

## America's Foreign Aid Retrenchment Implications for US-Japan Cooperation

### *Executive Summary*

The US shift in foreign aid policy has not only put millions of people's lives and livelihoods at risk and destabilized the global development assistance system—it also carries wide-ranging implications for Japanese interests and US-Japan development cooperation.

On January 24, 2025, the US State Department ordered thousands of US foreign assistance recipients to immediately stop work. This quickly snowballed into the termination of roughly two-thirds of US foreign assistance awards—more than \$80 billion in multi-year contracts—and precipitated the greatest shock to the global development aid system in modern history.

The impact has been profound. For two decades, the United States has accounted for 20%–25% of global ODA, contributing \$63 billion in 2024. This year's ODA will be a fraction—perhaps less than half—of the 2024 amount. President Trump has proposed an 84% cut in the FY2026 foreign assistance budget, so we likely face a prolonged period of diminished US presence.

- A study in *The Lancet* forecasts **14 million deaths by 2030** due to cuts to USAID funding, and researchers estimate that more than 500,000 people had died by September 2025.
- Some countries will be hit particularly hard. In 2023, the United States provided more than 50% of all ODA to eight countries. **US support was more than 5% of GDP** in two Pacific Islands countries—Marshall Islands (33%) and Micronesia (22%)—and four war-torn states: Somalia (9%), Afghanistan (7%), Ukraine (7%) and South Sudan (6%).
- NGOs receiving US ODA have laid off 253,500 staff—19,500 Americans and 234,000 in developing countries. A number of international NGOs and many local partner NGOs that JICA and other Japanese agencies depend upon are now at risk of going bankrupt.
- The damage to the US aid infrastructure is not just about dollars. USAID and several smaller agencies have been shuttered; the State Department's aid arms are being gutted, and just 718 people were assigned to replace the 13,000 staff fired from USAID. The dismantling of institutions, loss of personnel, and collapse of the NGO/contractor base means that, even with renewed funds, **it could take two or more years for US aid to regain operational footing.**

### **Direct Impact on Japanese Interests**

So far, the direct impact of America's pullback has been manageable for Japanese institutions, although some face serious difficulties. In total, **Japan-related NGOs and companies lost \$9.4 million** when 9 US government contracts—both direct awards and subawards through UNHCR and UNICEF—were fully or partially cut. These triggered the layoffs of 130 local staff and contractors in developing countries. JANIC reports that other Japanese NGOs have also been hurt by cuts to their alliance partners' funding or lost UN funding they had been negotiating.

The US-Japan development partnership has been a quiet engine of global stability, but **almost all jointly coordinated programs have now ended.** The US retrenchment also stings because **US funding “subsidized” other donors.** USAID paid NGOs generous indirect costs (approx. 30%),

giving them budget flexibility to accept lower rates from Japan and others. USAID also supported salaries for finance and health ministry officials in Central Asia, South Asia, and the Pacific Islands, who often became the “window” people for JICA projects, too. They are now losing their posts, making Japanese projects harder to operate.

## Indirect Impact on Japan

The fact that Japanese NGOs have been hurt less so far than those from other countries obscures a much more troubling reality: the indirect effects of the US withdrawal are systemic and severe.

**Weakened Global “Public Goods”** – The US retrenchment has hollowed out services that Japan and other donors depend upon. **Humanitarian logistics** have been hurt, for instance when the UN Humanitarian Air Service had to cut flights for aid workers to remote refugee camps and as USAID pulled funding that propped up Africa’s medical supply chains. **Security support for NGOs** decreased as UN OCHA scaled back coordination of access routes and aid convoys and the International NGO Safety Organization closed offices and reduced security trainings. **Data collection and analysis** was hit when USAID ended its Demographic & Health Survey—used for SDGs benchmarking in 90 countries—and other tools used by aid agencies around the world. **Aid coordination** suffered due to layoffs of UN and NGO staff supporting coordination in the field. And **accountability and transparency** mechanisms were undercut when US funding for democracy initiatives was eliminated.

**Deteriorating Operating Environment** – US cuts are undermining local socioeconomic conditions and human security, leaving Japanese ODA with bigger obstacles and weaker partners. **US funding covered large proportions of global funding** for population and reproductive health (79%), food aid (46%), democratic governance and civil society (42%), and humanitarian assistance (38%). Much of this has been slashed. **Progress towards universal health coverage may suffer** since the United States provided most funding for HIV/AIDS (96%), malaria (87%), and tuberculosis (71%), while covering large chunks of total national health expenditures—in places like Somalia (29%), South Sudan (22%), Uganda (8%), and Zambia (7%). America funded 40% of UNHCR and IOM budgets, so **refugees and IDPs are losing many essential services.**

**Strategic Impact** –The **US aid drawdown opens doors for China and Russia to expand influence**, shape digital and governance norms, and erode support for the liberal order. China has already started replacing US aid in strategically situated countries—providing refugee food aid in Bangladesh’s Cox’s Bazar and taking over cancelled US programs in Cambodia.

## Recommendations

**Japan:** The global development community is turning to Japan. Tokyo is increasingly seen not just as a donor, but as a pillar of stability in an unraveling system. Japan has already earned credit in Ukraine and elsewhere for its leadership, but demand is rising—and fast—to do more.

- 1) Domestically, pressure may grow to follow Washington’s lead and cut ODA. But **cutting would be a mistake.** Japan’s ODA remains a fraction of its national income (0.39% of GNI), yet it underpins Tokyo’s global stature, regional influence, and economic reach.
- 2) This moment offers a window for Japanese leadership. **Even incremental ODA increases will deliver disproportionate diplomatic returns.** Japan also has leverage beyond money. Tokyo can raise development in US-Japan dialogues, press G7 partners to recommit to ODA targets, and help stabilize multilaterals like the Global Fund, CEPI, and the Pandemic Fund.

- 3) To remain effective, **Japanese aid agencies need to take more strategic approaches**, perhaps by disbursing larger sums concentrated in fewer places with more of a long-term commitment and by being more flexible in funding NGOs that are strained by the US cuts.
- 4) **Japan's leadership in universal health coverage is now at risk.** As US technical and financial support for health recedes, Japanese programs have to fill critical capacity gaps or risk losing ground. **The same holds in digital infrastructure.** With the United States absent, Japanese efforts to expand open-source, rights-respecting digital networks in Southeast Asia and Africa could prove decisive as standards are set for decades to come.
- 5) With USAID gutted, the State Department focused on transactional approaches, and multi-lateral coordination downgraded, the burden falls on Japan to uphold norms of transparency, sustainability, and inclusive growth—particularly in the Indo-Pacific. **Japanese backing for civil society, legal empowerment, and anti-corruption initiatives** can shore up democratic norms. **Climate finance** is another arena where Japan can move into the space vacated by the United States. Also, Japan's **infrastructure lending** is a model of quality and transparency, allowing Tokyo to reinforce its brand as the high-standard alternative to Beijing.

**United States:** Now is the time for the Trump Administration to pivot from its cutting, which has caused lasting damage to national interest, and refocus on development objectives.

- 6) It is urgent that the US government **send a clear signal to reassure partners** that American engagement, while diminished, is not abandoned. Without predictable processes and coherent priorities, host governments will hesitate to collaborate and the trust of frontline implementers—so difficult to build—will further erode.
- 7) To live up to the promises made by the Trump Administration, **the US State Department needs to staff up sufficiently and establish new processes** so that it can properly take over USAID's functions as they are absorbed into the department's regional bureaus.

**US-Japan:** Rebuilding US-Japan development partnership is not a luxury—it is an essential complement to the broader alliance, in addition to defense and diplomacy. Without it, the alliance risks imbalance and reduced relevance in the Global South.

- 8) Japan is well positioned to encourage the United States to reconsider its retreat from development and catalyze the process of restarting US-Japan development cooperation. America once used *gaiatsu* (external pressure) to spur Japanese action, but now **Japanese leaders and legislators, talking directly to US counterparts, can help re-anchor development** in the American strategic debate. These messages carry weight—and urgency.
- 9) The road to reformulating a new US-Japan partnership will not be smooth. Institutional loss and political uncertainty make near-term action difficult. But there is value in starting now. **A Track 2 dialogue could lay the groundwork** for a phased reentry and shared vision.