percent in

2025. The government was also mulling over [further cutting](#) PSDP from PKR 1000 billion to PKR 700 billion for the current fiscal year. Eventually, these economic figures mean a slowdown in the overall economic growth of the country. It adversely impacts the prospects of job creation, increases unemployment and poverty, and leads to uneven development of different regions of the country.

Incidentally, a dip in Pakistan's development budget since 2018 also coincided with Japan's decision to suspend ODA loans to Islamabad in 2017. It was a direct result of bad economic choices, bureaucratic hurdles, and failure to make decisions to meet long-term developmental needs of the country, which somehow led Japanese officials to lose interest in investing in Pakistan. To exemplify, JICA had been showing interest in developing the Karachi Circular Railway (KCR) project since 2009, and they also offered loans of \$2.4 billion for 40 years at 0.2 percent markup in 2013. Due to administrative delays and Islamabad's tilt towards China under the auspices of CPEC, Islamabad failed to avail this offer. Contrary to this, Japan offered a \$15 billion loan at less than 1 percent interest rate to India for the Mumbai-Ahmedabad railway project, which was availed by the latter. Subsequently, KCR has not been operational since 1999 and has not been able to restart to date due to the failure of Islamabad's development policies.

An overview of Japan's economic assistance, including under ODA, to Pakistan

Japan is one of the important long-term development partners of Pakistan. Important national-level projects which Pakistan has executed with the assistance of Japan are Indus Highway, Ghazi-Barotha Hydropower Project, Power Transmission and Grid Strengthening, Flood management and Disaster Warning Systems, and educational and health programs such as Children's Hospital Islamabad.

Furthermore, Japan's ODA to Pakistan during 2012-2016 was instrumental in meeting the requirements of the development sector. It has provided loans, grants and technical cooperation to meet the long-term developmental needs of Islamabad. Its main focus was infrastructure development, energy sector reform, water supply and sanitation, disaster management, education, health, agriculture, industrial skills and capacity building of institutions. The tables below show Japan's ODA to Pakistan.

Table 1. Japan's ODA to Pakistan by Fiscal Year as per ¥ 100 million gross disbursements

Fiscal Year	Loan Aid	Grant Aid	Technical Cooperation
2012	-	60.74	19.39 (17.87)
2013	-	48.08	16.10 (14.53)
2014	50.00	49.42	17.58 (15.96)
2015	50.00	54.57	24.23 (24.12)
2016	62.90	78.99	25.08
Total	9,922.83	2,728.43	582.91 (562.05)

Table 2. Japan's ODA Disbursements to Pakistan (OECD/DAC) with net disbursements in \$ million.

Year	Loan Aid	Grant Aid	Technical Cooperation	Total
2012	147.17	83.07 (25.17)	26.12	256.36
2013	117.81	35.80 (11.22)	19.36	172.97
2014	175.36	55.15 (16.97)	13.79	244.30
2015	37.86	45.04 (15.43)	16.68	99.57
2016	110.55	58.38 (30.84)	23.72	192.65
Total	4,485.37	2,353.57 (567.67)	546.19	7,385.13

The ODA technical cooperation with Japan has also been important, as it provided human-resource support by bringing in 2,474 Japanese experts and training 8,104 Pakistani citizens. Apart from this, financial assistance was utilized in Karachi port security improvements, weather forecasting radar installation, urban water supply schemes in Lahore and Faisalabad, girls' education initiatives in Sindh, training of public officials, and strengthening agriculture extension programs in KPK province of Pakistan.

Why is Japan considering resuming ODA assistance to Pakistan?

Japan has shown interest in restarting ODA assistance due to the contemporary geopolitical and geoeconomic considerations and improved domestic economic indicators of Pakistan. First, the IMF has shown confidence in the macroeconomic stability of Pakistan, as the country has shown progress in all quantitative indicators of the economy. Secondly, Japan is restrengthening partnerships with long-term development partners amid a changing geopolitical environment and rising geoeconomic uncertainty. The closure of USAID, rising US-China competition and its negative impacts on projects like CPEC and Trump's trade wars against the majority of countries have forced Japan to fill the vacuum created in global financial markets and global developmental

needs.

Additionally, Pakistan's global geopolitical standing and soft image have also considerably improved after its conflict with India in 2025. Since then, Pakistan has continuously striving to convert military gains into economic profits to support its ailing economy. It wants to diversify the country's investment, aid, and loans landscape to reduce its dependence on the IMF and China. It has also won over the confidence of Trump's administration, which has encouraged Japan to improve bilateral ties with Pakistan without any backlash from the United States. These efforts by Pakistan to diversify itself geoeconomically may have revived the interest of Tokyo in the financial and developmental sectors of Pakistan. At last, Japan is beefing up development and [security assistance](#) under ODA and OSA programs as part of its broader Indo-Pacific engagement strategy. Pakistan's geographic position as the crossroads of South Asia, Central Asia, and the Arabian Sea makes it strategically relevant to this strategy. Thus, renewed ODA engagement can boost Japan's regional engagement and maintain its strategic and economic influence in a region of growing geopolitical competition.

What opportunities can ODA revival offer to Pakistan?

ODA revival is a need of the hour for Pakistan amid a deteriorating development finance landscape. IMF bailouts may have helped Pakistan to achieve economic stability, but engagement with long-term development partners is key to meeting requirements in the development sector and maintaining sustainable economic growth. It is also important to mention here that revival of ODA will help Pakistan to reintegrate with global financial markets and encourage investment and loans from the Organization of Economic Cooperation and Development Assistance Committee. See the following figures about how Japan's ODA complemented assistance from OECD and DCA when Pakistan was entitled to the ODA.

Table 3. Amount of DAC Countries' and International Organizations' ODA Disbursements to Pakistan, in \$ million.

Year	1	2	3	4	5	Japan	Total
2011	United States 1,269.80	Japan 575.02	United Kingdom 334.01	Germany 157.97	Canada 87.49	575.02	2,713.27
2012	United States 625.98	Japan 302.38	United Kingdom 301.22	Germany 163.45	Australia 87.97	302.38	1,706.72
2013	United States 669.94	United Kingdom 529.77	Japan 212.16	Germany 134.48	Canada 67.09	212.16	1,876.56
2014	United States 784.76	United Kingdom 440.08	Japan 280.44	Germany 128.18	Australia 74.59	280.44	1,915.30
2015	United States 773.29	United Kingdom 572.01	Japan 175.49	Germany 103.12	Australia 52.83	175.49	1850.78

Table 4. International Organizations, ODA Gross, in \$ million.

Year	1	2	3	4	5	Others	Total
2011	IDA 879.75	EU Institutions 256.59	ADB Sp. Fund 94.44	WFP 30.29	UNICEF 22.43	84.49	1,368.40
2012	IDA 554.84	EU Institutions 190.12	GAVI 154.04	ADB Sp. Fund 47.63	GFATM 46.08	75.63	1,068.35
2013	IDA 444.31	GAVI 172.17	EU Institutions 141.91	ADB Sp. Fund 87.33	GFATM 77.13	71.85	994.67
2014	IDA 1,457.54	ADB Sp. Fund 527.31	EU Institutions 159.98	GAVI 84.40	GFATM 39.48	69.36	2,338.08
2015	IDA 1,618.14	ADB Sp. Fund 397.19	EU Institutions 123.49	GAVI 101.33	GFATM 42.12	95.60	2,377.87

Apart from this, Pakistan is facing the problem of uneven regional development. Japanese loans and investment in important projects can strengthen the prospects of national integration. The projects that are important for the country in this regard include the Indus Highway and the Karachi Circular Railway. These projects can work as starters to attract Japanese economic assistance under revived ODA loans for Islamabad.

To conclude, Pakistan can count on Japanese economic assistance as a tool to diversify its investment landscape and reduce its reliance on the IMF and China. Thus, these loans, if revived, can contribute to the financial independence of Islamabad.

Recommendations

1. Pakistan's Embassy in Japan should engage with Tokyo for early approval of JICA's proposal to revive ODA loans for Islamabad.
2. Pakistan should beef up security measures for Japanese citizens in Pakistan to address

JICA's security concerns.

3. Early identification of strategic sectors where Japanese loans could be utilized for long-term stability and development instead of short-term budgetary requirements.
4. Leveraging development partnership with Japan to attract Asian Development Bank investment in the ML1 railway line section from Karachi to Rohri, as ADB has already shown interest in the project.
5. Pakistan should avoid over hyping Japanese loans due to geopolitical reasons to avoid annoying China, as the terms between Tokyo and Beijing have been lukewarm lately.

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