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**“How Japan can provide international public goods
through its power”**

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**How Japan can provide international public goods through its power
Discussion Paper**

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Home to the world's third largest economy, and a global leader in technology, Japan is one of the most powerful nations on earth. But power is not the same as greatness. Many religions teach that the test of greatness for the powerful is how much they help those less well off. Nor is strength the same as leadership. No one doubts, for example, that the United States is the strongest nation on earth, militarily, economically, and perhaps culturally. But in my opinion it has failed to exercise leadership in recent years, not just in Iraq, but on a host of international issues such as global warming, where it has abandoned the Kyoto Protocol.

So the question for Japan at the beginning of the 21st century is the same as for my own country: how can Japan turn its international *power* into international *leadership* and *greatness*?

I would suggest that one measure of Japan's success in facing this challenge is the extent to which its government's policies facilitate sustainable development worldwide. The two words in the phrase "sustainable development" can be thought of as different dimensions of our moral obligations to others. "Development" captures the spatial dimension, reminding us that most people on this planet do not enjoy the affluence, security, and freedom that we enjoy, and that we have an obligation to change this. "Sustainable" captures the temporal dimension, reminding us of our obligation to future generations to assure that development is durable.

But Japan should seek global, sustainable development not just out of a sense of moral obligation. It is also in the interests of Japan that the rest of the world be better off. Yes, the rise of China has caused economic dislocation in Japan, and stirs memories of ancient military rivalries. But the more economically integrated the two nations become, the greater stake they have in the current global order, and the less likely their relationship is to breakdown into military confrontation. Consider which country poses a greater threat to Japan's security: poor North Korea or rich South Korea?

How Japan will respond to the challenge of sustainable development is very much intertwined with a paradox in the Japanese national character. On the one hand, Japan is an inward-oriented, homogenous, island nation that views the world with a subtle sense of superiority—or at least justifiable pride in all that it has achieved in the last 150 years by doing things its own way. On the other hand, Japan has a remarkable capacity to rapidly absorb ideas from the rest of the world, and is quite sensitive to its international image—all of which hints at a certain sense of *inferiority*.

I have seen both sides of the Japanese character in my own work at the Center for Global Development. CGD is an independent think tank in Washington, DC, that studies how rich

countries can and do reduce poverty worldwide. We believe that helping developing countries is about far more than foreign aid. It also involves trade, environmental issues, and more. Along with *Foreign Policy* magazine, we created the Commitment to Development Index to educate the public about these issues and spur reform. The CDI scores the “development friendliness” of 21 rich countries—Canada, the United States, Japan, Australia, New Zealand, and most of Western Europe—in seven different policy areas—aid, trade, investment, migration, environment, security, and technology. Countries get a score in each area, usually between 0 and 10, and the overall average is their final score. The 2004 edition is the second edition, and we are now revising the CDI again in preparation for the third edition next April.

Japan does poorly on the CDI. This year it is in last place with a score of 3.2, fully half a point the next-lowest country, Spain. The Netherlands and Denmark tie for first with a 6.7, and the United States is in a four-way tie for seventh place at 5.3. I can tell that some in the Japanese government are very concerned about our results—hints of that sense of inferiority. In contrast, I think that fewer people in the U.S. government care about the CDI. But as far as I know, Japanese analysts have mostly responded to the CDI by saying it must be wrong—there is that sense of superiority.¹

Commitment to Development Index 2004

Rank	Country	Aid	Trade	Investment	Migration	Environment	Security	Technology	Average
1	Denmark	12.3	5.8	4.8	6.1	5.7	7.1	5.0	6.7
1	Netherlands	11.2	5.9	6.7	5.9	5.3	6.4	5.5	6.7
3	Sweden	12.4	5.8	3.8	5.1	5.8	4.5	5.7	6.1
4	Australia	2.9	4.4	6.5	8.8	3.3	9.0	6.4	5.9
4	U.K.	4.8	5.8	6.4	4.4	5.8	9.1	4.7	5.9
6	Canada	3.6	5.7	6.3	11.2	2.9	4.3	6.6	5.8
7	France	6.0	5.8	4.7	2.7	5.9	5.6	6.1	5.3
7	Germany	3.9	5.8	6.7	6.1	6.1	2.9	5.6	5.3
7	Norway	10.6	-2.7	5.3	4.9	4.0	9.3	5.5	5.3
7	United States	1.9	6.7	5.6	10.5	2.3	4.9	5.5	5.3
11	Finland	5.0	5.7	5.1	2.6	5.0	6.7	6.3	5.2
12	Austria	3.7	5.8	4.4	2.9	6.1	3.1	6.9	4.7
13	Belgium	6.0	5.8	4.3	2.6	5.9	4.0	3.4	4.6
14	Italy	2.8	5.9	5.3	3.6	5.5	3.6	4.7	4.5
14	Portugal	2.3	5.8	5.6	2.8	5.4	5.2	4.5	4.5
16	New Zealand	0.8	5.9	2.9	5.0	4.7	6.7	4.1	4.3
17	Greece	1.8	5.8	4.1	6.2	4.7	4.0	2.5	4.1
18	Ireland	3.0	5.8	2.7	5.8	2.8	5.5	2.0	3.9
18	Switzerland	5.8	0.3	4.7	3.6	7.9	0.7	4.5	3.9
20	Spain	2.0	5.8	4.5	2.3	5.5	2.0	4.0	3.7
21	Japan	2.4	3.4	4.6	1.9	4.5	0.4	5.4	3.2

¹ Hajime Furuta, “ODA report unfairly portrays Japan’s efforts,” *Asahi Shimbun*, September 8, 2003; Yasuyuki Sawada, Hirohisa Kohama, and Hisaki Kono, *Commitment to Development Index (CDI): Critical Comments*, Discussion Paper on Development Assistance No.1, Foundation for Advanced Studies on International Development (Tokyo: 2004).

I am the first to say that there are many problems with the CDI. It is more valuable as a communications device than a scientific measurement. Each component was designed by an American expert, and was very much limited by what data are available and what we understand—or don't understand—about how rich-country policies affect poorer countries.

Still, the broad pattern of results is meaningful. Once, my father visited a Toyota factory in Japan. A manager there told him that finding a defect in a Toyota part was like finding a butterfly: it gave him insight into their production process and showed him how to make it better. Japanese products are of such high quality because Japanese companies are extremely good at incorporating information about failures into a cycle of continuous improvement. I think the Japanese government should do the same thing with the information we are presenting. The CDI is a butterfly. Japanese officials and thinkers should criticize the CDI, yes, but they should also try to learn from it, to help Japan improve itself.

Space and time permit me only a brief review of the CDI results. Complete data and documentation are available at www.cgdev.org. Here are the highlights:

Aid. All rich countries give development assistance to poorer countries. But the design of development assistance programs means that some dollars or euros are more effective than others are. So the CDI aid component rewards countries not only for the quantity of their development assistance, but also for the quality. It subtracts development assistance that comes right back to donors as debt payments. It penalizes donors for “tying” development assistance—requiring that it be spent only on goods and services from the donor country—or funding many small projects that can overload the staff of poor-country governments. It rewards selectivity—giving development assistance to countries that are particularly poor and particularly well governed. The index also rewards tax incentives for charitable donations.

Japan scores low on the aid component of the CDI, with a 2.4. Only Greece, Portugal, Spain, and the United States do worse. The main reason is that Japan gives only 0.2% of its GDP in aid, net of all debt service received from developing countries. That's about 19 yen per day per person. The CDI, unlike the standard “ODA” aid measure of the Paris-based Development Assistance Committee, nets out interest as well as principle payments received from developing countries. And Japan collected \$1.7 billion in interest from developing countries in 2002, far more than any other government. Some have argued that subtracting out interest is not “logical,” but I disagree. When a thousand yen leaves Ghana and goes to Japan, it has the same affect on development whether it is an interest or a principle payment.

On measures of aid quality, Japan actually does well. It appears to tie very little of its aid, and almost always disburses its aid in large amounts, which reduces project overload.

Trade. Trade has been a part of economic development for centuries. As the experience of Japan shows, it has the potential to be a significant force for reducing poverty by spurring economic growth, creating jobs, reducing prices, and providing export markets. The highest trade barriers (tariffs and quotas) in most rich countries are on imports made predominantly in poor countries—agricultural goods, textiles, footwear, and other light industry goods, the production of which is the first step to job creation and economic growth.

Japan scores very low on trade. Only Switzerland and Norway do worse. This is mainly because Japan imposes high tariffs on agricultural goods, which shuts out produce from countries such as India, Vietnam, and Thailand. According to the data we use, Japan's average tariff on rice is 409%—meaning it multiplies the cost of imports by a factor of 5. For wheat, the tariff is 250%, for cattle and sheep 150%, and for dairy products nearly 300%.

Investment. Rich-country investment in poorer countries can transfer technologies, upgrade management, and create jobs. For example, Singapore could not have raised its per capita income from \$2,200 in 1960 to \$29,000 in 2000 without ample investment from Japan and other countries. However, some investment dollars do more good than others. While a manufacturing giant modernizes a light bulb factory in Hungary, the petrochemical industry has indirectly financed exploitation in Nigeria. The CDI's investment component is based on a checklist of policies that support healthy investment in developing countries. Do rich-country governments offer their companies insurance against "political risks," including the possibility of expropriation by developing-country governments? In giving the insurance, do they screen for environmental and labor standards problems? Are they participating fully in international arrangements to reduce international bribery? Do they have rules to prevent profits earned abroad being doubly taxed, in countries on both sides of the investment?

Japan scores about average on investment, with a 4.6. It could raise its score by no longer providing political risk insurance in all industries; by cracking down on bribery by Japanese countries doing business abroad; and ceasing to lobby *against* enforcement of labor and environmental standard in countries such as Bangladesh.

Migration. When workers move from poor countries to rich ones, they aid the development of their home countries by sending home money. Also, migration can raise wages at home: the easier it is for a Vietnamese laborer to work in Japan, the more Nike will have to pay her to sew clothes in the company's Vietnam factories. The CDI's migration component is based almost entirely on the net flow of legal immigrants from developing countries as a share of host-country population. Weight is also given to the share of foreign students that are from developing countries, and to aid for refugees and asylum seekers. A lack of data prevented an examination of which countries discriminate in favor of skilled workers (often thought to cause brain drain in developing countries).

Japan's migration score of 1.2 is very low—only Switzerland's is lower. Japan scores low mainly because there has been little increase in the number of migrants from developing countries living in the country. In the years ahead, because of the aging population, pressure will probably grow to allow more foreign workers in. There is one bright spot in Japan's migration profile. 95% of foreign students in Japan are from developing countries, the highest of any rich country.

Environment. A healthy environment is often dismissed as a luxury for the rich, distinct from and secondary to economic development. Yet poor nations would struggle hardest with the effects of climate changes, such as drought, flooding, and the spread of infectious diseases. The index's environment component penalizes high per-capita emissions of greenhouse gases, consumption of ozone-depleting substances, and subsidies for fishing (which spur overfishing in international waters). It rewards high gasoline taxes, ratification of major environmental treaties, and contributions to international funds that assist developing countries in complying with such treaties.

Here too, Japan's record is mixed. Its greenhouse gas emissions are low per person—Japan's economy is quite energy efficient—but just as it protects its agriculture from foreign competition, it also heavily subsidizes its fishing industry, spending some \$3 billion a year. This spurs overfishing in international waters, which causes fish stocks to collapse, and deprives fishers from developing countries of an opportunity to make a living.

Security. The index tallies the financial and personnel contributions that governments have made to peacekeeping operations and forcible humanitarian interventions. Because the value of many military interventions has been hotly debated, the index filters out operations lacking approval from the U.N. Security Council, NATO, or some other international body. The index considers ten years of history in assessing a country's current willingness and ability to contribute.

The current design arguably reflects an American point of view, with its emphasis on military spending. Japan, with its strong constitutional and cultural commitment to peaceful conflict resolution, comes out poorly by the measure. I think that this result should lead Japan to ponder whether it ought to take a more active military role in the world, under UN auspices; and I know there has been an active debate in Japan about this question. On the other hand, I also believe CGD needs to continue improving this component to reflect a broader notion of security. Next year we hope to include a measure of small arms production or exports.

Technology. Technology is an essential factor in development. Vaccines and antibiotics led to major gains in life expectancy in Latin America and East Asia in the 20th century, achieving in four decades improvements that took Europe almost 150 years. Cell phones have revolutionized communications in poor countries such as Nigeria. The Internet also helps developing countries access and disseminate information, form civil society movements, and do commerce with rich-world economies. To capture government's role in encouraging innovation, the technology measure counts total government subsidies for research and development (R&D)—whether delivered through spending or tax breaks—as a share of GDP. It discounts military spending on R&D by 50 percent because, while some military innovations have useful civilian spin-offs (including the internet), much military R&D does more to improve the destructive capacity of rich countries than the productive capacity of poor ones. Unfortunately little data is available on the amount of R&D funding in areas most relevant to the world's poorest, such as malaria vaccines and tropical agriculture.

Japan scores above average on technology, with a 5.4, thanks to strong government spending on R&D.

The average of Japan's seven component scores, from aid to technology, is just 3.2. What pulls the average down are low scores on aid, trade, migration, environment, and security. While one can debate whether each of these scores is "right"—indeed, we encourage debate about methodology—what cannot be disputed is the overall picture they paint. Compared to other rich countries, Japan has a strong inward orientation. Yet we live in a time when there is general agreement that a growing interconnectedness among nations ("globalization") can be good for development. Compared to other countries, Japan maintains high barriers to foreign products and foreign people. Japan also provides heavy protection to traditional industries such as fishing and farming, which does substantial harm to fishers and farmers in developing countries. And Japan rarely ventures abroad militarily, even when that military intervention would have international backing.

There of course would be significant costs for some Japanese if the country were to open up more, reduce protection to old industries, and become more engaged militarily. This should not be minimized. But moving in this direction will be good for global development, and that will ultimately be good for Japan. I submit that a fundamental choice that Japan faces in finding its identity in the 21st century is in squarely facing the trade-offs between inward orientation and global leadership.