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JAPAN PERSPECTIVES

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December 25, 2014

Japan's Thorny Path to Fiscal Consolidation

Sota Kato

Although Prime Minister Abe's decision to postpone the planned hike in the consumption tax was popular with voters, resulting in a commanding majority for his coalition government in the December 2014 lower house election, it could spell trouble further down the road for the nation's public finances. Prescriptions for fiscal consolidation are quite simple, but politics, argues Senior Fellow Sota Kato, will likely get in the way of any serious attempts to restore fiscal health.

* * *

In his November 18, 2014, press conference, Prime Minister Shinzo Abe announced he was postponing a hike in the consumption tax from 8% to 10%—scheduled for October 2015—for 18 months, given the fragile state of the economy. He then told the nation that he was dissolving the lower house of the National Diet to seek a mandate on his decision.

Not surprisingly, the December 14, 2014, snap election for the House of Representatives resulted in a landslide victory for Abe's Liberal Democratic Party, giving the LDP and its coalition partner Komeito more than a two-thirds majority in the lower house.

Although the postponement was popular with the public, it risks exacerbating Japan's overly strained finances. Without additional revenues, Japan's already abnormally high government debt will continue to balloon out of control. Many economists, both in Japan and abroad, have contended that debt levels are not yet dangerous enough to cause alarm. But budget figures paint a rather scary picture. Japan's outstanding public debt already exceeds 200% of gross domestic product and is approaching 240%—by far the worst of any Group of Seven country.

The future looks even bleaker. A fiscal projection by a group of Japanese economists and announced by Keidanren in 2012 shows that Japan's public debt could

Sota Kato Senior Fellow and Project Manager, Tokyo Foundation.

skyrocket to nearly 600% of GDP in 2050—and this forecast was made on the assumption that the consumption tax would be raised to 10% in 2015, as scheduled. This is a level that no advanced democracy in the world has ever experienced. The economists then calculated the consumption tax rate that would be necessary to keep debt at the current level (that is, 240% of GDP). The figure they came up with was 24.7%, which is much higher than the 10% that Prime Minister Abe postponed.

Three Paths

What would Japan need to do to embark on the path of fiscal consolidation? The answer is actually quite simple, for there are only a handful of possible scenarios. The first path would be to just grow the economy, the second to hike taxes, and the third to cut spending. I will examine these three paths one by one.

The first path of simply growing the economy is what economists and politicians close to Prime Minister Abe have been advising. This is a simple idea of allowing economic growth to solve the debt problem by itself, with stronger profits leading to increased tax revenues. Advocates of this view believe that if Japan managed to grow like it did in the 1980s, the public debt problem would disappear. This would be a wonderful scenario for everyone if it were possible, but it could turn out to be very difficult to achieve.

The first and most obvious question is, how can Japan return to high-paced growth after decades of stagnancy? Paul Krugman of the *New York Times* shows that Japan's economic performance, adjusted to its demographics, is surprisingly strong, compared to the United States. While Japan lagged behind the United States and European countries in terms of real GDP growth, it was roughly even in terms of per capita GDP and even outperformed them in figures for per working-age adult. So Japan might actually have done pretty well if it managed to control its demographics.

The flip side of this finding is that given the rapid aging of the population, there might be very little room for growth in Japan. Unless the Japanese population can suddenly start growing again—or unless the economy's productivity can be radically improved—achieving success on the first path will be more difficult than one might imagine.

What are the major obstacles to path-one growth? The first is insufficiency; a long-term estimate published in 2014 by the Japanese government's fiscal council shows that even if we optimistically assume a 3% annual growth rate for nominal GDP, this will not be enough for fiscal consolidation. There will also be a need to

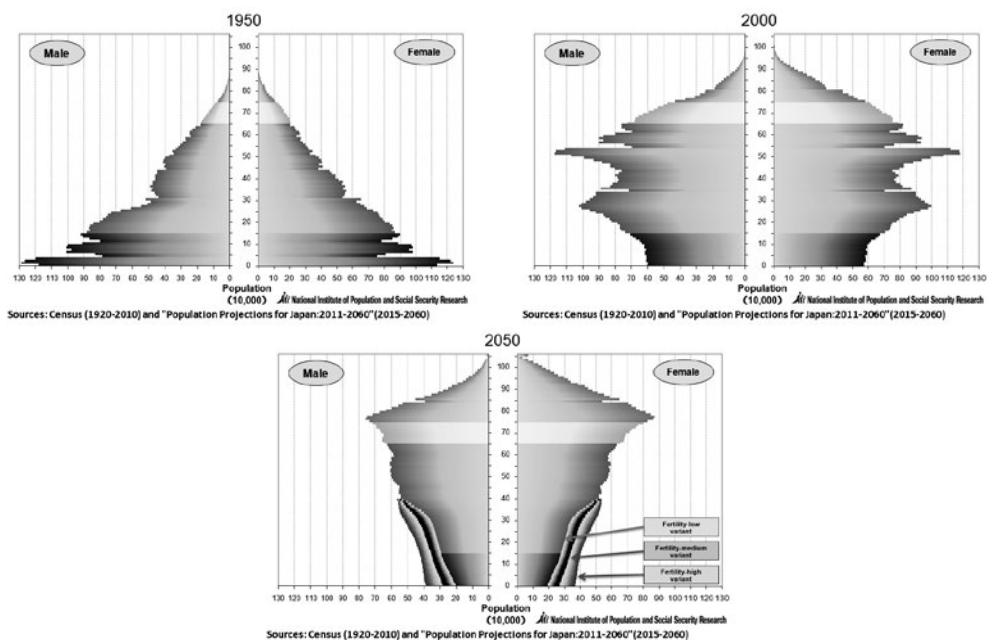
increase taxes and cut spending. Another is uncertainty, meaning that no one has a clear idea of what it would take to achieve strong growth. Sticking with this path in the hope that the Japanese economy will grow—and refraining from increasing taxes or cutting spending—would be very risky. The third obstacle is politics and the tendency of politicians to avoid structural reforms that are resisted by vested interests.

Higher Taxes

The second of the three paths to fiscal consolidation is to increase taxes, which Prime Minister Abe just postponed. It is important to note that Japan's consumption tax rate and tax burden are some of the lowest among countries belonging to the Organization for Economic Cooperation and Development. So there would appear to be room for substantial increases in the tax rate. Economic simulations have shown that Japan needs to jack up the consumption tax to 20% or even 40% in order to lower the fiscal deficit. American economists R. Anton Braun and Douglas Joines report that it would take nearly a century to consolidate Japan's fiscal situation.

The chief obstacle here, as the election results clearly demonstrate, is politics.

Japan's Population Pyramid, 1950, 2000, and 2050



Would a 20% to 40% consumption tax rate be a realistic political option in Japan, where 67% of the electorate are opposed to even a 10% rate? The political problem is a very difficult one, for several prime ministers who proposed raising the consumption tax have been driven out of power.

What are the prospects of the third path—cutting spending? Currently, 30% of the national budget is allocated to social security payments. As the aging of society proceeds, this percentage will steadily continue to rise. This suggests that spending cuts should be focused on social security payments.

Japan's demographics have changed drastically over the past half century. In the 1950s, the population pyramid was really a pyramid. But by 2000, the base of the pyramid shrank, reflecting the lowering of the birthrate. In 2050, the pyramid is projected to appear upside down. The social security system has not absorbed this change, however, so there is a great mismatch between demographics and the social security payment system.

A balance must be struck between social security benefits and burdens. The obstacle, again, is politics. Japanese politicians will tell you that cutting social welfare spending is even more difficult than increasing taxes. So expecting politicians to fix the fiscal debt problem could prove to be asking for the impossible.

The landslide election victory was a vote of confidence for the prime minister to vigorously advance his Abenomics agenda. We would hope that Abe uses the mandate to achieve breakthroughs on such politically difficult problems as the need for structural reforms, higher taxes, and a lowering of social benefits.

December 11, 2014

Snap Election 2014

Gaming the Parliamentary System

Katsuyuki Yakushiji

Prime Minister Abe's decision to hold a general election on December 14, at a time when the government has little to gain from a new mandate, has left observers perplexed. Katsuyuki Yakushiji illuminates the political calculus behind Abe's timing.

* * *

On November 21, 2014, Prime Minister Shinzo Abe dissolved the House of Representatives, as announced at a press conference three days earlier. On December 14, a mere two years after Abe's Liberal Democratic Party ousted the Democratic Party of Japan in a landslide, the people will once again head to the polls. The question is, why?

Terms for members of the House of Representatives will not expire for another two years. In addition, the next House of Councillors election is not scheduled until the summer of 2016. With the ruling coalition in control of both chambers of the Diet, most observers felt the Abe cabinet was in a strong position to pursue decisive policies oriented to the medium and long term without immediate concerns over an electoral backlash.

Meanwhile, April's consumption tax hike has taken its toll on economic growth, and the prime minister's signature policies for economic revitalization—known as “Abenomics”—have lost much of their former luster. So, why risk a general election now? This is what foreign correspondents have been asking me since Abe's surprise announcement. Indeed, many Japanese observers have been puzzling over the same question.

Preemptive Strike

The media have offered a range of theories concerning Abe's rationale for dissolving the lower house. But the explanation I have received from top officers in the ruling Liberal Democratic Party is really quite simple. The LDP's leaders have calculated that, over the next two years, the party will never be in a better position to wage a general election campaign.

In Japan's parliamentary democracy, the ability to dissolve the lower house and call a general election is one of the key powers of the prime minister, and the timing of such an election is one of the most important political decisions the prime minister can make. Abe and his advisors surely looked long and hard at key issues on the foreign and domestic front as well as trends in Japanese party politics before arriving at their decision. Accordingly, the best way to understand that decision is to do as Abe did: Review the political agenda for the next two years and ask whether the ruling coalition will be better positioned farther down the road.

With regard to economic policy, which Abe has made the centerpiece of his government since taking office in December 2012, gross domestic product plunged in response to a consumption tax hike implemented in April 2014, and while a temporary jolt was expected, the continued decline in the July–September 2014 quarter was disappointing. So far, prospects for a strong rebound are not yet in sight.

In 2015, the Abe government plans to resume operations at many of the nation's nuclear plants. It also hopes to push through a package of bills reflecting the cabinet's new interpretation of the Constitution opening the door to Japan's limited participation in collective self-defense arrangements. Neither of these measures is popular with the public, and both are expected to be targets of vigorous criticism from the opposition when the next ordinary session of the Diet convenes in January.

Cognizant of these challenges ahead, Abe sought to shore up support for his government last September by reshuffling his cabinet. With its three new female appointees, the new lineup initially drew favorable reviews. Then two of the women were forced to resign over claims they misused political funds, leaving Abe in a worse position than before.

In the face of these headwinds, the cabinet and the LDP will be hard-pressed to avoid a further decline in popular support over the next two years. The prime minister must have been anxious to avert a repeat of the debacle he presided over during his first cabinet, when the government's approval ratings plummeted in the run-up to the 2007 House of Councillors election; the LDP went down to a historic electoral defeat in the upper house then, and Abe was forced to step down.

This time, the prime minister has taken a good hard look at his medium-term political agenda and other factors—including the battle-readiness of the opposition—and made the shrewd decision to dissolve the House of Representatives while the ruling coalition still enjoyed a solid advantage.

Unfair Advantage?

At the press conference where he announced the snap election, Abe offered a somewhat different explanation, citing his cabinet's decision to delay the next phase of the consumption tax increase. "The tax system is at the heart of parliamentary democracy," he said. "No major change in the tax system should be carried out without a popular mandate." But given that none of the opposition parties oppose the delay, this seems a flimsy pretext for calling a general election. Strategic partisan considerations, not policy issues, then, drove Abe's decision to dissolve the lower house. Small wonder that voters found it somewhat mystifying.

In 2011, Britain rejected this kind of ploy when it passed the Fixed-term Parliaments Act. The law provides for five-year fixed terms for the House of Commons (the British equivalent of Japan's House of Representatives) and sharply circumscribes the prime minister's power to call snap elections. The rationale for the reform was that the prime minister's ability to dissolve the House of Commons put the opposition at an unfair electoral disadvantage.

In Japan, dissolution of the lower house is considered the prerogative of the prime minister by convention under Article 7 of the Constitution, and no one can protest that decision. Even so, Japanese prime ministers have rarely exercised that power without some compelling justification, such as a political or policy crisis. The last two snap elections, called in 2012 and 2009 by Prime Ministers Yoshihiko Noda and Taro Aso, respectively, came amid plummeting approval ratings and intense pressure from the opposition, and both resulted in a change of government. But Abe was under no such pressure last month, when he dissolved the lower house on his own initiative.

The Opposition in Disarray

Be that as it may, the strategy seems likely to pay off. As noted above, the cabinet's decision to put off the next phase of the consumption tax increase is not an election issue, since all the parties are in agreement on this point. The main target of the opposition is the current administration's policies for rebuilding the economy.

The prime minister, of course, is playing up the successes of Abenomics, citing

a surge in stock prices, growth in exports thanks to the falling yen, job creation, and wage increases. The opposition counters that only big business has benefited from the prime minister's policies. Wage increases have been limited to a handful of major corporations, and most new jobs are temporary or contract positions with minimal job security. The gap between rich and poor, opponents say, continues to widen.

The problem is that none of the opposition parties—including the DPJ, which held power from 2009 to 2012—have offered any viable alternatives to Abenomics. As a result, their criticisms smack of negativism and have failed to generate voter support. According to most opinion polls, support for the LDP has held more or less steady at around 40%, roughly three times the second-ranking DPJ's support rate. Since the DPJ's fall from grace, the LDP has been a unified giant among factious pygmies.

Part of Abe's intent was doubtless to catch the opposition off balance, and in this he has succeeded. Since none of the opposition parties has the capacity to field candidates in every constituency, electoral cooperation among the smaller parties is vital to counter the powerful LDP. But the snap election has left insufficient time for conciliation and coordination.

The LDP-Komeito coalition is running candidates in almost all 295 of the single-member lower-house districts. The DPJ, meanwhile, has too few candidates to seize a majority even in the best of circumstances. In some 60 districts, moreover, multiple opposition candidates will be vying against one another, splitting the anti-LDP vote and giving the ruling coalition an overwhelming advantage.

Voter Apathy

In short, there is precious little at stake in the coming election. The outcome is unlikely to have an effect on basic policy, and a change of government is outside the realm of possibility. Small wonder that voter interest is so low.

The contrast with the previous three general elections is striking. The 2005, 2009, and 2012 campaigns were all replete with political drama. In 2005, Prime Minister Jun'ichiro Koizumi called a snap election to secure a mandate for postal reforms opposed by senior members of his own party. In 2009 the DPJ broke the LDP's long postwar monopoly on power, and in 2012 the LDP came surging back. In each case media coverage continued at a fever pitch, and voter interest was at an all-time high. This time the mood is closer to apathy. The question "Why now?" has given way to a sense of "Why bother?"

Naturally, this apathy is expected to translate into low voter turnout, which

will favor the LDP and the Komeito, so Abe could not have planned it better. If the ruling coalition does score another landslide, as media polls are predicting, the next question is what policies Abe will seek to advance. Will he focus on pushing forward with his Abenomics agenda of economic growth, or will he seek closer ties with Japan's neighbors? The rhetoric of his campaign thus far offers few clues to the tenor of his next term.

January 28, 2015

A NATO-Asia Partnership Would Ease Japan's Regional Security Cooperation Dilemma

Tsuneo Watanabe

Japan and NATO have been referred to as natural partners sharing fundamental values, and they are being drawn closer together by what they can offer each other in terms of legitimacy and enhanced capabilities. In this paper originally prepared for the “Euro-Atlantic Meets Asia-Pacific” conference in Vancouver, organized by NATO Defense College and Simon Fraser University in November 2014, Senior Fellow Tsuneo Watanabe outlines the mutual benefits of a closer security partnership for regional stability.

* * *

In a personal conversation with a European diplomat who has been closely associated with NATO, I was told that what NATO looks for in partnering with Asian countries is legitimacy and capability.¹ These overlap with US expectations in working with its NATO and other allies in counterinsurgency operations.² And they are also precisely what Japan hopes for in advancing its partnership with NATO, although in the short term, Japan is more interested in legitimacy than capability. In the long term, though, Japan-NATO cooperation could be mutually beneficial in developing capabilities in such areas as conflict management, reconstruction assistance, cybersecurity and other transnational threats, and humanitarian assistance and disaster relief (HA/DR).

On 6 May 2014, Japanese Prime Minister Shinzo Abe gave his second speech at the North Atlantic Council, stating “Japan will commit even more strongly than

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¹ The conversation with the former NATO official was held in September 2014.

² US expectations of NATO and such other allies as Japan and South Korea in counterinsurgency operations are also legitimacy and capability, as noted in David C. Gompert and John Gordon IV, *War by Other Means: Building Complete and Balanced Capability for Counterinsurgency* (Santa Monica, CA: RAND Corporation, 2008), pp. 264–66.

ever before to fostering global peace and prosperity” and explaining that one objective of his “proactive contribution to peace” policy is for Japan to play a bigger role in defending the freedom of overflight, freedom of navigation, and other global commons.³ To this, NATO Secretary General Anders Fogh Rasmussen remarked, “Our partnership is based on shared values, a shared commitment to international peace and security and to the principles of the United Nations and international law.”⁴ Abe echoed the sentiment, noting that Japan and NATO are natural partners who share such fundamental values as individual freedom, democracy, human rights, and the rule of law.

Abe concluded his speech at the North Atlantic Council by rhetorically asking, “Why Japan and NATO?” His answer was, “We are more than simply ‘natural partners’ that share fundamental values. We are also ‘reliable partners’ corroborated by concrete actions.”⁵

Why is sharing fundamental values with NATO important for Japan’s security policy? In short, it lends legitimacy to Japan’s efforts to play a larger role in regional and world security. In the same speech, Abe explained his intention to change the interpretation of the Constitution to enable Japan to exercise its right of collective self-defense and contribute to regional stability.

This proactive posture may be welcomed by NATO member countries, but Japan’s neighbors have reacted quite differently. China still points to Japan’s aggressions in the 1930s, and South Korea has negative memories of Imperial Japan’s colonial rule of the Korean Peninsula from 1910 to 1945. For Japan, therefore, NATO is an attractive partner that has been providing a reliable framework for military cooperation among European nations like Germany, France, and Britain that were enemies during the two world wars.

In May 2014, Japan and NATO confirmed an “Individual Partnership and Cooperation Programme” covering seven areas of closer security cooperation, including cyber defense, HA/DR, maritime security and counter-piracy operations, and a comprehensive approach to conflict management.⁶

³ Speech by Prime Minister Shinzo Abe at the North Atlantic Council, “Japan and NATO as ‘Natural Partners,’” 6 May 2014, <http://www.mofa.go.jp/mofaj/files/000037774.pdf> (accessed 5 October 2014).

⁴ NATO Newsroom, “NATO and Japan Sign Cooperation Accord to Deepen Partnership, Discuss Ukraine Crisis,” 6 May 2014, http://www.nato.int/cps/en/natolive/news_109508.htm (accessed 5 October 2014).

⁵ Abe’s speech at the North Atlantic Council, see note 3.

⁶ Individual Partnership and Cooperation Programme between Japan and NATO, 6 May 2014, http://www.nato.int/nato_static_fl2014/assets/pdf/pdf_2014_05/20140507_140507-IPCP_Japan.pdf (accessed 5 October 2014).

Japan hopes NATO will share its knowhow in tackling these policy agendas and is especially eager to learn from NATO's experience in implementing a comprehensive approach to conflict management.

The National Security Strategy issued by the Japanese government in December 2013 is centered on a policy of making a "proactive contribution to peace" based on the principle of international cooperation.⁷ This entails strengthening cooperation with countries sharing universal values to resolve global issues. One such potential area of cooperation would be participation in a multilateral nation-building effort for fragile or failed states, such as NATO's role in Iraq and Afghanistan under its comprehensive approach.

In this context, NATO is a great mentor and partner for Japan, which can learn much from the reconstruction assistance NATO has undertaken to date. NATO's cooperation with Asian partners, furthermore, could set the stage for the building of a regional security architecture in the future.

1. Why Does Japan Seek Legitimacy from NATO?

Addressing Chinese and South Korean Suspicions

Prime Minister Abe's vow to make proactive contributions to peace was welcomed by NATO Secretary General Rasmussen, who stated, "In this time of crisis our dialogue with like-minded partners like Japan is key to address global security challenges" in both the Euro-Atlantic and Asia-Pacific regions.⁸ US President Barack Obama also thanked Abe for his "exceptional commitment to our alliance," telling Abe, "Under your leadership, Japan is also looking to make even greater contributions to peace and security around the world, which the United States very much welcomes".⁹ And at the Japan-ASEAN Commemorative Summit on 14 December 2013, ASEAN leaders said in their joint statement that they looked forward to Japan's "proactive contribution to peace" for the stability and development of the region.¹⁰

⁷ Government of Japan, National Security Strategy (Provisional Translation), 17 December 2013, <http://www.cas.go.jp/jp/siryou/131217anzenhoshou/nss-e.pdf> (accessed 5 October 2014).

⁸ NATO Newsroom, *op. cit.*

⁹ US White House Press Brief, "Joint Press Conference with President Obama and Prime Minister Abe of Japan," 24 April 2014, <http://www.whitehouse.gov/the-press-office/2014/04/24/joint-press-conference-president-obama-and-prime-minister-abe-japan> (accessed 5 October 2014).

¹⁰ Joint Statement of the ASEAN-Japan Commemorative Summit, "Hand in Hand, Facing Regional and Global Challenges," 14 December 2013, <http://www.mofa.go.jp/mofaj/>

By contrast, China questioned the new security policy. In its 18 December 2013 editorial, the *China Daily* warned against Abe's "proactive pacifism," asserting that "the catchy but vague expression" is "Abe's camouflage to woo international understanding of Japan's move to become a military power."¹¹ The *China Daily* also pointed out that Abe's doctrine seeks to turn Japan's Self-Defense Forces into "ordinary armed forces." In reality, though, the Self Defense Forces (SDF) are far from "ordinary armed forces" able to take necessary actions to counter potential aggressive military actions by its neighbors.

China's concerns are shared by South Korea, another major ally of the United States in East Asia, which openly expressed its misgivings about Japan's possible return to prewar militarism. The Abe cabinet's decision to change the interpretation of the Constitution's was controversial, since Article 9 explicitly states that the "Japanese people forever renounce war as a sovereign right of the nation and the threat or use of force as means of settling international disputes." The 1 July 2014 cabinet decision expanded the scope of Japan's right of self-defense to incorporate actions that are often seen as an exercise of the right of collective self-defense, which has been the target of a self-imposed ban over the past four decades.

The decision worried the South Korean people, since the new interpretation theoretically could enable the Japanese government to send troops to the Korean Peninsula in a contingency. The day following the cabinet's decision, the *Korea Joongang Daily* published an editorial stating, "Neighboring countries increasingly worry about the alarming development," although it also noted, "Japan's exercise of collective self-defense will raise the level of the Washington-Tokyo alliance further."¹²

South Korean anxiety will affect the nature of Japan-US-ROK security cooperation. At a trilateral meeting of defense ministers on 31 May 2014, Japanese Defense Minister Itsunori Onodera and South Korean National Defense Minister Kim Kwan-jin agreed with US Secretary of Defense Chuck Hagel to cooperate in addressing the threat of North Korean missile and nuclear development. Out of consideration for South Korean anxieties about Japan's "proactive contribution to peace" and reinterpretation of the Constitution, Onodera explained to his South Korean counterpart before the meeting that Japan's SDF will not operate in South Korean territory without Seoul's request or permission—even after Tokyo changes its constitutional interpretation.

files/000022451.pdf (accessed 5 October 2014).

¹¹ "Abe's Three Shots at Pacifism," editorial, *China Daily*, 18 December 2013, http://www.chinadailyasia.com/opinion/2013-12/18/content_15106729.html (accessed 27 July 2014).

¹² "Japan at a Crossroads," editorial, *Korea Joongang Daily*, July 2, 2014, <http://koreajoongangdaily.joins.com/news/article/article.aspx?aid=2991448> (accessed 12 October 2014).

Japan's Rationale for a Larger Regional Security Role

While claims of Japan's "resurgent militarism" are exaggerated, Japan should not underestimate the influence of public perception in neighboring countries. In fact, Japan's disconnect with its neighbors could become an obstacle to implementing its policy of making a "proactive contribution to peace," particularly in the Asia-Pacific region.

Abe's views of history and World War II have been criticized not only by China and South Korea but also by the US and European media. In December 2013 Abe made a surprise visit to Yasukuni Shrine, where Japanese war dead, including Class-A war criminals, are enshrined, prompting the US embassy in Tokyo to immediately release an unusual statement calling his shrine visit "disappointing."¹³ Even the conservative *Wall Street Journal* criticized Abe's visit in its editorial as an offense against East Asian history and a strategic liability, hurting the ability of like-minded states to promote a peaceful, liberal regional order and giving Chinese leaders an opportunity to use the supposed specter of Japanese military resurgence as an excuse to expand their own power.¹⁴

Despite the image encouraged by China and South Korea, the Abe administration is marked more by realism than nationalism. University of Tokyo Professor Emeritus Shinichi Kitaoka, who is deputy chairman of Prime Minister Abe's advisory panel on reconstructing the legal basis for national security, is a self-restrained realist, not a conservative nationalist. And as the leader of a Tokyo Foundation project that produced a policy proposal on "Redefining Japan's Global Strategy," Kitaoka recommended restraining emotionalism and taking pragmatic steps to find common ground with China and South Korea.¹⁵

The Abe administration's current security policy initiatives are not the result of an emotionally charged nationalism but represent a rational and incremental development of democratic governance in Japan's postwar security and defense policy. That said, it would not be easy to wipe away anxieties about Japan's proactive contributions to regional security unless it engages in actual peaceful practices.

¹³ US Department of State, "Statement on Prime Minister Abe's December 26 Visit to Yasukuni Shrine," 26 December 2013, <http://japan.usembassy.gov/e/p/tp-20131226-01.html> (accessed 13 October 2014).

¹⁴ "Shinzo Abe's Yasukuni Offense: Japan's Whitewashing of History Is a Strategic Liability," *Wall Street Journal*, 26 December 2013.

¹⁵ Tokyo Foundation, *Abe gaiko e no 15 no shiten* (Redefining Japan's Global Strategy), August 2013, pp. 4–5, <http://www.tkfd.or.jp/files/doc/2013-02.pdf> (accessed 12 October 2014).

While the Obama administration has repeatedly reaffirmed America's military commitment to the Asia-Pacific region as part of its rebalancing policy, the resources the United States can direct to the region are limited due to serious budgetary constraints and security commitments to the Middle East, North Africa, and elsewhere. US allies in Asia are well aware that they will need to take on a bigger share of the burden of protecting the global commons for the region's security and stability—and Japan is no exception. Japan's security community has thus been proposing that the government play a more active role for Asia-Pacific security. Even before the conservative Abe returned to office, an advisory panel for Prime Minister Yoshihiko Noda of the Democratic Party of Japan proposed that Japan play a more active role in regional security.

Noda's panel called on Japan to deepen security cooperation with the United States and other countries espousing common values and to establish stronger networks with them. Enhancing security cooperation, though, first requires a fuller recognition of Japan as a valuable partner in Asia. The panel's report also recommended that Japan expand channels of security cooperation by revising outdated institutions and practices, including the interpretation of the right of collective self-defense. It stated that Japan should seek to fulfill a leading role in "international rule-making processes that involve developed and emerging countries," particularly in Asia and the Pacific, in such diverse fields as security, the environment, economy, space, and the sea.¹⁶ The document represents the consensus opinion of the Japanese foreign and security policy community, and its recommendations have much in common with those being made by those supporting and advising the conservative Abe cabinet.

The center-left Noda administration did not need to worry about Chinese and Korean reactions to these recommendations, since cabinet members did not make controversial remarks on the history issue. This implies that the perception of Chinese and Korean leaders, as well as of the public, has an influence on the government's stance. Once they take root, perceptions are not easy to change. Japan therefore needs to tackle the conflicting objectives of playing a larger role in providing the international public goods for regional security and reducing the anxiety of worried neighbors.

¹⁶ Frontier Subcommittee, "Toward a 'Country of Co-Creation' which Generates New Value by Manifesting and Creatively Linking Various Strengths" (Tentative Translation), 6 July 2012, p. 4, http://www.cas.go.jp/jp/seisaku/npu/policy04/pdf/20120706/en_hokoku_gaiyo1.pdf (accessed 13 October 2014).

ASEAN's Concerns

Anxiety over Japan's military resurgence was not widely shared by other Asian nations, however. In fact, ASEAN leaders welcomed Abe's "proactive contribution to peace" in a Japan-ASEAN summit meeting in Tokyo in December 2013. Most Asian players were more worried about China's recent assertiveness on territorial and security issues. This worry was compounded by the lack of certainty in US security commitments to and presence in the Asia-Pacific region. Despite Obama's repeated assurances, regional players still harbor anxieties about American detachment from the region, especially in Southeast Asia.

The Obama administration's former National Security Advisor Tom Donilon reconfirmed the rebalancing policy in an April 2014 op-ed piece in the *Washington Post* after the president's visit to Asian countries. Donilon insisted that "the rebalancing of U.S. priorities and resources toward Asia remains the right strategy" despite the costly cancellation of President Obama's trip to the region during the US government shutdown in 2013. He added that the rebalancing policy represents a shift of resources away from the war efforts in the Middle East and Afghanistan toward the Asia-Pacific.¹⁷

However, his successor and current National Security Advisor Susan Rice made a speech at Georgetown University that made some regional players nervous, when she suggested that Washington would accept the concept of new major power ties proposed by Chinese President Xi Jinping. She stated, "when it comes to China, we seek to operationalize a new model of major power relations." For America's regional allies, such acceptance of the Chinese concept implies that the United States and China would respect each other's influence over neighboring countries, rather than uphold the sovereignty of individual countries.¹⁸ After sending this misleading message, the Obama administration has been careful not to use the same terminology as China, but Asian allies remain somewhat skeptical about the US commitment to the region.

That is one reason why ASEAN welcomes Japan's larger security role. At the same time, Asian countries do not want to become embroiled in a conflict pitting China against the Japan-US alliance. In a recently published report by the Pew Re-

¹⁷ Tom Donilon, "Obama Is on the Right Course with the Pivot to Asia," *Washington Post*, 20 April 2014.

¹⁸ Remarks prepared for delivery by National Security Advisor Susan E. Rice, "America's Future in Asia," Georgetown University, 20 November 2013, <http://www.whitehouse.gov/the-press-office/2013/11/21/remarks-prepared-delivery-national-security-advisor-susan-e-rice> (accessed 13 October 2014).

search Center, respondents in 8 of the 11 Asian countries polled said they were worried about China's territorial ambitions triggering a military conflict with its neighbors. However, there were considerable discrepancies in ASEAN's perceptions of China as an ally or threat, depending on the closeness of the country's ties with China.

ASEAN countries that have territorial disputes with China tend to see it as a threat, while those that depend on China for trade tend to see it as an ally. For example, respondents in the Philippines and Vietnam were more likely to see China as a threat and the United States as an ally, while those in Malaysia see China slightly more as an ally and the United States as a threat, although the shares were more or less evenly divided since Malaysians have both anti-US sentiments and territorial disputes with China. In Indonesia, more people see the United States as both an ally and a threat. In Thailand, more people see the United States as an ally, but for many Thais, their number one threat is not China but Cambodia. Thailand enjoys close economic ties with both the United States and China.¹⁹ Cambodia, Laos, and Myanmar, which are heavily dependent on economic relations with China, have a more favorable attitude toward China. If there is a consensus among the ASEAN states, it is that none of them wants a conflict between China and the Japan-US alliance.

Outside of ASEAN, South Korea is one country that is heavily dependent on the Chinese economy. Since 2010 China has accounted for around 25% of South Korea's total trade. Japanese leaders thus need to consider the reluctance of ASEAN countries and South Korea to provoke China, which could have a negative impact on their economies. Economic interdependence with China is also a consideration for some European and NATO countries. In fact, European expectations of the Chinese economy are higher, on average, than in Asia. In the Pew survey, 49% of Europeans identified China as the world's biggest economy, while only 37% believed the US economy was the largest. This compares with 55% of Asians who said the US economy was biggest and 25% who cited China. The European view regarding the rise of China appears to be more positive than that in Asia.²⁰

¹⁹ Pew Research Center, "Global Opposition to U.S. Surveillance and Drones, but Limited Harm to America's Image: Many in Asia Worry about Conflict with China," 14 July 2014, <http://www.pewglobal.org/2014/07/14/global-opposition-to-u-s-surveillance-and-drones-but-limited-harm-to-americas-image/> (accessed 13 October 2014).

²⁰ *Ibid.*

2. NATO as a Collaborator and Model for Asian Security

Accommodating the Rise of China

The biggest challenge for players in the Asia-Pacific region is accommodating the rise of China in a peaceful and mutually beneficial manner. In the immediate future, there is a need to prevent competing territorial claims in the East and South China Seas from escalating into a military conflict between China and such neighbors as Japan, the Philippines, and Vietnam. Prospects for a peaceful resolution are nowhere in sight, though, despite such regional efforts as the issuance of a declaration at the ASEAN Summit in Naypyidaw, Myanmar, in May 2014, calling on China and Vietnam to end their confrontation in the South China Sea and resolve their dispute peacefully.²¹ China has not shown any serious interest in enacting a binding code of conduct for the South China Sea with ASEAN countries despite a verbal agreement to do so.

As matters stand, the US military presence and its alliances with such players as Australia, Japan, and South Korea are expected to provide stability for the region. No one wants a military confrontation, which would have serious repercussions for the regional and world economy, as the United States, Japan, and China together account for more than 40% of the world's GDP and have deeply intertwined ties in trade, investment, and finance.

Accordingly, avoiding a military showdown is of critical importance for the global political and economic order. It is easy to say, in theory, that the world should not contain but engage China. But in practice, attaining the two conflicting goals of encouraging China to respect international rules and laws as a responsible player in regional order and sending China a message to avoid any accidental military skirmishes is not easy.

At the start of the Obama administration, Deputy Secretary of State James Steinberg outlined a policy of "strategic reassurance" toward the rise of China. In a speech on 24 September 2009, he explained the concept as resting on a core bargain between the United States and China: The United States and its allies must make clear that they are prepared to welcome China's rise in the global economy, he wrote, while "China must reassure the rest of the world that its development and growing global role will not come at the expense of security and well-being of

²¹ Philip Heijmans, "South China Sea Dispute Overshadows ASEAN Summit," *The Diplomat*, 12 May 2014, <http://thediplomat.com/2014/05/south-china-sea-dispute-overshadows-asean-summit/> (accessed 13 October 2014).

others. Bolstering that bargain”, he added, “must be a priority in the U.S.-China relationship.”²²

This strategic initiative failed to attain its policy goal. China did not show any respect to other countries’ security and well-being and ignored international laws and rules. On the contrary, the policy merely encouraged a more assertive attitude in the East and South China Seas in 2010. For example, Chinese law-enforcement patrol ships arrested many Vietnamese fishermen in disputed waters in the South China Sea in 2009 and 2010.²³ China arrested four Japanese businessmen in China and halted rare-earth sales to Japan after the Japanese government arrested a Chinese fishing boat captain who rammed his trawler into two Japanese Coast Guard patrol boats in waters near the Senkaku Islands in the East China Sea in September 2010.²⁴

The failure of the “strategic reassurance” policy hardened the Obama administration’s policy toward China. At the ASEAN Regional Forum meeting in Hanoi, Vietnam, on 23 July 2010, US Secretary of State Hillary Clinton said, “the United States has a national interest in freedom of navigation, open access to Asia’s maritime commons, and respect for international law in the South China Sea.” She also stated that the United States opposed the use or threat of force by any claimant in the South China Sea and supported multilateral talks on the issue.²⁵ The speech was regarded as the beginning of the Obama administration’s shift in 2011 from a “strategic reassurance” to a “rebalancing” policy toward the rise of China.

The US rebalance toward Asia, though, has not produced any remarkable results thus far. This policy is still within the engagement paradigm and does not signal a shift to a potentially more hostile containment strategy. The more the Obama administration confirms its military presence in the Asia-Pacific region,

²² James B. Steinberg, “Administration’s Vision of the U.S.-China Relationship,” Keynote Address at the Center for a New American Security, Washington, DC, 24 September 2009, <http://www.state.gov/s/d/former/steinberg/remarks/2009/169332.htm> (accessed 14 October 2014).

²³ Vaudine England, “Why Are South China Sea Tensions Rising?” *BBC News*, 3 September 2014, <http://www.bbc.co.uk/news/world-asia-pacific-11152948> (accessed 14 October 2014).

²⁴ Ian Johnson, “China Arrests Four Japanese amid Tensions”, *New York Times*, 23 September 2010, <http://www.nytimes.com/2010/09/24/world/asia/24chinajapan.html> (accessed 14 October 2014).

²⁵ Remarks by Secretary of State Hillary Clinton, Hanoi, Vietnam, 23 July 2010, <http://iipdigital.usembassy.gov/st/english/texttrans/2010/07/20100723164658su0.4912989.html#axzz3G4qgQZuv> (accessed 14 Oct 2014).

though, the more China senses the hostility of the US rebalancing policy and is inclined to regard the Japan-US alliance as an impediment to the pursuit of its national interests. The Communist Party of China draws its legitimacy from its victory against Japanese militarism in the 1940s, and as such, Chinese leaders simply cannot be seen to be compromising toward Japan or the Japan-US alliance in front of their public. The rise of the country's economy and military is an energizing source of national pride for the Chinese populace, often offsetting the frustration people feel over the socioeconomic contradictions inherent in their one-party political system.

Policy Options for the US and Its Allies

In general, the Japan-US policymaking community's strategic consensus toward the rise of China is to use a combination of cooperative engagement, balancing, and hedging. "Cooperative engagement" means building and maintaining economic and diplomatic ties with China. "Balancing" means creating a favorable balance of power to influence Chinese behavior. "Hedging" means maintaining a regional military presence and close alliance management in case China emerges as a challenger to US leadership.²⁶

Engagement would weaken should the United States and Japan enhance their military capabilities as a hedge against the rapid modernization of Chinese forces in such areas as A2AD (anti-access and area-denial). In the past, "a cork in the bottle" theory was used as an effective tool to reassure China that the Japan-US alliance framework would act to contain the resurgence of Japanese militarism. In October 1971, Henry Kissinger, then national security advisor to President Richard Nixon, persuaded Chinese Premier Zhou Enlai that US control of Japan within the alliance framework would be more in line with China's security interests than setting Japan free.²⁷ China could be persuaded with such logic at the time partly because it saw the Soviet Union as a more serious threat. Now, many East Asian security experts are predicting a rivalry between the United States and China for regional dominance.

China can no longer count on the United States to suppress Japan's regional

²⁶ Tsuneo Watanabe, "US Engagement Policy toward China: Realism, Liberalism, and Pragmatism," *Journal of Contemporary China Studies*, vol. 2, no. 2, 31 January 2014, published by the Institute of Contemporary Chinese Studies, Waseda University. The article can be accessed on the Tokyo Foundation website, <http://www.tokyofoundation.org/en/articles/2014/us-engagement-policy-toward-china> (accessed 14 October 2014).

²⁷ Henry Kissinger, *White House Years* (Boston: Little, Brown & Co., 1979), p. 1089.

security role, as there has been an incremental expansion in areas of Japan-US cooperation, such as through the drafting of the Guidelines for Japan-US Defense Cooperation in 1997. This worried the Chinese leaders, who wondered whether the Guidelines might apply to contingencies across the Taiwan Strait. China is also concerned with the ongoing revisions to Japan-US security arrangements, which are expected to expand the areas and degrees of security cooperation following the 1 July 2014 Japanese cabinet decision outlining a new interpretation of the Constitution.

Using NATO to Reassure China

Japan and the United States would welcome NATO's role as a new "reassurance mechanism" for China. Japan and the United States cannot stop working closely together, as they need to deter potential aggressions by an unstable North Korea and to keep China's assertiveness in check. A multilateral security architecture could potentially be built in the region obligating all players, including China, the United States, and Japan, to adhere to common rules and laws. ASEAN, the ASEAN Defense Ministers Meeting Plus Dialogue Partners (ADMM-Plus), the ASEAN Regional Forum, and the East Asia Summit are some potential forums for such a regional security mechanism. There are limitations, however; China's recent behavior shows that it has little respect for multilateral frameworks. China is instead seeking a grand bargain: a power-sharing arrangement with the United States that would enable it to circumvent a full commitment to multilateral cooperation.

An imperative for the Asia-Pacific region and the world, then, would be to not just advance cooperative engagement with China but to induce the country to become a cooperative and rule-abiding player—without damaging economic ties or sacrificing regional stability. NATO's European member states are already important players engaged in trade and other economic activities. In this context, NATO could become a key factor in inducing China to cooperate with a regional security framework. The Chinese are far less suspicious of NATO's European allies, who are also critically important economic partners for China.

That is why cooperating with NATO is a safer and more effective approach to making a proactive contribution to regional peace for Japan, as this would be less provocative for China and other neighbors. Security cooperation with NATO and, if possible, South Korea would greatly facilitate Japan's participation in a regional security initiative.

3. What Do Japan and NATO Expect from Each Other?

Common Elements in Japan's Cooperation with NATO and ASEAN

In May 2014, Japan and NATO signed the “Individual Partnership and Cooperation Programme” whose priority areas for cooperation include the following:

1. Cooperation and sharing lessons learned from Cyber Defense
2. Cooperation on humanitarian assistance and disaster relief
3. Counter terrorism
4. Disarmament, in particular related to small arms and light weapons, arms control, non-proliferation of weapons of mass destruction and their means of delivery
5. Maritime security, especially counter piracy
6. Comprehensive approach to conflict management
7. Defense science and technology

None of these items are highly sensitive for China or elicit anxiety over a resurgence of Japan's militarism. Advancing security cooperation in the region with NATO would greatly contribute to building confidence among East Asian players, as NATO has a solid track record in improving the European security environment over the past 65 years. The fact that NATO's major European members have not been involved in a serious conflict with China or South Korea over the past half century would give greater legitimacy to Japan's security contributions. NATO also has an important lesson for Asia, having overcome historical animosities and negative war memories to create and manage a cooperative multilateral security architecture.

In addition, the Japan-NATO agenda overlaps those of the Japan-ASEAN security cooperation agenda, outlined in the joint statement of Japanese and ASEAN leaders at the summit meeting in Tokyo on 14 December 2013, as follows:²⁸

1. Maritime security and cooperation

²⁸ Joint Statement of the ASEAN-Japan Commemorative Summit, “Hand in Hand, Facing Regional and Global Challenges,” 14 December 2014, <http://www.asean.org/news/asean-statement-communicues/item/hand-in-hand-facing-regional-and-global-challenges> (accessed 13 October 2014).

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2. Free and safe maritime navigation and aviation
3. Korean Peninsula
4. Global economy
5. A society in which all women shine
6. Societal issues
7. Millennium Development Goals (MDGs), post-2015 development agenda
8. Climate change
9. Humanitarian assistance and disaster relief
10. Sustainable utilization and management of water and natural resources and environmental protection
11. Transnational threats
12. Middle East
13. United Nations Reform

Japan and the two regional multilateral frameworks clearly seek to achieve similar policy goals. NATO and ASEAN thus have considerable room for cooperation in addressing such issues as maritime security, cybersecurity, the proliferation of weapons of mass destruction, and humanitarian assistance and disaster relief. They could very well create a cooperation framework addressing such urgent security issues without causing alarm to any regional actor.

HA/DR as Initial Area of Cooperation

Abe's "proactive contribution to peace" has been well received by NATO, the United States, and ASEAN. The next step would be creating a framework for implementation by identifying priorities for effective cooperation. A prime candidate would be humanitarian assistance and disaster relief (HA/DR), an issue that has few obstacles and yet requires an urgent response in the light of such transnational threats as cyber attacks. It is an area that lends itself naturally to a cooperative framework involving NATO and partner countries like Japan and South Korea.

The SDF have extensive expertise and capabilities in HA/DR owing to Japan's frequent earthquakes, typhoons, and other natural disasters. The joint operations with US forces in the wake of the March 2011 Great East Japan Earthquake elevated HA/DR cooperation into a new mission for Japan and the United States and into an international commons for the Asia-Pacific region. The Japan-US "two plus two" Security Consultative Committee agreed to promote multilateral cooperation in HA/DR through joint exercises and mutual logistics support. The two sides also

concluded on the importance of establishing a regional HA/DR logistics hub in Japan.²⁹

HA/DR has two advantages over other issues. First, Japan and the United States can offer their experience and capabilities to NATO or the European Union in future joint operations. Second, HA/DR is an area in which cooperation with even China would be possible, unlike other traditional military missions. If China participates in the framework, it would promote confidence-building and provide reassurance to other players in the region. China has, in the past, accepted SDF rescue teams on Chinese soil, such as following the May 2008 Sichuan Earthquake, although the rescue workers were dispatched using a private charter flight rather than an Air SDF aircraft out of consideration for Chinese sensitivity to the deployment of Japan's defense personnel.³⁰

In 2011, the Tokyo Foundation issued a policy proposal on "Japan's Security Strategy toward China" calling for the formation of "a resilient habit of cooperation capability" in an effort to deepen interdependence.³¹ Discussions on HA/DR cooperation have already been advanced in the ASEAN Regional Forum following the Sumatra earthquake and tsunami of 2004.

What Japan Hopes to Learn from NATO

One thing that Japan hopes to learn from NATO through cooperation with the organization is its comprehensive approach to conflict management. For example, the National Security Strategy (NSS) issued by the Abe government in December 2013 proposed that Japan will develop a new system of seamless assistance to potential recipients in security-related areas through the strategic utilization of official development assistance and capacity building support, as well as coordination with nongovernmental organizations. In addition, the NSS announced Japan's intentions to engage in the training of peacebuilding experts and Peace-Keeping Operations personnel in various countries, adding that Japan will consult closely with countries and organizations that have experience in such

²⁹ Joint Statement of the Security Consultative Committee by Secretary of State Clinton, Secretary of Defense Gates, Minister for Foreign Affairs Matsumoto, and Minister of Defense Kitazawa, "Toward a Deeper and Broader U.S.-Japan Alliance: Building on 50 Years of Partnership," 21 June 2011, http://www.mofa.go.jp/region/n-america/us/security/pdfs/joint1106_01.pdf (accessed 14 October 2014).

³⁰ "Memories That Still Linger," *Japan Times*, 1 June 2008.

³¹ Tokyo Foundation, "Japan's Security Strategy toward China: Integration, Balancing, and Deterrence in the Era of Power Shift" (policy proposal), October 2011, p. 45.

engagement, including the United States, Australia, and European countries.³²

Currently, the Abe administration is drafting a revision to the ODA Charter that outlines Japan's desire to play a larger security assistance role with global actors in a comprehensive manner. It is not yet clear how much the ODA Charter will be revised, but there is no doubt that Japan will benefit through closer cooperation with NATO, which has been offering assistance in a comprehensive manner to both military and civilian organizations, such as in the western Balkans, Afghanistan, and Libya.

Sharing a Successful Asia-Pacific Security Framework

Discussions on a security cooperation framework between Japan and NATO began at the Track 2 (nongovernmental) level a few years before the Japanese government and NATO officially agreed on the Individual Partnership and Cooperation Programme in May 2014. The Tokyo Foundation and the German think tank, Konrad Adenauer Stiftung, for example, have been engaged in Track 1.5 dialogue over the past few years. Such discussions among Japanese and NATO security experts suggest that the above-mentioned security cooperation agenda would have great benefits for both sides. Participants in an open conference hosted by the Tokyo Foundation in July 2012, for example, agreed that common global challenges like terrorism, the proliferation of weapons of mass destruction, and piracy should be addressed by deepening the partnership between Japan and NATO.³³

NATO would thus be a great partner for the Asia-Pacific region. NATO would give legitimacy and help build confidence in the region owing to its record of surviving a difficult game against the Soviet Union and preventing a catastrophic military showdown through a combination of engagement and hedging. NATO's cooperation in building an Asian security architecture would not alarm China or other Asian countries. China would be less nervous with NATO's engagement, given its geographical and political distance from the Asia-Pacific. In addition, major NATO members, such as Germany, France, Britain, and Canada, have close economic ties with China. Since NATO is a military alliance involving the United States, troubled Chinese neighbors like Japan and the Philippines would also be assured.

³² Government of Japan, National Security Strategy, pp. 30–31.

³³ "NATO in a Changing World: Implications for Japan," experts' meeting and open forum coorganized by the Tokyo Foundation and Konrad Adenauer Stiftung, <http://www.kas.de/japan/en/events/51899/> (accessed 13 October 2014).

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NATO and Asian partners should seek to create a multilateral and multilayered Asian regional security architecture in which China could ultimately play an active role. China is not comfortable obeying the rules drafted by ASEAN countries, which are much smaller and weaker economically and militarily. Neither is China comfortable conceding to demands from the United States and Japan, which it regards as potential rivals. Although the United States is a NATO member, China is likely to respect NATO initiatives if they are well implemented and carefully coordinated with other members, the EU, ASEAN countries, and US allies in the region. Such a coordination process would be a big challenge for NATO, representing a new mission for the organization. But if successful, it would become another great achievement that serves the economic and security interests of all member countries.

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Governance and Human Security in the Asia-Pacific

Akiko Fukushima

The Asia-Pacific has been slow to establish a system of regional governance, but economic interdependence and the transnational nature of security threats now demand a collective response. A “glue” is needed to hold the parties together, and Senior Fellow Akiko Fukushima contends that the concept of “human security” could serve as such an adhesive.

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1. Cracks in Global Governance

Seventy years ago, such global governance institutions as the United Nations, World Bank, and IMF were created. They have certainly contributed to preventing a Third World War and to enabling global economic and financial growth. The global environment has undergone an immense evolution since then, though, and the concerns of the international community are focused not just on war but on a whole array of issues, from insurgencies, terrorism, cybersecurity, space, and epidemics to climate change. Structurally, the world has witnessed a tectonic shift in power distribution, from a bipolar to unipolar and to a new type of multi-polar arrangement. We do not yet know who will lead the new global order. Rising powers are reluctant to lead unless this serves their national interests. And declining powers are losing the capacity they once had to lead.

Security incidents are far less predictable than ever. Crises appear out of the blue, no matter how hard we gather information in advance. Who could have pre-

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dicted the Ukraine crisis, the Ebola epidemic, and the sudden surge of the Islamic State at the beginning of 2014?

Have global governance institutions adapted to these changes? Have they maintained their *raison d'être*, legitimacy, and utility, some 70 years since their creation? They have certainly tried to adapt. The World Trade Organization, the successor to GATT, has tried to conclude a new global trade agreement to address issues in a more interdependent global economy, but it has so far been unsuccessful. This has led to a spawning of FTAs and EPAs of numerous kinds.

We have witnessed a surge of minilateral and informal multilateral networks among political and economic powers to fill the lacuna of governance. In the wake of the global financial crisis, for example, a G20 leaders' summit was convened, and its scope of discussion has expanded to include not only economic issues but also those relating to energy and climate change. These informal "clubs" can assuage immediate uncertainties, but can they become the standard bearer of global governance from a longer perspective? They tend to have strong momentum in its initial phase but gradually lose steam over time, as they have neither a firm grounding in shared values and norms nor common perceptions of global public goods in ways that inspire confidence and sustain cooperation. These ad hoc groups, at best, merely provide patchwork governance.

How, then, can we enhance global governance? Can regional governance become a substitute for global governance or, at the very least, become a functioning part of global governance? Given its shortcomings, global governance must be strengthened and adapted to today's prevailing circumstances, being supported by regional and national governance.

2. Regional Governance in the Asia-Pacific

What is the state of regional governance in the Asia-Pacific? The Asia-Pacific was once known as an infertile ground for regional institutions. However, there has been a sea change after the creation of APEC and the ASEAN Regional Forum (ARF). In the past two decades, the region has given birth to a myriad of regional groupings with different acronyms—the so-called alphabet soup—which form a multilayered regional architecture centered on ASEAN, including APEC, ARF, ASEAN plus Three, the East Asia Summit, and ADMM plus. In addition, we have an inventory of Track 2 meetings, such as CSCAP, Shangri-La Dialogue, to name just a few.

Are these institutions serving effectively as regional governance structures? They have surely contributed to regional dialogue, promoting conversation and

leading to some practical cooperation, mainly with financial crisis management (such as the Chiang Mai Initiative) and in nontraditional security areas, such as humanitarian assistance and disaster relief (HADR) exercises through ADMM plus and ARF and piracy control in the Strait of Malacca through the Regional Cooperation Agreement on Combatting Piracy and Armed Robbery against Ships in Asia (ReCAAP). These forums have failed to address core regional issues, however, such as territorial disputes, competitive arms buildup, cyber threats, national rivalries, and civil war.

This raises a question: Do we need regional governance at all in the Asia-Pacific? In contrast to member states of other areas that yield their sovereignty for regional cooperation and integration, nations in this region strongly cling to their sovereignty and are keen to maximize their national interests. This does not lend itself to regional governance. Given the growing interdependence of the global community, however, we need to juggle our independence and interdependence if the region is to prosper in the future. Two factors—namely, economic interdependence and the transnational nature of threats prevalent in the Asia-Pacific—naturally compel us to cooperate, since they demand a collective response. Multilateralism thus matters in the Asia-Pacific more than ever. If we agree on the need for regional governance, how should we go about achieving it?

3. Human Security as a Guiding Principle

In building a functioning structure for regional governance, we need regional institutions, concepts, and leaders. Whatever route we take in achieving regional governance, we will need a glue to bind us together. Can human security be such an adhesive? Since human security was conceived and introduced to policy debate by Asians, such as Pakistani economist Mahbub ul Haq and Indian economist Amartya Sen, who authored the seminal 1994 UNDP Human Development Report, it would be a natural glue in terms of its Asian pedigree. However, human security has not only advocates but also skeptics and opponents in the region.

Those promoting the concept originally included Japan, Canada, and Thailand, although they varied in their broad or narrow definition of the term. Japan stood on the broader end of the spectrum, identifying human security as a means to achieve “freedom from want.” It has operationalized the concept through its development assistance since the December 1998 policy speech by Prime Minister Keizo Obuchi, who cited the concept in announcing assistance for countries hard hit by the Asian financial crisis the year before. Japan has embraced human security as a core component of its foreign policy, particularly in terms of ODA, as corroborated

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in such policy documents as the 2003 ODA Charter, the forthcoming 2015 ODA Charter (to be renamed the Development Cooperation Charter), and the 2013 National Security Strategy. Japan, since the report by the Commission on Human Security, has further broadened its interpretation to include “freedom from fear,” expanding its peace-building assistance from strictly the post-conflict phase to cover the period during a conflict, as exemplified by JICA’s assistance to the peace process in Mindanao. The December 2013 National Security Strategy noted the nexus between development and security, which will be further elaborated in the forthcoming 2015 ODA Charter (Development Cooperation Charter). This will allow Japan to be even more proactive in addressing both “freedoms” while deemphasizing the “freedom from fear” in relative terms.

Canada, on the other hand, has stood by its narrow definition of human security, emphasizing the “freedom from fear” and leading efforts to set norms for landmines, the International Criminal Court, child soldiers, the responsibility to protect, and so on. The big divide between Japan and Canada lies in whether human security should include the use of force to intervene, including in humanitarian crises. The views of the two countries have converged over the years, though, and now both include the two freedoms. Canada, however, under the Conservative government, has stopped using the phrase since 2006. Conceptually, though, Canada promotes the ideas that human security embraces.

Thailand espoused both the broad and narrow configurations of human security. It established the Ministry of Social Development and Human Security and was active in supporting the Human Security Network internationally. Thailand was a strong advocate of developing and applying the concept globally, regionally, and domestically. However, in 2005 with the change of government, Thailand dropped its commitment to human security and no longer uses the concept or the phrase.

Mongolia, on the other hand, introduced human security as a priority policy area in 2000 and has adopted a “good governance for human security” initiative to enhance domestic human security. It remains a strong promoter of the concept, so today, Japan and Mongolia are the two countries that remain the key promoters of the human security concept and retain the phrase in the Asia-Pacific.

The region’s strong opponent to human security was China, who criticized the concept as a Western import. However, since the SARS incident, China has slowly accommodated it, renaming it “humankind safety” in Chinese and shifting the focus from the individual to the state. With this interpretation, it no longer opposes the intermittent inclusion of the term in regional policy texts. The other nations in the region are skeptics to varying degrees.

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After the Chinese acquiescence to the use of the term, “human security” has appeared in the final report of the East Asia Study Group and is used repeatedly in policy documents in ASEAN-centered regional institutions. However it seems ASEAN prefers to frame broader security threats covered by human security in terms of “nontraditional security,” which, according to Canadian scholar Paul Evans, is “a conceptual cousin” of human security.

Can and will regional organizations embrace human security as a binding glue in the future? Whether the concept is phrased as human security or nontraditional security, the region shares an anxiety over the broad issues covered by these terms. The region is keenly aware that threats envisioned by these phrases are transnational and demand cooperation.

If regional governance falls short of addressing core economic and security issues, it can at least cooperate on issues that may seem marginal but will nonetheless cause hardship and suffering to people in the region should they occur. Viruses and pollutants do not own passports and simply ignore immigration controls in landing in different countries and waters.

Human security is no longer simply a mantra, as a common understanding of the concept was agreed upon in a UN resolution in 2012. We are now at a phase where we need to operationalize the concept—including both freedoms—and enable people to live with dignity. The phrase should be used not just as part of the foreign policy lexicon but applied domestically as well. Today, despite our varying degrees of acceptance of the notion of human security, we all agree that threats to our security and safety are no longer limited to traditional interstate warfare. We also agree that these broad and emerging threats are interconnected and frequently affect innocent third parties. This situation demands a concept or a guiding framework for a comprehensive and integrated approach to deal with these unpredictable threats.

Human security—or another new phrase containing the same ideas—can help us to understand a potential crisis; take interconnected, comprehensive action, rather than deal with a situation in a piecemeal fashion; and eventually create empathy, if not trust, among the players in a region.

What we need today in achieving good governance is the wisdom to come up with a new label for an approach that acknowledges the blurring of the demarcation between traditional and nontraditional security issues and that can overcome the lack of support in the Asia-Pacific for the phrase “human security.”

January 30, 2015

Issues and Prospects for CSR in Japan

Analysis of Japan's CSR Corporate Survey

Zentaro Kamei, Taku Hirano

1. Implementation of the CSR Corporate Survey

(1) Introduction

Social issues are becoming increasingly complex and segmented, and there are growing limits to what the government can do to address them. There are rising expectations, therefore, of greater contributions from the private sector through corporate social responsibility activities. Needless to say, corporations are profit-making organizations, so they will be unable to deal with social issues using the same approaches as the government, whose prime objective is to promote public welfare. In particular, corporate activities are subject to cost performance constraints more stringent than those of public enterprises. This is bound to have an effect on the shape of social issue resolution through CSR activities. To promote issue resolution based on corporate activities, we must consider what forms of CSR are desirable for both society and businesses. And for this it is important to ascertain the actual state of Japan's CSR activities from the perspective of social issue resolution.

There are many sources of information on CSR in Japan. Individual corporations publish CSR and sustainability reports, and comparative information is available through the comprehensive surveys conducted by specialized media organizations like Toyo Keizai and the Nikkei.¹ As for how CSR reports are viewed from the side of the citizens, the NTT Group conducts an ongoing questionnaire survey

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¹ For example, Toyo Keizai publishes *CSR kigyo soran* (Comprehensive Corporate Listing of CSR).

directed at readers of environmental and social reports.² There are also surveys of socially responsible investment as seen from the perspective of investors.³ But there is no overview of CSR activities in Japan that focuses on their role in the resolution of social issues. Nor has there been much published that analyze or scrutinize CSR from a broader vantage point, encompassing such concerns as the correlation of CSR activities with business operations and corporate strategies and the process of creating corporate value.

So when the Tokyo Foundation launched its CSR research project in 2013, the first task it undertook was to conduct a questionnaire survey focusing on the relationship between CSR and the major issues confronting Japanese and international society. The survey was sent to about 2,000 companies within Japan, including listed corporations, major unlisted companies, and major foreign affiliates. Among the questions, companies were asked about the characteristics of the CSR activities they deemed successful, the targets of their activities (which social issues they were focusing on), the relevance of these activities to their business operations, whether or not they were working with nongovernmental organizations or others in the civil sector, and what issues they faced in promoting CSR.

(2) Basic Perspective

The basic perspective adopted for the survey is as follows.

First, the Japanese term used in the survey for “social issue” was *shakai kadai* (社会課題), which can also be translated as “social problem” or “social challenge.” The sorts of issues that *shakai kadai* brings to mind range from global concerns, such as the environment, poverty, and gender-based discrimination, to domestic, local matters, including the increasing number of depopulated villages with elderly residents and regional disparities in healthcare services. The term thus has diverse meanings, and its scope changes with the passage of time. This makes it hard to define.

A look through published materials concerning “social issues” reveals some common perceptions, such as that their resolution is believed to contribute to society’s sustained development or other public interests and that not enough is being done to address them. The definition we adopted in our questionnaire was thus

² The NTT Group has been conducting this survey since 2000. It has also organized a symposium based on the survey results. See http://eco.goo.ne.jp/business/event/env_report/web_sympo2013/report01/01.html (in Japanese).

³ One example is the survey by the Japan Sustainable Investment Forum (website in English at <http://www.jsif.jp.net/#!english/c1tc5>).

made broad enough to cover as many concepts as possible, drawing from these shared points: “Problems whose resolution is necessary for the sake of society’s sustained development but for which resources (people, goods, money, technology, knowledge, etc.) are not being sufficiently invested.”

(3) Classification of Social Issues and Outline of the Survey

Next, a framework was developed to classify various social issues based on this definition. For this we took note of existing strategies for issues requiring resolution to achieve sustained development, such as the Millennium Development Goals adopted by the United Nations and the United Nations Global Compact. We then established our own framework, giving consideration to the relative importance of each issue’s resolution and to consistency between the classifications and actual issues. On this basis we adopted a system consisting of nine items (including “other”), as shown in Figure 1, and two geographical categories: domestic and overseas.

Figure 1. Nine-Item Classification of Social Issues

Respect for human rights
Eradication of poverty and hunger
Reduction of child mortality and improvement of maternal health (creating an environment conducive to giving birth and raising children)
Elimination of child poverty (including abolition of child labor and achievement of universal primary education)
Women’s advancement (including promotion of gender equality)
Prevention of the spread of HIV/AIDS, malaria, and other diseases (including the reduction of mortality risks other than disease, such as suicide)
Ensuring environmental sustainability (including the conservation of biodiversity)
Respecting and promoting the preservation of (traditional) local cultures/customs
Other (social issues not covered by the above eight items, such as water resource issues and bribery of civil servants)

Some of the items in the global classifications are those that still require attention overseas but have largely been overcome within Japan, such as improving maternal healthcare and preventing epidemics. For these items we broadened the scope of our definition; in the case of maternal health, for example, instead of focusing narrowly on initiatives to reduce child mortality and the risk of death from

disease during pregnancy, we included such related factors as the creation of a social environment conducive to bearing and raising children.

In our survey, we asked respondents to choose which social issues their CSR activities aimed to resolve based on our nine-item classification. They were asked to make separate responses for their domestic and overseas operations, giving a total of 18 items from which to choose. We also provided reference materials with specific examples to give respondents a clearer idea of the social issues in question.

We also asked them about the content of their CSR activities for each issue, the process from planning through implementation, the results achieved from their activities, and the activities that they regarded as being most successful. They were also asked to provide basic information about their company's organizational setup and budget for CSR activities to facilitate our analysis.⁴

2. Questionnaire Results⁵

(1) Targeted Companies and Features of Respondents

We sent questionnaires to 2,082 companies, namely: (1) corporations listed in the first sections of the Tokyo, Osaka, or Nagoya stock exchange, (2) leading unlisted companies, (3) major foreign affiliates, and (4) companies that volunteered to participate.

We received valid responses from 218 companies. Of these, 185 (85% of the total) were from corporations listed in the first section of the Tokyo Stock Exchange; 12 (5%) from unlisted companies, 5 (2%) from foreign affiliates, 3 (2%) from companies that volunteered to participate, and 13 (6%) from companies listed in the Second or Mothers Section of the TSE or on other exchanges (Figure 2).

Broken down by industry, the largest number of responding companies was in the field of electric appliances: 23 companies, accounting for 11% of the total. Next was wholesale trade, with 19 responding companies (9% of the total), followed by chemicals, 17 (8%), banks, 16 (7%), foods, 14 (6%), and services, 12 (5%). The top five industries accounted for 41% of the responses. Figure 3 shows the overall breakdown.

⁴ We found that the measurement criteria for CSR budgets differ from company to company, making it difficult to aggregate the data using a uniform standard. How to advance the disclosure of nonfinancial information, including but not limited to that about CSR, may be a common challenge for many Japanese companies.

⁵ Except where noted otherwise, the graphs and tables presented herein were created by the Tokyo Foundation on the basis of the CSR survey.

Figure 2. Responding Companies by Stock Exchange Listing Type

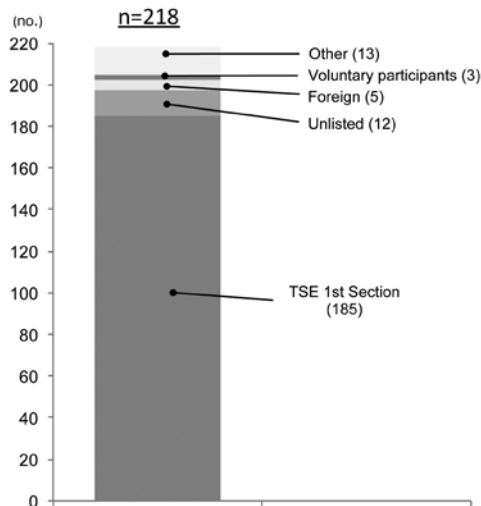
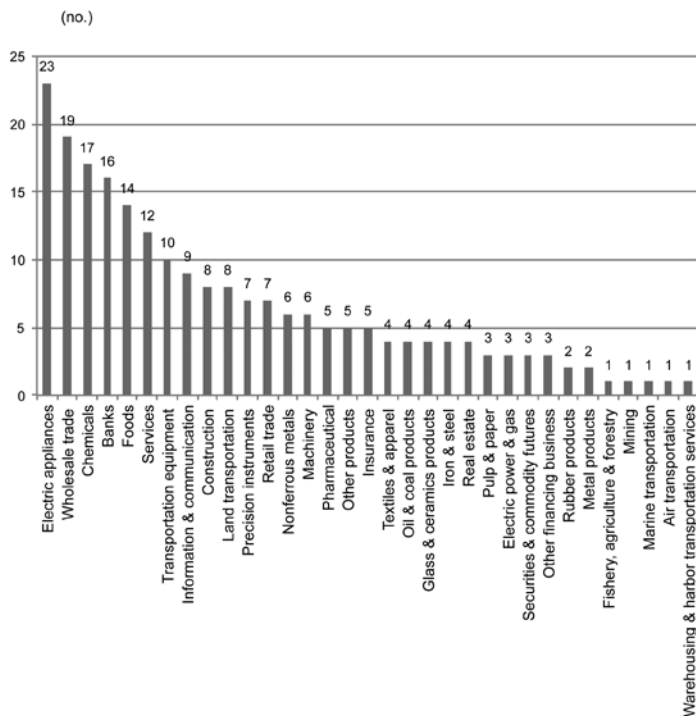


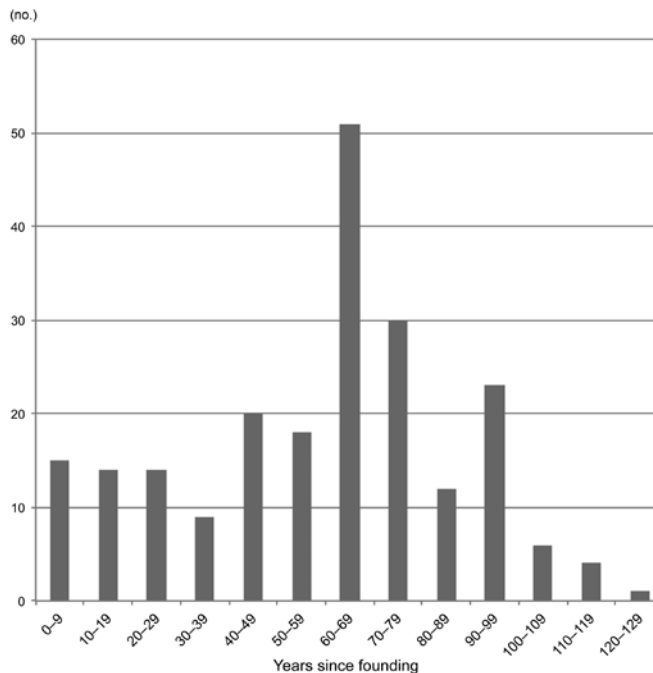
Figure 3. Responding Companies by Industry



Note: Industry classifications are based on the 33 sectors of the Tokyo Stock Exchange. Unlisted companies were classified based on information from their websites and elsewhere.

By age of the company (Figure 4), 51 of the responding enterprises were 60–69 years old—the biggest age group—followed by 70–79 (30 companies), and 90–99 (23). Together, these three cohorts accounted for about 50% of the total. So a large number of responding companies were established from around the second decade of the twentieth century through the early post–World War II period.

Figure 4. Corporate Age of Responding Companies⁶



(2) Initiatives by Type of Issue

Looking at the initiatives being undertaken by type of social issue, we found major differences among the nine categories and also between domestic and overseas measures. Below is a comparison of the domestic and international activities of the responding companies.

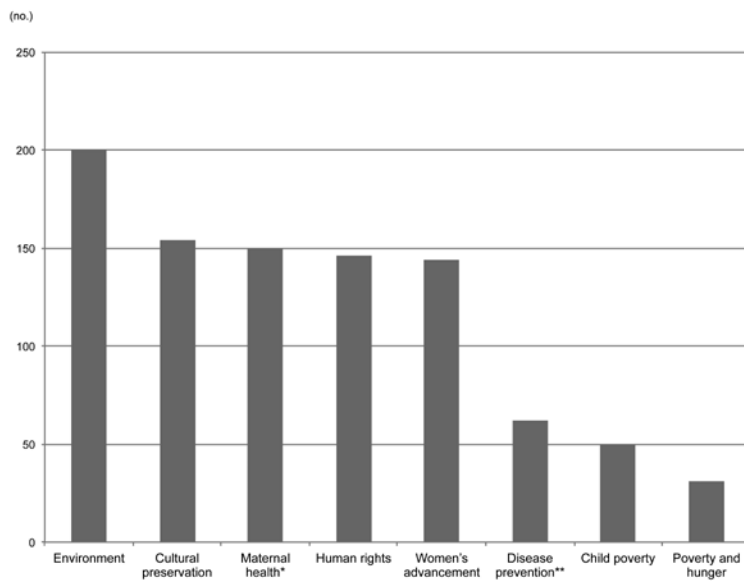
(i) Initiatives in Japan and Overseas

Figure 5 shows the numbers of companies implementing CSR activities within Ja-

⁶ Corporate ages are as of 2012. Compiled by the Tokyo Foundation from *Kaisha Shikiho* (Japan Company Handbook, Toyo Keizai, Inc.) and other sources.

pan for each social issue. The highest share of companies, at 96%, was engaged in environmental initiatives, such as efforts to counter pollution and climate change and to protect biodiversity. Other categories with high responses were cultural preservation (preserving local traditions and cultures), improvement of maternal health (including support during the prenatal and postnatal periods), human rights (of all forms), and women's advancement (promoting women to management positions and creating comfortable working environments). Well over half of the responding companies were undertaking initiatives to address the issues in these areas.

Figure 5. Numbers of Companies Addressing Domestic Social Issues⁷



* Issues relating to the improvement of maternal health include the creation of an environment conducive to giving birth and raising children.

** Issues relating to disease prevention, in addition to the prevention of HIV and other diseases, also include the reduction of other mortality risks, such as suicide.

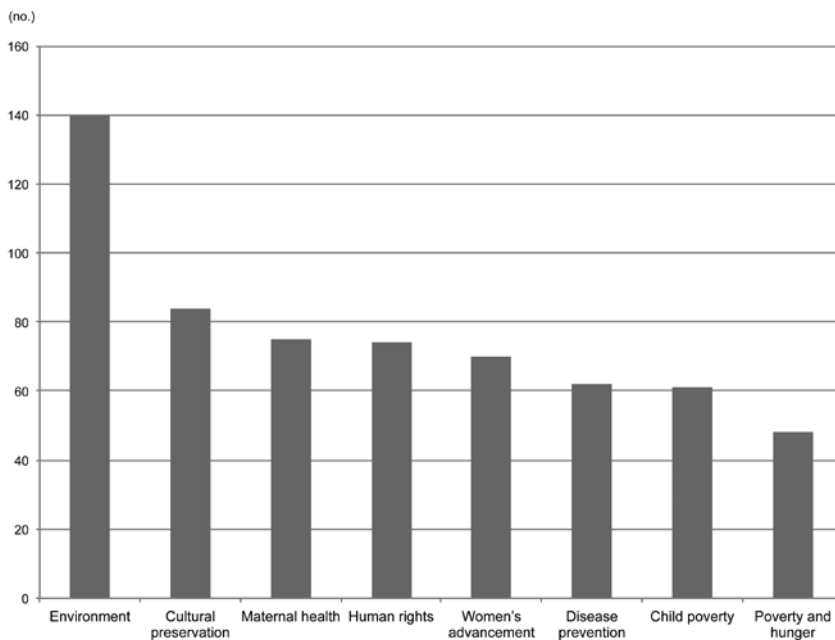
Relatively few of the responding companies reported activities in the area of disease prevention, such as measures to prevent illnesses, accidents, suicides, and other common causes of death for each age group, or in the areas of eliminating child poverty or eradicating poverty and hunger, in spite of the fact that the relative

⁷ The results are a compilation of the replies to the question, "In which of the areas listed below has your company been taking concrete action for resolution of social issues?" with respect to domestic social issues.

poverty rate has been on the rise in Japan. These areas may be in need of greater efforts to address social issues.

Figure 6 shows the numbers of companies implementing CSR activities overseas. Again, the environment is the category with the largest number of companies undertaking initiatives—67% of the total. The figures for all the other areas are less than 50%. After the environment, the areas most commonly addressed in descending order are human rights, elimination of child poverty, eradication of poverty and hunger, and cultural preservation; only about 30% of the responding companies reported involvement in these fields. The category with the lowest engagement was maternal health, in which only 23% (48 companies) reported that they were implementing activities. So there is an imbalance in the areas being addressed overseas, with relatively few companies tackling issues except the environment.

Figure 6. Numbers of Companies Addressing Overseas Social Issues⁸



When we look at corporate CSR reports, we find that the examples they cite of initiatives taken overseas in many cases take the form of volunteer activities under-

⁸ The results are a compilation of the replies to the question, “In which of the areas listed below has your company been taking concrete action for resolution of social issues?” with respect to overseas social issues.

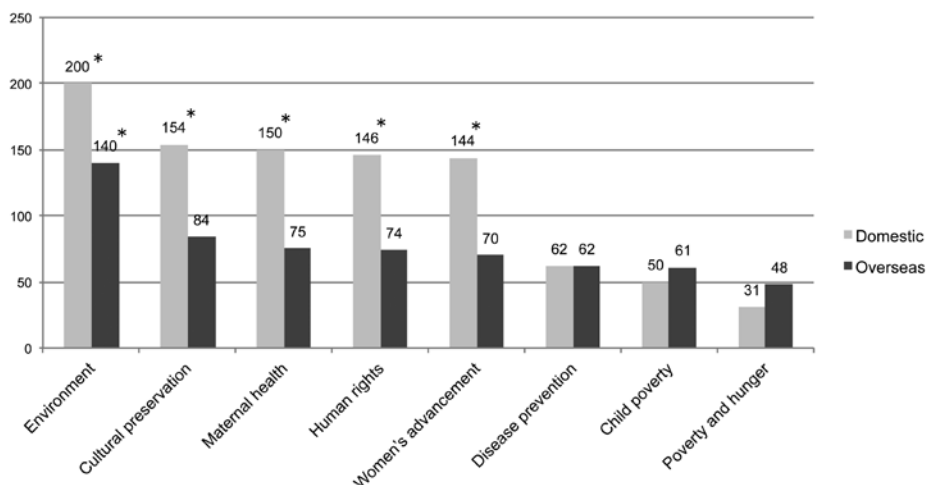
taken by their employees; there is little mention, for example, of attention being given to human rights in the local community. Though specific initiatives addressing social issues are being taken overseas, there are nonetheless many gaps when we look at the breakdown by issue.

(ii) Findings from a Domestic-Overseas Comparison

Many Japanese corporations have actively expanded their operations overseas in a quest for new markets and to optimize their supply chains. The maturation of the domestic market and the course of the exchange rate in recent years have accelerated such moves, and companies are expected to build close relationships with local societies overseas. Just as within Japan, they cannot ignore the important social issues in the locations where they are operating.

Are there differences in companies' initiatives within Japan and overseas? Figure 7 shows the numbers of companies implementing CSR activities for the various categories of social issues, comparing the figures for within Japan and overseas. The first point we note is the difference in the total figures: The overseas total comes to 692, only two-thirds of the domestic total of 1,069. In the categories of cultural preservation, improvement of maternal health, and women's advancement, the domestic figures are more than twice the figures for overseas. And the share of companies addressing social issues is above 50% in five of the eight categories domestically but only one of the eight overseas.

Figure 7. Numbers of Companies Addressing Social Issues: Domestic/Overseas Comparison



*Asterisks indicate social issues that over 50% of the responding companies are addressing.

There are not many industries in which companies can confine their operations to within Japan, and while companies have been actively extending their overseas operations, their CSR activities still tend to focus on the resolution of domestic social issues. CSR is important for the creation and maintenance of corporate value, though, contributing both to long-term competitive strength and to risk management. So the expansion of these initiatives—along with the adoption of a corporate mind-set to make this possible—can be identified as an issue for the companies surveyed.

The environment was the field with the largest numbers of companies undertaking initiatives both within Japan and overseas. This may be taken as an indication of Japanese companies' strength in this field; a comparison of the domestic and overseas figures shows, though, that there is still room for growth in companies' overseas undertakings.

The results in the category of cultural preservation may be seen as reflecting concern for the communities in which companies' operate, both within Japan and overseas. Especially with respect to overseas initiatives, though, scrutiny of the specific activities may be required to determine whether they are truly making a valuable contribution to the communities in question.

The contrast between the domestic and overseas figures in the category of maternal health may be only natural in view of the qualitative difference in the issues involved. But the domestic-overseas contrast in the categories of human rights and women's advancement bears noting. The issues in these categories are basically the same in Japan and elsewhere; the existence of such wide gaps between domestic and overseas initiatives may be attributed to a lack of a global perspective on these issues at Japanese companies. One wonders if the Japanese word for human rights, *jinken* (人権), is actually synonymous with the terms used in other languages. There may be a need to reexamine the concepts of human rights and women's advancement in a global context from the standpoint of protecting corporate value.

In the categories of child poverty and of poverty and hunger, the numbers of companies conducting initiatives overseas are substantially higher than the numbers within Japan; this reflects the differences of circumstances, particularly between Japan and developing countries. But the numbers of companies involved are comparatively low, and companies need to do more both within Japan and overseas, especially as these are fields with great importance for human life and survival.

Figure 8 presents the child poverty rates among members of the Organization for Economic Cooperation and Development listed in declining order; Japan is in ninth place with a relatively high rate. Figure 9 shows the changes in the Japanese

rate in recent years. As this graph indicates, the overall trend is upward, albeit with some fluctuations. So this can be identified as a social issue that needs to be addressed.

Figure 8. Child Poverty Rates in OECD Member Countries⁹

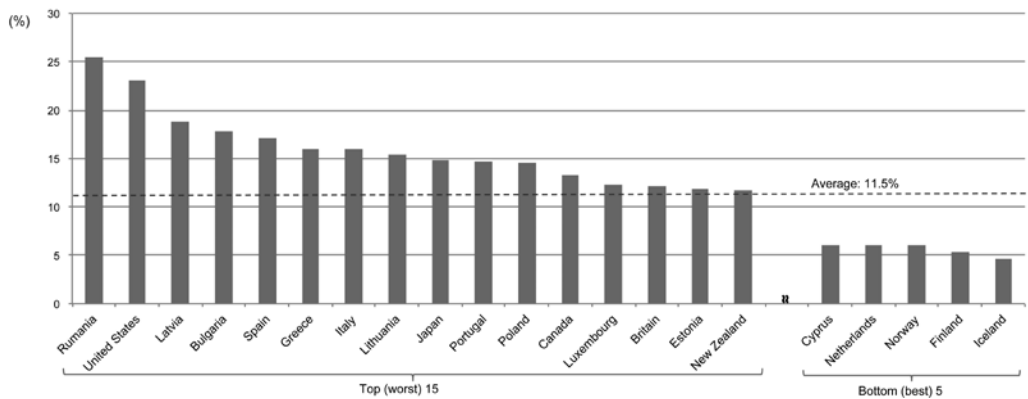
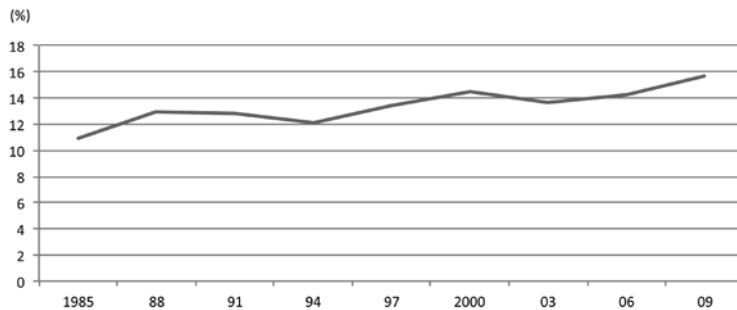


Figure 9. Japan's Child Poverty Rate, 1985–2009¹⁰



Two issues that are apparent from this look at CSR activities by category are (1) the need to expand efforts to resolve social issues overseas and (2) the need to strengthen initiatives in fields like poverty within Japan that require resolution but that are not adequately addressed by CSR activities.

⁹ Compiled by the Tokyo Foundation from the OECD Family Database and data from Japan's Ministry of Health, Labor, and Welfare.

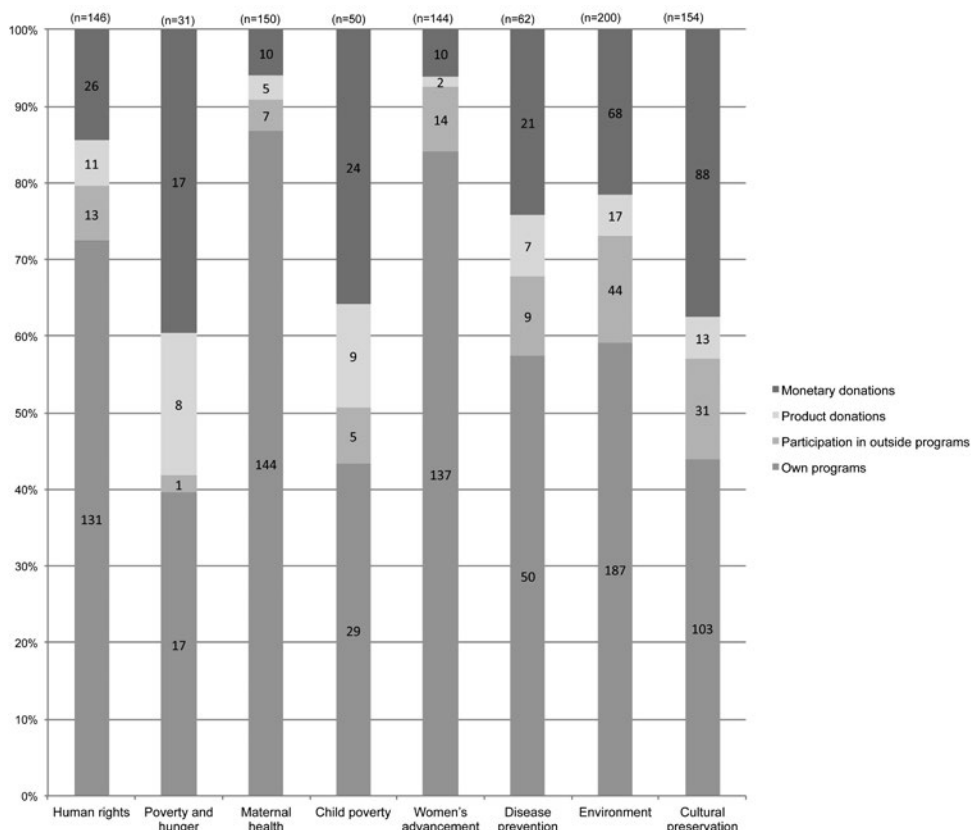
¹⁰ Compiled by the Tokyo Foundation from the OECD Family Database and data from Japan's Ministry of Health, Labor, and Welfare.

(3) Approaches Used in CSR Activities

There are various approaches by which companies undertake to resolve social issues through CSR. These include using a portion of the profits from business activities, volunteering by managers and employees, and conducting a “base of the pyramid” business where the company’s products, services, human resources, and know-how are used for the resolution of social issues. In this section we will look at the approaches used in CSR activities broken down by social issue.

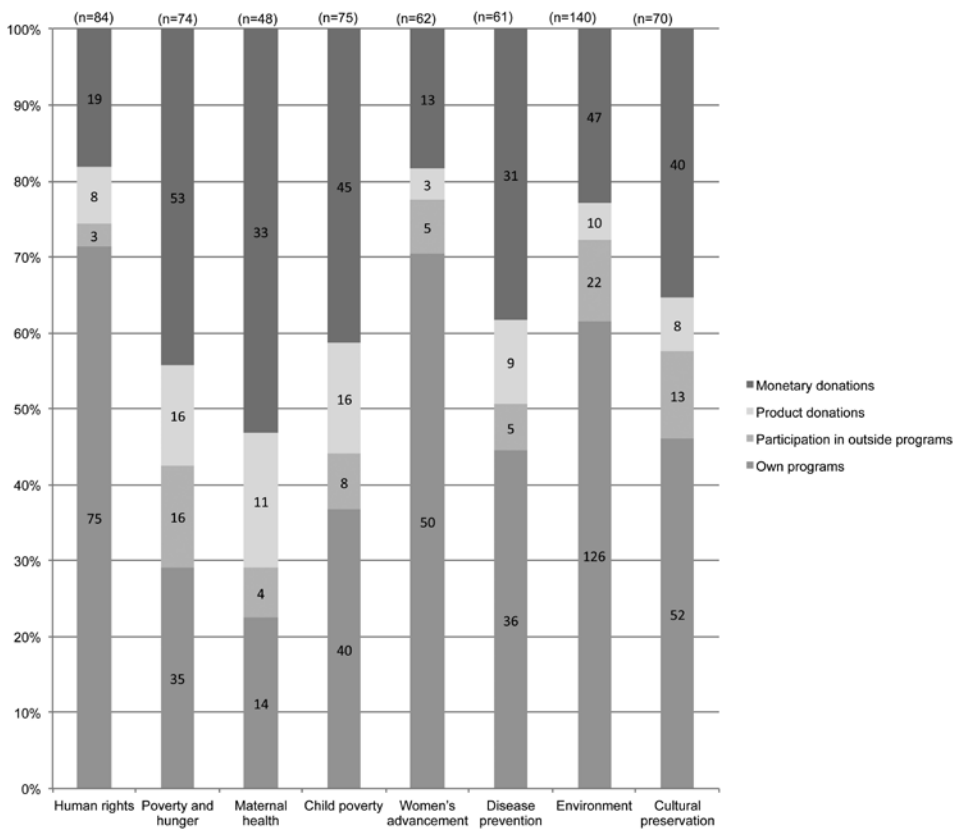
Figure 10 presents a breakdown of domestic activities for the resolution of social issues by issue and approach, and Figure 11 presents a similar breakdown of

Figure 10. Domestic Activities by Issue and Type of Approach¹¹



Note: “n” is the total number of activities conducted.

¹¹ The results are a compilation of the replies to the question, “What specific sorts of activities is your company taking with regard to the areas [of social issues that you are addressing]?” (multiple response).

Figure 11. Overseas Activities by Issue and Type of Approach¹²

Note: "n" is the total number of activities conducted.

overseas activities. The approaches are classified as (1) implementation of the company's own programs (including business activities), (2) volunteer participation by managers and employees in outside social activity programs, (3) donations of the company's products or services, and (4) monetary donations.

As the graphs indicate, for every issue the main approaches taken are implementation of the company's own program (including business activities) and monetary donations; volunteer participation in outside social activity programs and donations of the company's products or services are not common.

The contents of companies' activities by issue can be grouped into three types:

¹² The results are a compilation of the replies to the question, "What specific sorts of activities is your company taking with regard to the areas [of social issues that you are addressing]?" (multiple response).

(1) “own program” type, where almost all of the activities are implemented in the form of the company’s own programs, (2) “monetary donation” type, where almost all of the activities are implemented in the form of monetary donations, and (3) “own program/monetary donation balance” type, where the two approaches are close to equilibrium (Table 1).

Table 1. Comparison of Approaches to CSR Activities

	“Own program” type	“Own program/monetary donation balance” type*	“Monetary donation” type
Domestic	<ul style="list-style-type: none"> • Human rights • Maternal health • Women's advancement • Disease prevention • Environment • Cultural preservation 	<ul style="list-style-type: none"> • Poverty and hunger • Child poverty • Cultural preservation 	None
Overseas	<ul style="list-style-type: none"> • Human rights • Women's advancement • Disease prevention • Environment • Cultural preservation 	<ul style="list-style-type: none"> • Disease prevention 	<ul style="list-style-type: none"> • Poverty and hunger • Child poverty • Maternal health

*Note: *The “balance” type covers cases where the difference between the numbers of own programs and monetary donations is 10% or less.*

Overall, the “own program” type is most common for many categories. The “monetary donation” type is seen only in some overseas categories. This is probably because domestic social issues are relatively easy for companies to grasp and to find ways of resolving; this facilitates the implementation of initiatives in the form of companies’ own programs.

(4) Characteristics of CSR Activity Formulation and Related Issues

(i) Greater Emphasis on Action than on Deliberation

Rigorous implementation of the PDCA (plan-do-check-act) cycle in corporate activity processes has come to be of great significance in recent years, not only as a means of improving companies’ earnings but also as an approach to fulfilling responsibilities to stakeholders.¹³ CSR activities are one form of corporate activity,

¹³ This is a good example of how the optimization of companies’ business processes has nowadays become legally mandated.

and observing the state of their PDCA cycles offers one interesting perspective on them.

Table 2 presents a comparison, broken down by social issue, of the number of companies that have conducted deliberation (the “plan” step of the PDCA cycle) and that have taken concrete action (the “do” step). This shows that in every category, both within Japan and overseas, the emphasis in the surveyed companies’ CSR activities is on implementation. We can see from the survey results that this emphasis on taking action also applies to the areas that we identified in the previous section as gaps in terms of efforts to resolve social issues.

Table 2. Numbers of Companies That Have Deliberated Issues vs. Numbers That Have Acted on Them

	Deliberation > Action			Deliberation ≈ Action***			Deliberation < Action		
	Issue	Cases deliberated	Actions taken	Issue	Cases deliberated	Actions taken	Issue	Cases deliberated	Actions taken
In Japan***	None			Women	149	144	Poverty	20	31
				Maternal health	154	150	Child poverty	36	50
				Other	133	132	Culture	129	154
				Environment	193	200	Human rights	132	146
				Public health	57	62			
Overseas***	None			Women	63	62	Poverty	59	74
				Other	79	78	Maternal health	38	48
				Human rights	81	84	Culture	58	70
				Environment	134	140	Child poverty	64	75
							Public health	52	61

* The number of issues for which respondents chose “More than one meeting has been held to discuss the issue, and concrete deliberations are being conducted” to the question, “How much interest do you have in resolving the following social issues?” The other choices were “There is an awareness of the issue, but concrete deliberations have not been conducted” and “No thought has been given to this issue.”

** The number of issues for which respondents chose “Concrete initiatives have been taken to address the issue, such as an independent program, donations, and participation of employees” to the question, “For which of the following issues are you taking concrete initiatives toward their resolution?”

*** ≈ (approximately equal) refers to issues for which the difference between “cases deliberated” and “actions taken” was less than ±10%. Issues and figures in red are when “Deliberation < Action.” Figures “In Japan” and “Overseas” are averages of all social issues deliberated or acted on.

This result is also evident from companies’ CSR and integrated reports. Many Japanese companies disclose information about their CSR activities, but it tends to consist just of snapshots of officers and employees participating in volunteer activities and strings of explanations of the individual activities undertaken. We see little by way of overall explanations that tell how the company as a whole has chosen the social issues to address and how it is implementing its efforts based on their relevance to the company’s own business. So, as noted in another section of this report, the emphasis on implementation results in a state of affairs where com-

panies are taking a “stapler” approach to CSR activities, binding together catalogs of their individual good deeds on an unsystematic basis.

(ii) Having a Department Dedicated to CSR Promotes Deliberation

How might the tendency to emphasize implementation over deliberation be corrected? We conducted a cross-tabulation analysis of factors promoting deliberation as part of the overall process, matching them against a number of variables. This revealed that companies with a department dedicated to CSR (including those that also handle other matters) have higher numbers of deliberation-based CSR activities and smaller numbers of activities not based on deliberation. Figure 12 presents the ratios of deliberation-based to nondeliberation-based activities for each category of social issue at companies with dedicated departments, and Figure 13 presents the corresponding data for companies without such departments.

Comparing the two graphs, we see that the ratio of deliberation-based CSR activities at companies with dedicated departments is higher than at companies without such departments for every category of social issue. Also, at companies without such departments, there are six categories of social issues for which non-deliberation-based activities account for around half of the total, while at companies with such departments, there is not a single category for which this is the case. It seems reasonable to say that the existence of a dedicated department promotes the inclusion of deliberation as part of the process of CSR formulation. The details of the mechanism by which a dedicated department contributes are a matter for future study, but we can at least say that the establishment of a dedicated department is an effective means of alleviating the tendency to emphasize implementation over the deliberation process.

(5) The Ideal Approach and Actual Performance

(i) Introduction

How can CSR initiatives be integrated more fully into a company’s business operations? This has long been a major topic of concern both for corporate managers and CSR specialists and researchers. It is a difficult problem to which no effective solution has yet been found. In this section we will examine the relevance of CSR activities to business operations with this question in mind.

First we will look at companies’ ideal vision of the relationship between CSR and business operations and note how this is connected to the integration of the former with the latter. Next we will look at this relationship in all the categories of social issues covered by the survey, analyzing the results and considering the differences.

Figure 12. Ratios of Deliberation-Based Activities to Non-Deliberation-Based Activities at Companies with Dedicated CSR Departments

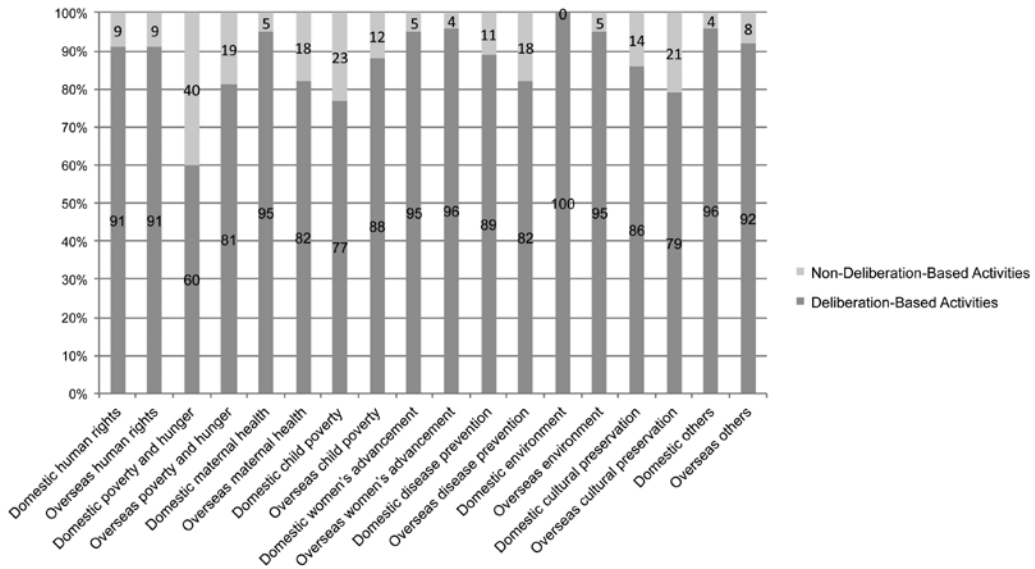
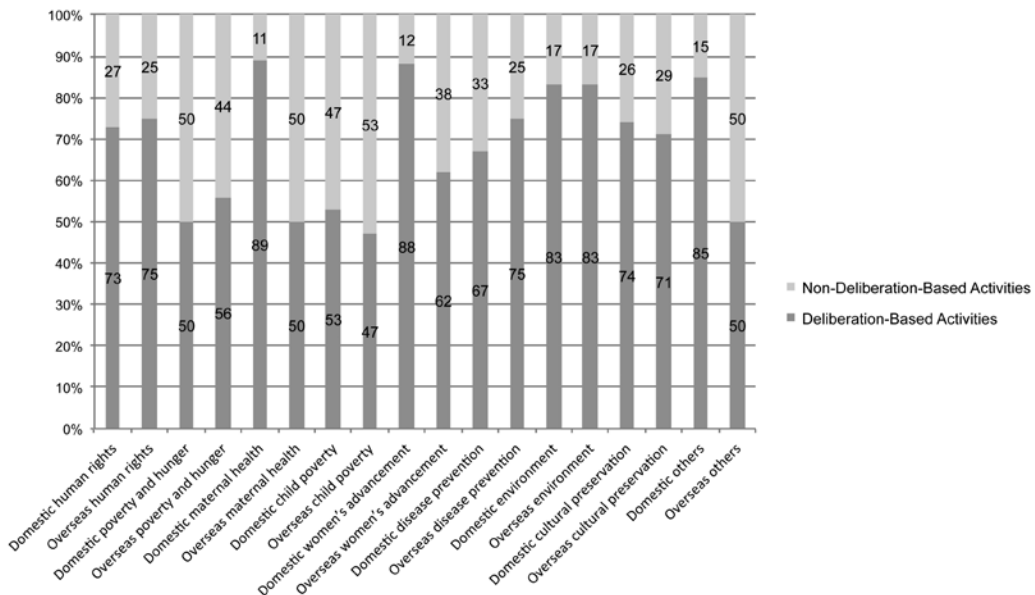


Figure 13. Ratios of Deliberation-Based Activities to Non-Deliberation-Based Activities at Companies without Dedicated CSR Departments



As part of our survey, we asked respondents to identify three of their CSR activities that they viewed as successful and that they wished to share with society. In other words, we asked for their “top three” activities. Looking at the results, we found many citations of activities relating to the environment, including climate change and biodiversity, and to assistance for recovery and reconstruction from disasters, particularly the Great East Japan Earthquake of March 2011.¹⁴

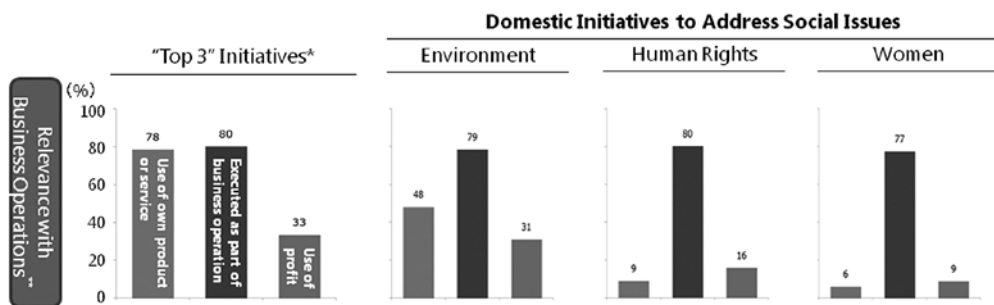
The questions in the survey included items concerning the content of the companies’ activities and the results of those activities and their relevance to their business operations. These questions revealed the state of CSR activities in terms of their relevance and results relative to companies’ ideals.

In what follows, we will first show the ideal vision of the relationship between CSR activities and business operations as revealed in the responses, and next we will look at the extent to which they are achieving the results that they consider ideal.

(ii) The Ideal: Integration with Business Operations

Figures 14 and 15 show the relevance of the activities that companies cited as their “top three” to their business operations.

Figures 14 & 15. Approaches to Implementation of “Top Three” CSR Activities and Approaches by Issue¹⁵



¹⁴ The specific contents of the activities are presented in the following chapter analyzing the survey results. See the references to the six cited companies’ support for recovery and reconstruction from the Great East Japan Earthquake.

¹⁵ The results are a compilation of the replies to the question, “How are your company’s CSR activities relevant to your business operations?” (multiple response). The “top three” are companies’ choices of the top three of the activities they have conducted that have produced successful results. The figures for activities addressing particular social issues are all domestic.

Looking at the results, we find high figures for two types of relevance: (1) implementation as an outgrowth of the company's production, sales, hiring, or other business practices, such as efforts to reduce or purify the wastes and emissions resulting from their procurement and production processes, consideration for various types of human rights, and active moves to promote women to senior posts, and (2) use of the company's own products or services, for example, through the development of medicine for the treatment of rare diseases and development of new products using Fukushima-grown crops stigmatized by their association with the nuclear accident. The figure is low for relevance through the use of profits from business operations, a category consisting largely of donation activity. So we can see that companies' quest is to conduct activities that are in tandem with their business operations rather than ones that make use of the profits from their operations.

The ideal for CSR is to conduct it in ways that make use of products or services generated by the company's business operations or that operate through the company's business processes—in other words, CSR that is integrated with the company's business operations.

(iii) The Reality vs. the Ideal

To what extent and in what areas are CSR activities actually integrated with business operations?

In our survey we investigated the relationships between CSR activities in each category and companies' business operations. The details by category are presented in the next chapter analyzing the survey results; here we will consider some representative examples, highlighting the actual state of integration with business operations in the case of companies' "top three" categories and their initiatives directed at specific social issues.

In the case of CSR activities that companies themselves rate as successful (their "top three"), there are high levels of usage of the company's own products or services and activities implemented as part of the company's business operations. But when we look at initiatives directed at specific social issues, out of the 18 domestic and overseas classifications, the only one that shows a similarly high level is that of domestic efforts in the field of the environment.

In the field of human rights, the level of implementation as part of the company's business operations is as high as it is in the case of the "top three," but the use of the company's own products or services is low, so we cannot say that the activities in this field are truly integrated with business operations. This applies both

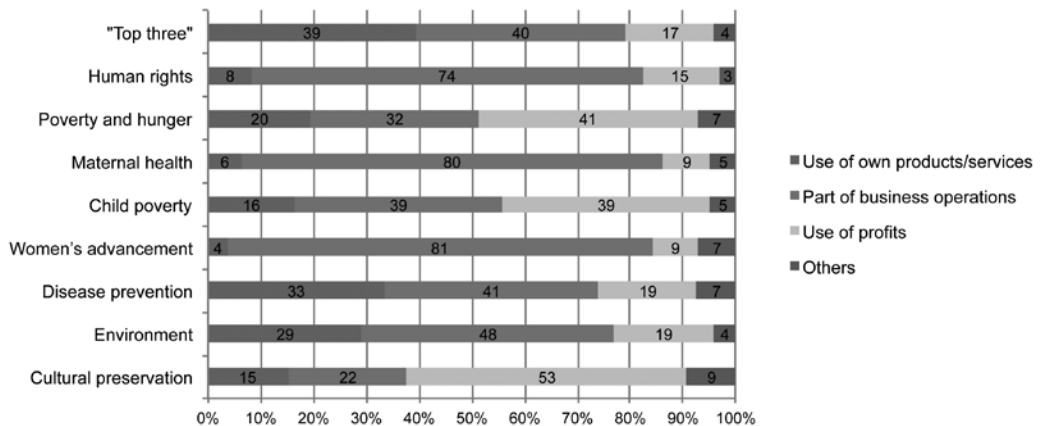
within Japan and overseas, and it is also true in fields like women's advancement.¹⁶

In the field of child poverty, the number of initiatives is very small, and their only relevance to the company's business is that they utilize business profits and are implemented in the course of normal business operations, so the state of affairs is far from ideal in terms of integration. A similar tendency is widely seen in initiatives addressing social issues overseas, where, as in the case of child poverty, there is a general lack of awareness of the issues and of action based on such awareness in many fields.

So domestic initiatives in the field of the environment are the only ones for which integration with business activities has been achieved.

Next let us look at relevance to business operations broken down by category. Figures 16 and 17 show the breakdown for initiatives within Japan and overseas, respectively.¹⁷

Figure 16. Relevance of CSR Activities to Business Operations by Issue Category (Domestic)¹⁸

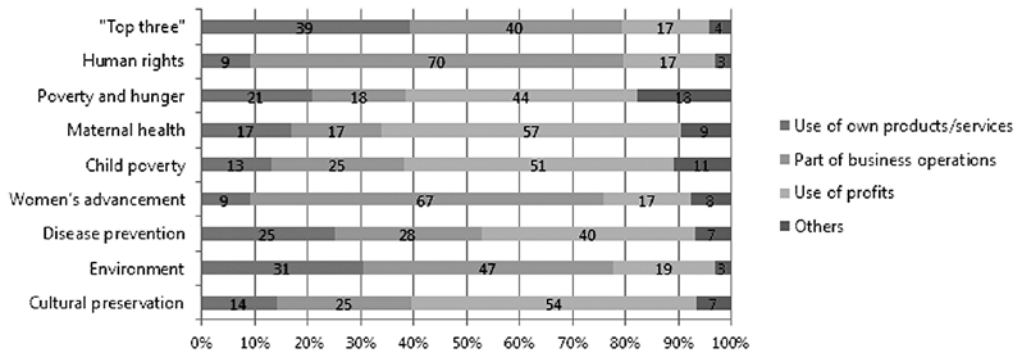


¹⁶ Please refer to the issue-by-issue outline of CSR activities in section 6 of the next chapter outlining relevance to business operations.

¹⁷ To facilitate comparison between the figures for the "top three" and other issues, these graphs present ratios using the total numbers of initiatives for each type of approach as the denominators. Please note that the values are different from the ones in Figure 14.

¹⁸ The numbers within the graph are numbers of activities conducted. The results are a compilation of the replies to the question, "How are your company's CSR activities relevant to your business operations?" (multiple response).

Figure 17. Relevance of CSR Activities to Business Operations by Issue Category (Overseas)¹⁹



We find five categories of social issue in which implementation as part of the company's business operations has a share above 50% and three in which the share is between 40%–50%. So this form of relevance is the most prevalent. Next comes the use of profits, with shares above 50% in four categories and in the 40%–50% range in two. The lowest shares are for the use of the company's own products or services, in which not a single category has a share above 40%.

So companies' actual activities—while showing some variation when broken down by type of social issue—have progressed to a certain extent in achieving relevance to business operations, but they have yet to achieve such relevance in the use of the company's own products or services. In their overseas initiatives, companies are mainly using their profits and are far from achieving relevance. As the next set of steps, companies will need to (1) strengthen the links between CSR and their own products and services within Japan and (2) more fully incorporate CSR into their business operations overseas. The case studies presented elsewhere in this report can serve as hints for how to take these steps.

¹⁹ The numbers within the graph are numbers of activities conducted. The results are a compilation of the replies to the question, "How are your company's CSR activities relevant to your business operations?" (multiple response).

(6) Results Achieved from CSR Activities by Issue

(i) Introduction

How CSR activities are assessed and how they contribute to corporate value are difficult to grasp even for those actually involved in their implementation, and specialized research does not offer clear clues either. In the CSR reports that companies publish, corporate value and social value are measured as fundamentally separate items, and quantitative measures covering both types of value are rarely offered. Companies commonly present evaluations based on key performance indicators (KPIs) that measure social value.²⁰ But as noted repeatedly in this report, corporate value and social value are not conflicting objectives; corporate activities aimed at integrating the two and enhancing them together can, at the same time, promote sustained social development and achieve a competitive edge for the company over the long term.

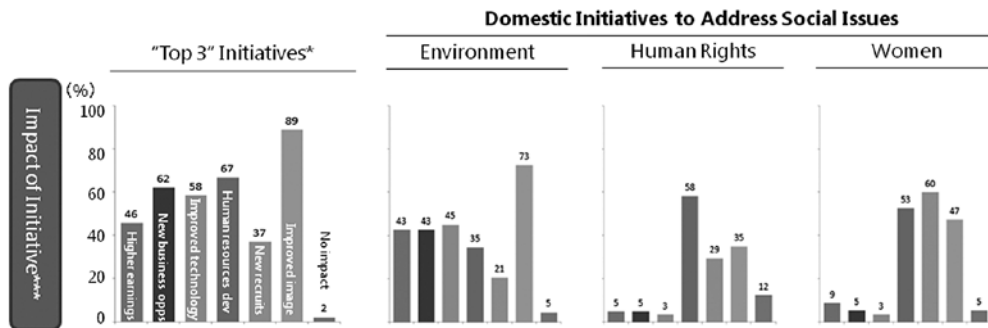
In this section, with this in mind, we will look at the results of CSR activities from the perspective of corporate value. To be sure, it is not realistic to expect companies to immediately start providing quantitative readings of this sort. As a starting point, we will examine what companies regard as the ideal relationship between their CSR activities and corporate value. Next, as in the previous section, we will look at the results by individual issue and compare these results with the ideal.

(ii) The Ideal: Direct Contribution to Corporate Value

Figure 18 presents the contributions to corporate value made by companies' "top three" CSR activities. An improved corporate image was the most commonly cited contribution, but over 50% also cited human resources development (through the improvement of childcare leave systems and the active appointment of women to managerial posts), new business opportunities, and enhancement of the company's technological strength. And close to half reported higher earnings.

Companies position CSR activities as ideally contributing to the enhancement of corporate value. If we combine this with the findings from the previous section, we see that what companies seek in their CSR activities is integration with their business operations in terms of both relevance and benefits.

²⁰ Key performance indicators are quantitative yardsticks that measure the degree to which goals have been accomplished. They are used mainly to quantify results that are hard to measure numerically, such as levels of contribution to society and stakeholder satisfaction.

Figures 18 & 19. Results from Companies' "Top Three" Activities and Results by Issue²¹*(iii) The Environment: Ideal Results in Japan and Overseas*

What results have companies actually achieved through their CSR activities? As in the previous section, where we looked at the relevance of the activities to companies' business operations,²² here again we will start by presenting some representative examples and highlight the relationship between the ideal vision of CSR activities and the benefits achieved from specific initiatives.

In the case of CSR activities that companies themselves rate as successful (their "top three"), the results have led to enhancing corporate value. But when we look at initiatives directed at specific issues, out of the 18 domestic and overseas categories, the only one that shows a similar pattern is domestic efforts in the field of the environment—just as in the case of relevance to business operations, though the results are not quite so positive.

For activities in the field of human rights, results are limited to human resources development and recruitment, while for those in the field of child poverty, improvement of the company's image is the only prominent result.

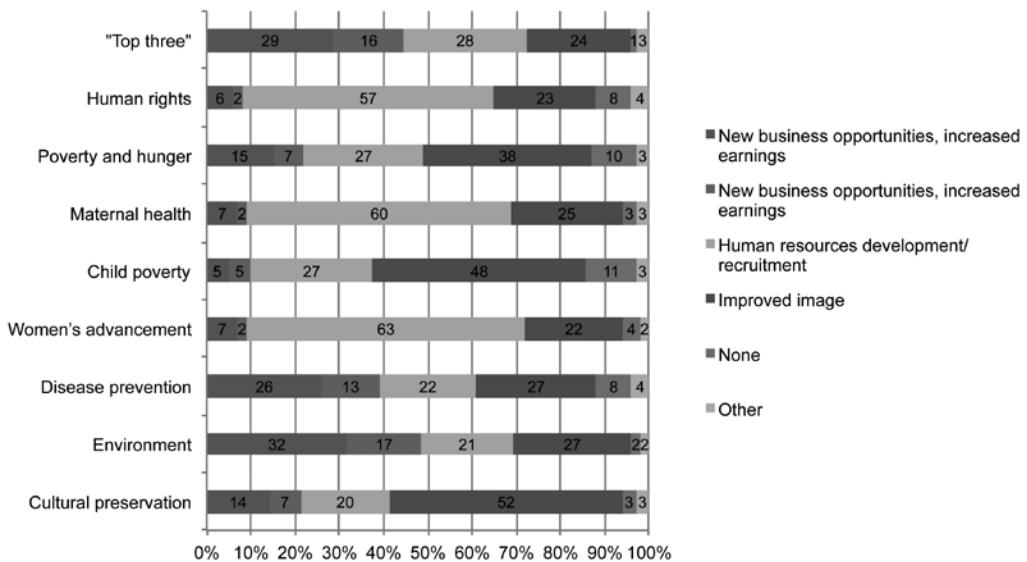
The trends observed in terms of results are similar to those seen in the case of relevance to business operations. Figures 20 and 21 show the breakdown of results by social issue for initiatives within Japan and overseas, respectively.²³

²¹ The results are a compilation of the replies to the question, "Did the above initiatives enhance your company's unique strengths?" (multiple response). The "top three" are companies' choices of the top three of the activities they have conducted that have produced successful results.

²² Please refer to the issue-by-issue analysis of CSR activities in the section describing the results achieved in the following chapter.

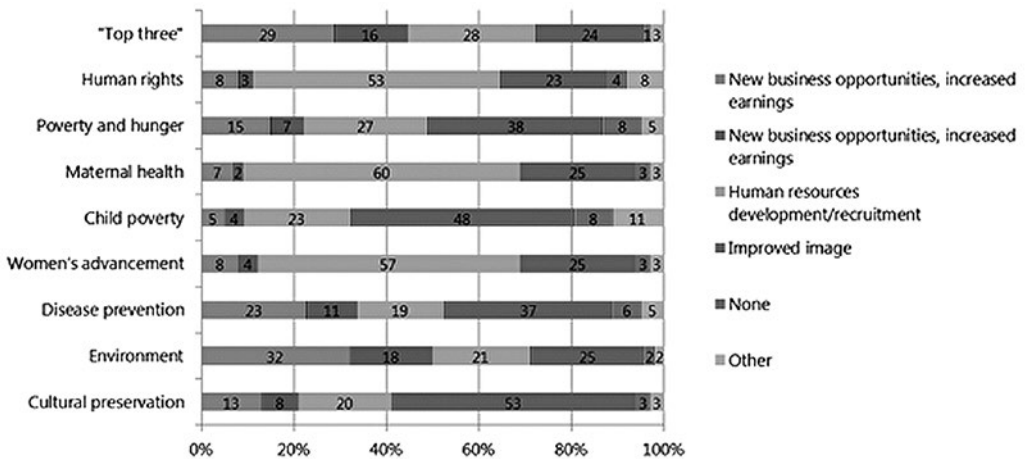
²³ The results are a compilation of the replies to the question, "Did the above initiatives

Figure 20. Types of Results Produced by CSR Activities (Domestic Social Issues)



Note: The numbers within the graph are numbers of results reported.

Figure 21. Types of Results Produced by CSR Activities (Overseas Social Issues)



Note: The numbers within the graph are numbers of results reported.

enhance your company's unique strengths?" (multiple response). To facilitate comparison between the figures for the "top three" and other issues, in these graphs we present ratios using the total numbers of initiatives for each type of approach as the denominators. Please note that the values are different from the ones in Figure 18.

The survey findings reveal no major differences between the results achieved from CSR activities in Japan and those overseas in terms of the effect on corporate value. The differences are more pronounced between categories of social issue. The results from companies' "top three" include large shares of short-term, direct effects, such as expansion of operations and earnings and enhancement of technological strength, but the overall results by social issue show low shares of activities producing such direct effects.

Direct effects on corporate value like the ones observed for the "top three" activities are seen only in the case of environment-related initiatives in Japan and overseas. Disease prevention comes next, with a relatively high share. The companies undertaking initiatives in this field are limited to particular industries, and the relevance of such initiatives to their business operations is relatively high, but even so, improvement of corporate image accounts for a large share of the responses. In other categories, the main results reported are in human resources development and recruitment and in image improvement. Expansion of operations and earnings and enhancement of technological strength—results directly impacting corporate value—account for less than 10% of the responses.

So the results of CSR activities are approaching the ideal—enhancing their corporate value directly as well as contributing to it indirectly over the medium-to-long term—only in a few fields, such as the environment and disease prevention. The actual results achieved consist mostly of longer-term, indirect effects, such as image improvement and human resources development and recruitment. A key issue for CSR going forward will be finding ways to achieve results that will contribute directly to corporate value from activities undertaken across the spectrum of issues.

Our survey did not reveal the drivers for achieving results like business expansion or higher profits from CSR activities, but cross-tabulation analysis shows that companies that are conducting dialogue with socially vulnerable groups and non-profit organizations and those that are working in tandem with outsiders, including NPOs and specialists, are achieving such results more successfully than those that are not. Though it may seem like a roundabout approach, undertaking repeated, attentive dialogue in connection with specific activities, finding social issues appropriate for the company to address, and understanding the wellsprings of the company's own competitive strength are what make it possible for a company to embark on cooperation with others. And it is probably fair to say that companies that have the human resources capable of this sort of attentiveness are the ones that can achieve the integration of their CSR activities with their business operations and produce successful results in terms of both social and corporate value.

(7) Areas for Improvement in CSR Activities

Various studies have already revealed a number of areas for improvement in the conduct of CSR, such as extension throughout the company, incorporation into business operations, and formulation of indicators for evaluation. These studies have largely evaluated CSR and identified issues on the basis of existing guidelines like ISO 26000 or have focused on the issues recognized by companies' CSR implementation departments.

Properly speaking, however, CSR activities should not be something handled just by the implementation department but rather be conducted through integrated efforts encompassing management and various operating departments. It is also important to survey the views of those outside the implementation department on problem areas relating to CSR.²⁴ Our survey thus sought the views of three different areas of each responding company: the executive level, in the operating departments, and in the CSR implementation department.²⁵

(i) Differences Depending on the Organizational Locus

We asked survey respondents in each of the three divisions to identify the issues their company faced in promoting CSR. The answers were in written (as opposed to multiple-choice) form, and we used text mining and qualitative analysis to classify and tabulate the results.²⁶ Table 3 presents the top five types of issues we found in each of the three divisions.

Differences of main issue types were seen depending on the locus. At the executive level and in the operating departments, the most frequently cited set of issues concerned ways of linking CSR activities with business operations and fitting the former into the latter, while in the implementation departments the top set concerned spreading policy awareness throughout the company. In other words people in the implementation departments sense that the basic ideals and guiding princi-

²⁴ The interviews conducted by the Tokyo Foundation revealed the strong possibility of awareness gaps and conflicts of perspective between those working in CSR implementation departments and those at the executive level or in other departments.

²⁵ We should point out, however, that the actual respondents to our questionnaire were generally in companies' CSR implementation departments.

²⁶ Our analysis yielded the following 11 classifications: (1) insufficient understanding of CSR (including lack of policy clarity), (2) lack of clear priorities, (3) [difficulty in] fitting into business activities, (4) coping with globalization, (5) spreading policy awareness throughout the company, (6) publicity to stakeholders and others outside the company, (7) collaboration with other departments, (8) difficulty in measuring effectiveness, (9) arrangements to keep activities going, (10) insufficient resources, (11) other.

Table 3. Top Issues for CSR Activities as Viewed from Different Loci in the Company

Executive level			CSR implementation department		Operating departments	
1	Fitting into business activities	52	Spreading policy awareness throughout the company	59	Fitting into business activities	52
2	Insufficient understanding	37	Fitting into business activities	28	Spreading policy awareness throughout the company	25
3	Coping with globalization	15	Insufficient resources	26	Insufficient understanding	18
4	Spreading policy awareness throughout the company	14	Coping with globalization	19	Insufficient resources	14
5	Insufficient resources	8	Building a cross-departmental setup	14	Coping with globalization	11

Note: The figures show the numbers of responses of each type.

ples are not shared by others in their company, an issue more fundamental than that of integrating CSR activities with business operations. We can interpret what we see here as being two sides the same coin: People are viewing the same issues from different standpoints. But while those in the CSR implementation departments are focusing on ideals and modes of thinking, feeling concern over the lack of progress in incorporating CSR policy into the company's business operations, those at the executive level and in the operating departments are more interested in concrete action. This may reflect the emphasis on implementation over deliberation that we touched on earlier. And given the fact that CSR is a term with a variety of definitions, we can imagine the depth of the concern felt by members of the implementation departments. The insufficient understanding of CSR that is one of the top types of issues at the executive level and in the operating departments may be seen as another manifestation of this same situation.

Meanwhile, many implementation and operating departments cite insufficient resources, but executives seem to be relatively unaware of this issue. This suggests that the departments actually planning and carrying out CSR activities encounter shortages of resources, including personnel and funds, but this information is not reaching the executive level.²⁷

In contrast, little difference was seen among the three loci in their awareness of how to adjust CSR activities so as to cope with the globalization of markets. This seems to indicate a shared recognition of this issue across organizational lines. It

²⁷ The written answers often mentioned both the lack of personnel and the lack of understanding at the executive level.

may also be taken as evidence of progress in sharing the idea of promoting CSR to preserve corporate value as one aspect of risk management.

So we see that even within the same company, the view of CSR activities is not uniform but varies from one locus to another. And even within organizational units information is not adequately shared. An important key to the development of CSR activities henceforth will be to find ways of narrowing such internal gaps and establishing a companywide PDCA cycle for CSR.²⁸

3. Where Is CSR Headed and What Should It Do?

(1) The Importance of Selection

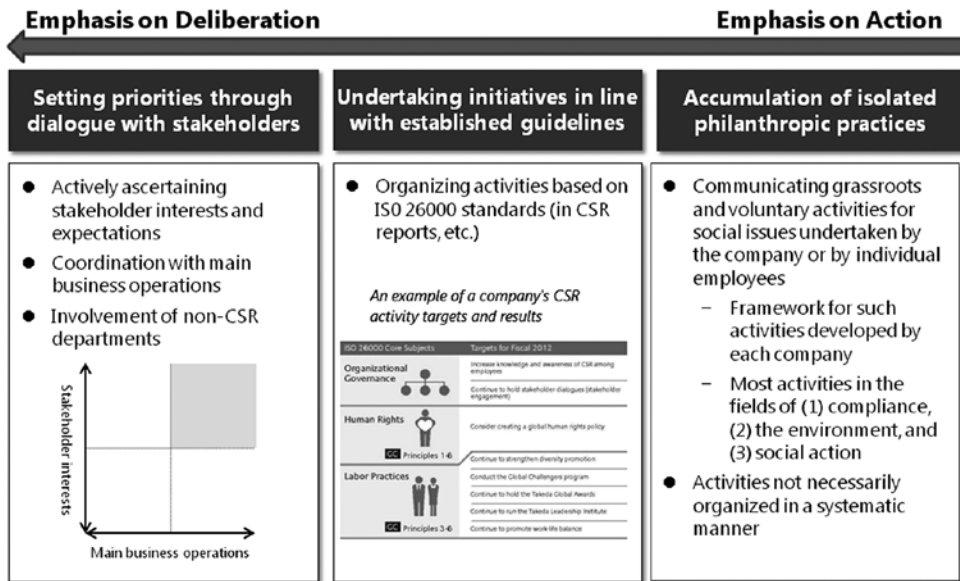
We can see the current state of CSR activities in Japan by observing the contrast in the levels of attention being paid to various social issues. Almost all of the responding companies are involved in environment-related activities, including measures to address climate change and to preserve biodiversity. But only about 70% of them are addressing issues in the areas of human rights and women's advancement, which ought to be core concerns for corporate management. And fewer than 30% are involved in seeking to resolve the issues of disease prevention and mortality reduction and of poverty and hunger, which are universal concerns and are also becoming more serious within Japan.

Social issues are diverse, and so are companies. So why do we see this sort of sharp contrast between widely addressed and little addressed issues? One factor that may be cited is the strength of companies' herd mentality. If we look at the changes in the shape of CSR, we find trends that reflect the times, and many people involved in CSR report that their companies' activities have been conducted with an eye on what other companies are doing.

But we think the essential cause lies at a deeper level. As noted above, Japan's CSR is characterized by an emphasis on implementation, with relatively little weight placed on deliberation (see Figure 22). When we conducted the survey, many of the target companies commented that while they were accustomed to describing their CSR activities, they had never been asked what social issues they were trying to resolve. They were able to speak eloquently about what they are doing, but they give little attention to the purpose of those activities.

²⁸ Many case studies presented in this report were chosen with this point in mind.

Figure 22. Three Approaches to Integrating Business Operations and Resolution of Social Issues²⁹



As we noted in the Overview section of this report, Japanese companies are wont to take a “stapler” approach to CSR, merely binding together sheaves of documents cataloging the good deeds they have done. Without a process of deliberation to determine what sorts of social issues exist, what society expects of the company, what are the fields in which the company can tap its strengths, and what social issues the company will seek to resolve, the content of CSR programs is likely to end up being shaped by what other companies are doing or by the inclinations of a few top executives.

Needless to say, in order for a company to achieve the ideal integration of efforts to resolve social issues with business operations, it needs to repeatedly conduct dialogue with stakeholders and make use of guidelines based on a good grasp of their significance. We would also note that integration of CSR with business operations is crucial for the sake of creating and maintaining corporate value. Above all, these initiatives should be grounded in an awareness of the relationship between society and the company. The key challenge is to position CSR in such a manner as to solidify the company’s *raison d’être*.

²⁹ Compiled by the Tokyo Foundation based on corporate CSR reports and websites and Japanese National Committee for ISO/SR publications.

CSR stands for “corporate social responsibility,” which is commonly translated as *kigyō no shakaiteki sekinin* (企業の社会的責任) in Japanese. *Sekinin*, the word used for “responsibility,” also denotes “obligation,” and so perhaps the use of this term has caused companies to feel that they need to follow the example of others. But if we consider the original English term carefully, we see that it is derived from “respond.” And native speakers of English tell us that this word refers not so much to the stiff, lifeless reaction to an external stimulus—like a balloon buffeted by the wind—as to a flexible, animated response. This is the sort of response that is demanded of companies by their stakeholders throughout society. The nature of the demands will vary from company to company, and so of course will the methods by which they respond. But it is by responding dynamically that companies display their *raison d’être* within society. “Corporate social responsibility” may be taken to refer precisely to this *raison d’être*.

What are the most compelling social issues currently confronting Japan? What are the social issues that companies can address, putting their corporate *raison d’être* on the line and tapping their strengths to respond to all their stakeholders in society? Companies need to think carefully about these questions by conducting a thorough process of deliberation.

And what about issues outside of Japan? Japanese companies are doing little to address social issues overseas except in the field of the environment. And even in that field, their efforts fall short of what they are undertaking domestically. If we look at their initiatives as a whole, comparing those in Japan to those overseas, we see a clear emphasis on the domestic side.

In terms of tapping strengths, if, as is often noted, Japanese companies’ *forte* is in the environment, then they can probably expand their initiatives more actively in this field. And by applying the technologies developed in Japan at overseas locations, they may be able to transform the CSR activities that they have implemented as part of their business processes into direct sources of corporate value. With respect to environmental affairs, some people note the lack of consistency in legal standards in Japan and elsewhere, but instead of waiting for the emergence of uniform standards, companies can make management decisions to redefine their strengths and actively apply them. In any case, it is important for companies to select social issues to address overseas, just as within Japan, in the light of their own corporate *raison d’être*.

(2) Initiatives as Part of Business Practices or in the Form of Donations

As shown in our analysis above, boosting the integration of issue-resolution initia-

tives with business operations leads to increased corporate value and is the ideal that companies are pursuing. In practice, however, it is only in the field of the environment that they have approached this ideal; overall its realization is still far off.

Japanese companies' CSR activities mostly fall into two broad categories: (1) business practices that address problems like discrimination based on gender or disabilities and emissions of pollutants by making sure that the company's business operations do not give rise to such problems or exacerbate their seriousness, and (2) donations making use of the profits arising from business operations, contributing to the resolution of social problems not as a direct actor but indirectly, by supplying money (or goods) to third parties like NGOs and others in the civil sector.

Activities in the first category are largely preventive, aimed at keeping the company's own business operations from generating new social problems or exacerbating existing ones. Examples include ensuring compliance with laws and other provisions adopted for the sake of human rights and women's advancement (such as bans on discrimination in hiring and on violations of privacy in business operations) and moves to improve childbirth and childcare leave systems, which are by far the most commonly seen concrete initiatives to address the issue of creating an environment conducive to childbirth and childcare.

Activities in the second category largely involve donating funds for the resolution of social issues outside the company, without becoming directly involved themselves. The survey revealed many examples aimed at resolving the issues of poverty and hunger and of maternal health overseas through donations to NPOs and NGOs; domestically, donations were made for festivals and other local events held in communities where the company operates—a common type of initiative in the field of cultural preservation.

Are these activities likely to continue? Given the changes in contemporary society and the circumstances in which companies find themselves in—particularly the inexorable progress of globalization—companies may be forced to change the nature of such CSR programs.

(3) Changes Due to Globalization

Starting in the latter part of the 1990s, the trend in the flow of goods around the world shifted.³⁰ Companies strengthened their supply chain management, setting

³⁰ From this period through the early 2000s, the flow of goods expanded dramatically, especially across the Pacific.

up operations in locations across the globe for everything from procurement of raw materials through production, warehousing, and sales. If one includes intermediate goods, complex supply chains now extend across national borders. Some such chains start with raw materials, while others originate with markets close to consumers. The construction of supply chains optimally suited to the characteristics of companies' materials, products, and customers has become essential for the sake of achieving a competitive edge. Many Japanese companies, unable to achieve sustained growth from operations in the mature, domestic market, have been moving into overseas markets with good prospects for further expansion. While some such moves have been more successful than others, the fact is that the number of companies stepping up cross-border activities to develop new markets and rebuild their supply chains has been on the rise. Globalization has hence become a precondition for successful corporate management.

How is the progress of globalization related to CSR?

Globalization has caused the scope of companies' activities to broaden. Through their supply chains, the reach of their activities is continuing to grow, extending even to regions where they are not directly engaged in buying or selling. But in addition to fostering the spread of superior technologies and products and rare resources, globalization has also resulted in the cross-border transmission of pests, diseases, and technologies that can be used to make weapons of mass destruction, resulting in the creation or enlarging of social issues. Globalized companies are directly involved in moving resources across borders, and they are the prime beneficiaries of this movement. They are also the main actors in a position to take effective measures against the negative consequences. Increasingly, they are being asked to take steps to restrain the emergence of such issues.

Another way in which globalization relates to CSR is the need to deal with issues that arise through the cross-border contact of different cultures and value systems. Today's multinational corporations need to build close relationships with many different regions with diverse cultures and values. They must understand and respect the cultures and values in those regions that differ from their own. This is easier said than done, though, and not a few companies have unknowingly walked into a hornet's nest in the course of globalization. As noted elsewhere in this report,³¹ the NTT Group's international survey of readers of CSR reports has revealed the low level of awareness regarding human rights within Japanese society. This is a fact that needs to be more fully recognized.

³¹ In the overview article <<http://www.tokyofoundation.org/en/articles/2014/overview-of-csr-in-japan>>, in the case studies, and elsewhere.

Recognizing and addressing the social issues that accompany globalization contributes to the preservation of corporate value. The focus should be on foreseeing and taking action to prevent such issues from emerging, but this requires paying close attention to the various factors that are changing the shape of these issues, including globalization and advances in science and technology. Companies must keep an eye on shifting developments, both close-up and from a broader perspective. Maintaining such multiple viewpoints entails developing personnel who understand the languages both of social issues and business operations, but this is not something that can be accomplished overnight. Ongoing efforts are needed to promote dialogue with outside experts, conducted attentively and with open minds, and to position the CSR department as a division to develop human resources capable of viewing society from a long-term perspective. Companies must constantly strive to enhance their organizational ability to ascertain key social issues and to make judgments about how such issues are addressed.

As was made clear at the Rio+20 conference,³² the capability of governments to resolve social issues has declined in relative terms, and companies should have an understanding of this fact. Government authority does not extend across national borders. Cross-border action requires agreements among governments, but such agreements are not easy to achieve today. Companies, by contrast, are operating across borders on a daily basis. They are in the best position to address cross-border issues. It may thus be only natural for society to expect global corporations to take the lead in tackling global social issues.

(4) The Future of CSR: Which Way Forward?

Economists often classify the constituent elements of society into (1) citizens, (2) the government, and (3) corporations (markets). They are the only ones who can resolve social issues. We have already pointed out the limits of governments; their capabilities are greatly constrained by national borders and by fiscal circumstances. As a result of the development of the welfare state, many industrially advanced nations face fiscal crises to one degree or another. To the extent that the problems in public finance result from excessive expectations directed at governments, the situation is clearly unsustainable.

Citizens and civic groups are also the target of expectations as potential actors,

³² The United Nations Conference on Sustainable Development, held in Rio de Janeiro, Brazil, in June 2012.

but in Japan, compared with other countries, their capabilities have yet to mature in terms of both scale and consciousness of their own role.

For companies, meanwhile, the resolution of social issues acts as a source of corporate *raison d'être* and contributes to the creation and maintenance of corporate value. Companies have technological and organizational power and are good at adopting and expanding the scale of innovations. So they are the best positioned to broadly spread the benefits of social issue resolution.

The relationships between citizens, the government, and companies have changed over time. We are entering an age in which companies will need to stand at the forefront of initiatives for resolution of social issues.

Our survey revealed that Japanese companies have the desire and the will to integrate their CSR activities with their business operations. They have gained a deeper awareness of the imperatives accompanying society's demands and the various social changes, and they have a good idea of what they want to achieve. In practice, however, they have yet to reach their ideal and continue to implement earlier initiatives. This is where Japan's CSR stands. Said another way, companies have a clear view of what they need to do but are struggling to break out of their current box and move on to the next stage.

Our project has involved a quantitative analysis based on a questionnaire survey, along with case studies and qualitative analysis based on direct interviews. Our aim has been to allow both society and companies to reconfirm and share their vision of the desired shape for CSR and to contribute at least something to the search for materials that will help achieve this. With this in mind, we will continue this survey in future years, enhancing its accuracy as an information infrastructure amenable to fixed-point observation. In fiscal 2015 (starting April 2015) we plan to carry on with a more detailed investigation into points like companies' implementation of the PDCA cycle and their responses to globalization.

There is no need to go back to the idea that the resolution of social issues and the business operations of companies are totally separate and that they conflict with each other. The ideal is integration of CSR activities with business operations; people throughout each company—not just those in the CSR departments but also executives and those in operating departments—should be mindful of their respective roles in this pursuit.

January 23, 2015

The State of Global Corporate Sustainability

Georg Kell

The United Nations Global Compact was launched in 2000 based on the proposal that business and the UN jointly initiate a “global compact of shared values and principles, to give a human face to the global market.” Georg Kell, Executive Director of the UN Global Compact, traces the history of the corporate sustainability movement and the challenges of a globalized world that the United Nations is increasingly partnering with the business community to solve.

* * *

The United Nations–Corporate Sustainability Link

Corporate sustainability has always been defined by and evolved within the broader context of politics, power and technological change—the supreme driver of productivity and wealth creation. And it has always responded to the call for the “common good” and the betterment of all societies. In our globalized world, no single actor or institution can solve our complex and pressing challenges. Therefore, it follows that the United Nations has increasingly turned to the business community as a key partner in finding solutions.

What few know is that in fact business provided strong support for the United Nations at its founding. With the end of the Second World War, a spirit of hopeful pragmatism prevailed in 1945. Business understood peace and prosperity as two sides of the same coin. International cooperation based on fairness and nondiscrimination was seen as essential for societies to flourish and businesses to grow.

The private sector’s alignment with the United Nations foundered later due to Cold War hostilities and ideological rivalry. But with the end of the Cold War, and the re-emergence of global consensus on the important role of accessible markets, interaction between the business world and the world organization resumed.

Georg Kell Executive Director, United Nations Global Compact.

By the late 1990s, the need for action was unmistakable. The gap between commercial advances and the relative neglect of human rights and social and environmental issues had provoked a backlash. Companies were increasingly under fire for substandard conduct—often in relation to labor abuses, environmental degradation, and corruption instances. In developed countries, job fears and national security concerns fed a rising discontent and call for protectionism. And in many ways, it appeared the rest of the world did not figure in the growth and opportunity associated with massive increases in international investment and trade.



It was in this context that the UN Global Compact was launched in 2000 based on the proposal that business and the UN jointly initiate a “global compact of shared values and principles, to give a human face to the global market.” At the same time, the corporate sustainability movement began to lift off.

Since then, several troubling trends that could hinder our progress have emerged.

We are dependent, yet divided. People and countries are ever more dependent on one another in our globalized world, yet our willingness and ability to cooperate is diminishing. Technology and the free flow of ideas, trade, and investment have improved the lives of people around the world on a scale never seen before.

However, the very system that has been supporting global integration and cooperation is under stress and shows serious cracks. Crisis management, short-termism, and populism characterize much of our fragmenting world. Walls are going back up, and so is the prospect of nationalism and protectionism—all leading to an inability to cope with global threats.

The multilateral system is eroding. Narrowly defined national interests are gaining the upper hand. The institutions and ideas that have supported interdependence no longer have the required political endowment. The vision of the postwar architects that durable peace and prosperity can only be built on the foundations of interdependence no longer enjoys universal support. A vision of trade, investment, entrepreneurship to create and spread wealth and a vision of political freedom and social fairness is being eroded.

Our systems are not set up for the long-term. Most politicians are focused on delivering within election cycles. Markets remain obsessed with short-term returns,

meaning that corporate sustainability is not properly valued. In a world driven by urgency, there simply is not enough appetite by politicians, the private sector, and people to look beyond their own interests—to uphold the common good.

Thus, the case for collective solutions to shared challenges in a globalized world seems obvious. Yet, despite plain evidence, agreement and solutions have not proven easy to find. Our problems have not only moved ahead at a rapid pace but also become more connected and complex due to globalization.

The writing is on the wall: Over 1 billion people lack access to food, electricity, or safe drinking water; most of the world's ecosystems are in decline; inequality and widening gaps between rich and poor are global phenomena; and climate change and population growth are expected to make these challenges even worse. The negative implications for natural resources, health, and security fundamentally threaten the prosperity and productivity of economies.

A Clear Case for Corporate Sustainability

The ability of business to innovate and grow depends critically on the collective system to support prosperity, equity, freedom, dignity and peace. What is good for business is also good for society. The business case for sustainability has strengthened substantially. And the notion and practice of corporate sustainability has evolved significantly in the past decade.

Corporate sustainability has shifted from a moral imperative to a material one. Corporate leaders increasingly see that responsible conduct, sustainable development, and long-term business success are mutually reinforcing. Global environmental, social, and economic challenges can, and do, affect the bottom-line. Market disturbances, social unrest or ecological devastation—no matter how near or far away—are having real impacts on the supply chain, capital flows, public opinion, and employee productivity.

As a result, companies are increasingly putting corporate sustainability on their agendas. This means delivering long-term value in four realms: financial, social, environmental, and ethical—what the UN Global Compact has coined “the quadruple bottom-line for business.”

Business has emerged among a growing number of new actors in the international arena. While many traditional donor countries are facing fiscal austerity, we are seeing dynamic growth in the East and South and the emergence of potential new partners that can help us shape a new development paradigm. Business-led development, through foreign direct investment, is now seen as a promising way forward.

Transparency is on the rise. Modern communications technology combined with growing demands for transparency make it harder for companies to flout laws or ignore public opinion. Companies have little choice but to better manage their supply chains. Years ago, it was a challenge for companies to simply explain the connection between principles and business, now thousands are communicating annually in public reports on tangible efforts to address sustainability issues.

Where We Stand Today

A vanguard of companies has already understood that public and private interests are ever more interwoven—and decided to take action. Today, the Global Compact counts over 8,000 corporate signatories from more than 140 countries—representing approximately 50 million employees, nearly every industry sector and size, and hailing equally from developed and developing countries. Each has committed to embed human rights, labor, environment, and anticorruption principles into their operations and disclose progress. In order to uphold the initiative’s integrity, thousands of companies have been removed from the Global Compact for failing to meet the annual disclosure requirement.

Deeply connected to the UN Global Compact are the **Principles for Responsible Investment** (PRI)—with more than 1,000 investors managing assets over US\$30 trillion—and the **Principles for Responsible Management Education** (PRME)—with over 500 academic institutions from nearly 80 countries. These sister initiatives are bringing mainstream investors and business schools into the fold of corporate sustainability.

All of this is a great start, but too many companies are doing nothing. It is time for business to step up efforts. A new level of corporate performance is needed. Corporate sustainability as practiced is insufficient. Universal values have not penetrated business strategy and leadership, nor have we seen the depth of action needed. With an estimated 80,000 multinationals and millions of smaller enterprises, much remains to be done to reach critical mass.

The new development is that companies are looking beyond their own walls and seeing the urgency of addressing society’s most pressing challenges. They are beginning to put forward innovations and enter into collaborations that can have transformative impacts on some of the toughest issues we face.

For example, a number of UN Global Compact issue platforms, sets of principles, and global working groups have been developed to spur action by companies and lead the way to new solutions and actions. Many of these platforms have methodologies for engagement, following the “commit, act, report” model. The UN

Global Compact has a wide menu of issue platforms, each of which offers enormous potential to drive collective, widespread and specific actions.

- Through *Caring for Climate*, more than 300 companies are working individually and together on critical innovations on energy efficiency, renewable energy, adaptation and finance;
- The *CEO Water Mandate* provides a platform for companies to advance the principles of “corporate water stewardship”;
- Our new *Business for Peace* initiative will expand and deepen private-sector action in support of peace by promoting transparency and accountability and by adopting conflict sensitive practices;
- Our new *Rule of Law and Business* initiative is mobilizing companies to take concrete action to strengthen the rule of law, with emphasis on human rights and good governance;
- The *Women’s Empowerment Principles* help business to promote gender equality and women’s empowerment in the workplace, marketplace, and community. The WEPs have over 600 CEO signatories, signaling the importance of this issue to business;
- Finally, the *Children’s Rights and Business Principles* have been launched in more than 30 countries around the world. I am proud to note the immense support provided by Sweden for the children’s principles.

In addition, Global Compact **Local Networks** in more than 100 countries are convening committed companies and acting on sustainability issues at the ground level. Networks serve an essential role in rooting global norms, issue platforms, and campaigns within a national context. Our experience has shown that most business partnerships are formed at the country level and our networks are well-positioned to facilitate these connections. The UN Global Compact supports and builds the capacity of networks and facilitates knowledge sharing among them.

Finally, a new class of technology-powered action hubs has been introduced to connect players at the global and local levels. The UN Global Compact Business Partnership Hub will further action on climate, water, social enterprise, anticorruption, and UN-business partnerships.

The Post-2015 Development Agenda

This year, we stand at the threshold of an enormous global opportunity. As the

Millennium Development Goals 2015 deadline approaches, governments are undertaking a process to define a post-2015 global development agenda.

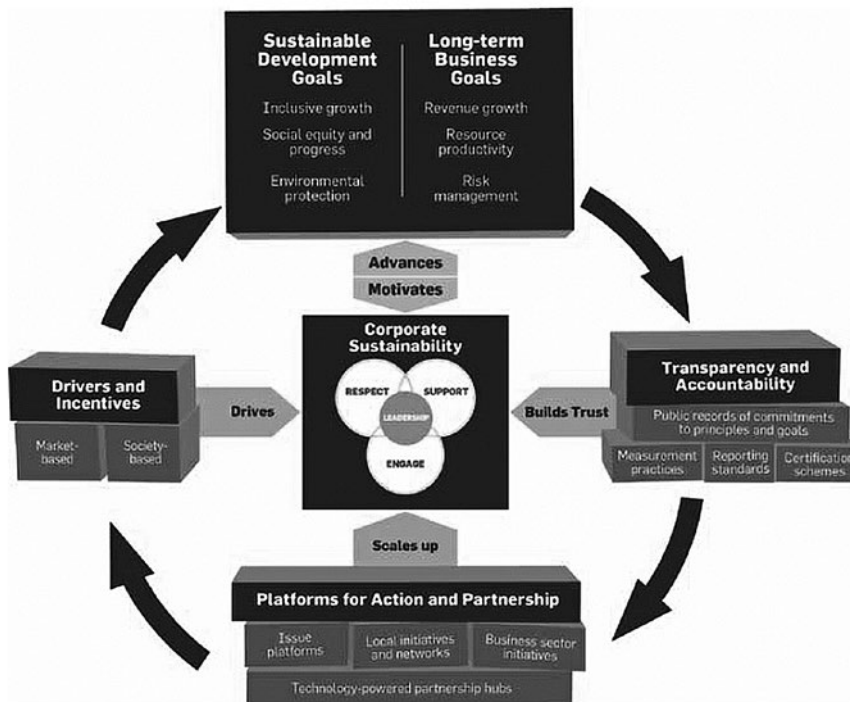
The post-2015 agenda—as we refer to it at the United Nations—can open the door to a new era of business contribution and engagement. A set of global and ambitious sustainable development goals will inspire business action. And a concise set of goals and targets will translate into a framework for businesses to measure progress and establish corporate goals aligned with global priorities. This opportunity is enormous to create value for business as well as the public good.

To help business advance global priorities at a new level, the UN secretary-general launched the Post-2015 Business Engagement Architecture at the UN Global Compact Leaders Summit in September 2013. Our new Architecture is the roadmap for scale and transformative impact. It is an open invitation to co-invest in partnerships, to collaborate to advance UN goals, and to build overall societal trust that allows markets to work for the benefit of all.

Leveraging the Architecture, companies everywhere are called on to do more of what is sustainable and put an end to what is not. It is time for chief executives everywhere to show leadership and actively orient their business towards corporate sustainability.

1. **Lead.** Ensure that corporate governance systems recognize environmental and social issues as critical to long-term business success, for example strengthening directors' ability to understand and oversee social components. This helps cascade sustainability practices throughout the value chain.
2. **Integrate.** Take a sophisticated and comprehensive approach to integrating sustainability issues across the organization—from the board down through the organization and subsidiaries and out into the supply chain. Work to connect sustainability issues and move beyond silos. Join Global Compact issue platforms—on climate, water, gender, and children's rights—to drive performance and impact.
3. **Make.** Goods and services that respond to the growing demand for more sustainable solutions should be encouraged and rewarded. Consumers and markets are ready for them, but incentive structures have not kept pace with shifting values and preferences.
4. **Commit.** Make a commitment to action—individually or in partnership—on a sustainable development issue with clear targets and accountability measures in place. Transformative public-private partnerships can have lasting positive impacts on policy, market structure, and social norms.
5. **Collaborate.** Turn to civil society, local communities, employees, and aca-

The Post-2015 Business Engagement Architecture



Source: UN Global Compact

demia, for example, for input and feedback on practices and plans. Collaborate with governments, other companies, and civil society in partnership that address collective challenges—where combined efforts are more powerful than going it alone.

6. **Report.** Heed the call of a new generation of investors by publicly reporting on sustainability performance.
7. **Lobby responsibly.** Ensure that lobbying actions are not in conflict with your company's stated values and take a lowest-common-denominator approach, rather than pursuing long-term interests. Call on governments to adopt smart regulatory frameworks and incentives so business is rewarded for environmental and social performance.
8. **Advocate.** Spread this message to your peers, partners, and customers that have yet to act—those sitting on the fence or even actively opposing change. It is time for us all to wake up to the urgency of sustainability, scale up our actions, and speed up the delivery of collaborative solutions.

When companies take a principled approach to doing business, this can help restore balance in economies and boost confidence in the social legitimacy of the global marketplace. Of course, none of this can happen without strong political leadership. Voluntary initiatives like the UN Global Compact can help bridge the gap while regulation is being developed and raise the bar when regulation is either insufficient or improperly enforced. As a growing number of companies are embracing the sustainability challenge, it is hoped that political leaders will be encouraged and inspired to do their part to transition to a sustainable future.

For more than a decade, through corporate sustainability we have been able to make real advances to build environmental, social, and governance pillars into globalization. But today, corporate sustainability still serves as a stop-gap for the shortfalls in global governance. We must work to ensure that the global marketplace will induce all nations to fully incorporate universal values into their societies. Until that day comes, responsible business will remain a vital solution.

February 18, 2015

Demanding Social Responsibility from All Organizations

Masao Seki

The weakening of the government sector has highlighted the growing need for private companies to tackle such key social issues as climate change and human rights abuses. Indeed, rather than act as a drag on sustainable development, businesses are now moving to promote responsible behavior, notes Masao Seki of Sompo Japan, and global-scale initiatives are being advanced to give the private sector a bigger problem-solving role.

* * *

CSR in a Global Context

The ideal of “sustainable development”—solving environmental problems and dealing with the issue of poverty at the same time—was set forth at the Earth Summit (United Nations Conference on Environment and Development) in 1992. More than 20 years have passed since this lofty pronouncement, but prospects for its realization seem to have receded in the interim.

Along with climate change, we have seen a marked increase in the frequency of extreme weather. The sustainability of the environment, far from improving, has deteriorated to a critical degree. And while the number of people living in extreme poverty around the world has started to decline, as measured by statistics, the globalization of markets and labor has led to greater inequality in the distribution of wealth, with domestic income gaps widening in both the developing and advanced countries. So poverty has actually become more widespread.

On the political front, the shift in the international power balance has left the world leaderless, with no country capable of reconciling differences regarding the environment and development on its own. It has become difficult to achieve the ideal of sustainable development through political leadership. And it appears

Masao Seki Associate Director and Chief CSR Officer, Sompo Japan Insurance.

doubtful that traditional forms of global governance, relying mainly on national governments, can produce solutions for global issues.

The weakening of the government sector was highlighted by an event at COP 19 (19th Conference of the Parties to the United Nations Framework Convention on Climate Change) in November 2013. The decline of political leadership has been painfully visible in recent years at international forums dealing with climate change, where political negotiations have shown no sign of leading to solutions. At COP 19 in Warsaw, the representatives of the major nongovernmental organizations that have long been playing a key role in the negotiation process walked out of the conference en masse in protest as it was drawing to an inconclusive end. This was an unprecedented gesture.

Meanwhile, even as government-level negotiations became bogged down, there was a new development at COP 19 indicative of a shift in global governance, namely, the visible presence of the corporate sector, which had previously been absent from the COP process. The official program for the 2013 conference included a pair of first-ever events in this connection: the Caring for Climate Business Forum (November 19–20) and the high-level COP Presidency Business Dialogue (November 20, see photo). “Caring for Climate” is an initiative by the UN Global Compact, the UN Environment Program, and the secretariat of the UN Framework Convention on Climate Change (UNFCCC) aimed at advancing the role of business in addressing climate change. In addition to organizing the two-day business forum on the occasion of COP 19, Caring for Climate prepared a report titled “Guide for Responsible Corporate Engagement in Climate Policy.” So far the business world has resisted regulations and acted as a drag on policy initiatives for sustainable development. This must change. Corporations need to get actively involved on the problem-solving side. The new events at COP 19 showed them doing so.

So, even as political leadership is weakening, we can see a search for a new form of global governance, one in which various nonstate actors participate in the quest for sustainable development. It is hoped in particular that businesses will play a greater role in this connection than they have up to now. We need to consider corporate social responsibility in this global context.



Speakers and participants at the COP Presidency Business Dialogue, held as part of the COP 19 program on November 20, 2013. (Photo by the author)

In 2010 the International Organization for Standardization (ISO) issued a set of international guidelines for social responsibility, ISO 26000, that integrates the ideals of social responsibility and sustainable development into business management. This means including consideration for society and the environment as an element of corporate strategy and as part of their everyday decision-making and operating processes. Social and environmental concerns are to be made an essential part of the corporation's core business. And the communication from the European Commission in 2011 defining CSR as "the responsibility of enterprises for their impacts on society" called on businesses to maximize the creation of shared value and to prevent and mitigate the possible adverse impacts from their activities. Businesses are now being called on to address global issues through their core activities and to be the source not of problems but of solutions.

CSR in Japan

When people talk about corporate social responsibility in Japan, they often refer to the *sanpo-yoshi* ("three-way good") precept handed down through the generations by the Omi (now Shiga Prefecture) merchants of the Edo period (1603–1868). The secret of success, according to this precept, is to do business in a way that is good for three parties, namely, the buyer, seller, and society. It is a concept that meshes with the contemporary idea of CSR, calling on those who do business not just to seek profits for themselves but also to contribute to the development of society and to seek prosperous coexistence with others.

This is a positive element of Japanese tradition and should be preserved, but it is not identical to today's CSR, which needs to be understood in the global context set forth above. CSR is not a static ideal aimed at maintaining good relations with existing stakeholders. It calls on enterprises to play an active role in generating changes in order to solve problems.

It was in 2003 that some Japanese consumer electronics manufacturers and other firms with operations in Europe first established organizational units explicitly tasked with the promotion of CSR, so this was dubbed "year one" for Japanese CSR. The following year, Keidanren (Japan Business Federation) substantially revised its Charter of Corporate Behavior, adding content in line with global trends in CSR. For several years after 2003 there was quite a boom in CSR in Japan, and it spread at a dramatic pace through the business world. Japan came to occupy a leading position internationally in terms of the share of companies issuing sustainability reports, and Japanese companies undertook independent initiatives to implement CSR while also following the latest global trends in this field.

A major difference between Japanese CSR and CSR as practiced in Western countries, though, is the level of involvement by corporate stakeholders. Japanese firms have moved to implement CSR on their own initiative, not in response to pressure from their stakeholders. It is rare in Japan for companies to become embroiled in sharp conflicts with NGOs and other civil society organizations. The government in Japan, unlike the authorities in Europe, has not come out with a systematic set of CSR policies, nor has it become strongly involved in this field. And Japanese institutional investors have not shown active interest in the concept of socially responsible investment (SRI); as a result, the volume of such investment in Japan is far smaller than in Europe and the United States.

Generally speaking, Japan's CSR is characterized by the weakness of pressure on corporations from their stakeholders, in sharp contrast to the situation in Europe and North America, where major enterprises have struggled with fierce adversarial engagement from stakeholders—NGOs in particular. This is a reflection not just of differences in the maturity of the civil sector but also of Japan's cultural and social climate favoring coexistence and harmony over conflict.

The relative lack of engagement from civil society may be perceived as a weakness of Japanese CSR, but it can also be turned into a strength. According to the results of the CSR survey conducted by the Tokyo Foundation, Japanese companies take a positive view of collaboration with stakeholders, and 73% are already working with them. The main reason cited for such collaboration was the hope of learning from stakeholders' experience and know-how.¹ A series of surveys by Keidanren shows that the share of corporations that have collaborated with non-profit organizations has been rising by 10 percentage points every three years and has recently topped 50%.² These results indicate that Japanese corporations are actively establishing cooperative ties with civil society to address social issues. They should continue to develop these constructive relationships and turn them into strengths.

The Tokyo Foundation survey found that Japanese corporations are focusing their CSR on not just domestic issues but also issues outside of Japan in such areas as the environment, human rights, and poverty and are starting to take concrete initiatives to address those issues. And they are eagerly seeking to improve their

¹ Tokyo Foundation, "CSR kigyo chosa deta shu" (CSR Corporate Survey Data), 2014, section 6, "CSR katsudo ni okeru gaibu soshiki to no kyodo no genjo" (The Current State of Collaboration with Outside Organizations in CSR Activities).

² Keidanren, "2011 nendo shakai koken katsudo jisseyi chosa kekka" (Results of the Fiscal 2011 Social Contribution Activity Performance Survey), 2012, section II-4, "Kigyo to hieiri soshiki to no renkei" (Partnership between Corporations and Nonprofit Organizations).

CSR by learning from international practices. But they tend to hold back from direct involvement at the international level in implementing initiatives and drafting norms and policy proposals. Japanese companies will need to show leadership in this respect, participating more actively in international discussions and sharing the lessons of their own CSR activities with others.

Mainstreaming CSR

The concept of CSR is now known around the world, but in terms of content it is still developing. Advanced cases are small in scale and are incapable of having an impact big enough to set off social reforms. There is a need to expand such efforts and turn CSR into a mainstream social endeavor. I believe the following three points are keys to the future development of CSR:

(1) Stronger corporate leadership

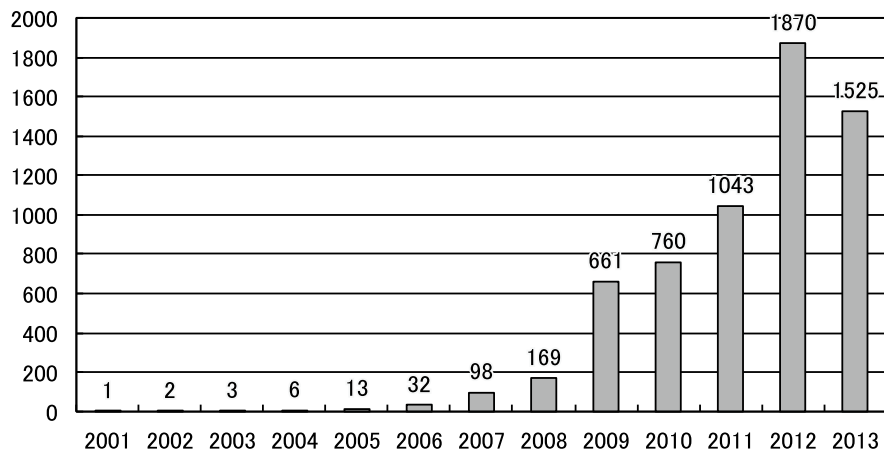
The World Business Council for Sustainable Development (WBCSD) was launched following the Earth Summit in 1992 to serve as a voice for policy proposals from the business world, and it has long played a leading role in this connection. In 2013 its chairmanship was assumed by Paul Polman, chief executive officer of Unilever, a company that has been at the forefront of global CSR. Based on its long-range Vision 2020, last year WBCSD, in a joint effort with the think tank Stockholm Resilience Center, formulated Action 2020, a plan based on scientific findings, and presented it as part of the policy dialogue at COP 19.

Meanwhile, the UN Global Compact now has more than 12,000 signatories and has become the world's biggest CSR initiative. At the 2012 United Nations Conference on Sustainable Development (Rio +20), the Global Compact organized a four-day, 120-session corporate sustainability forum that 2,700 people attended. This raised the profile of the Global Compact, which is now functioning as the hub for promoting the spread of CSR, working through its regional networks in countries around the world.

These corporate initiatives are in the process of forging partnerships. The WBCSD and the UN Global Compact, for example, are forming a "coalition of coalitions" through which they intend to present the voices of the business world at various forums, such as the UN General Assembly and the World Economic Forum at Davos.

Even so, the corporate coalitions that are seeking to play an active role in promoting sustainable development still represent only a minority of the world's com-

Chinese Enterprises Issuing CSR Reports, 2001–13



Source: China WTO Tribune.

Note: The 2013 figure is for January–September.

panies, and they need to find ways to make their voices better heard. We can hope that joint endeavors by major international initiatives, each with its own strengths, will make it possible for the corporate sector to play a leading role in this field.

(2) Roles for emerging and developing countries

As globalization progresses and the world becomes a more level playing field, CSR must spread to emerging and developing countries in order for it to become more widespread and effective.

In the first decade of the new millennium, CSR spread mainly in the industrially advanced countries, thanks to initiatives like the UN Global Compact and the adoption of international standards like the Global Reporting Initiative (GRI). Now it is spreading rapidly among the emerging and developing countries.

This trend was visible at the May 2013 Global Conference on Sustainability and Reporting in May 2013. Among the top 10 countries in the number of participating enterprises, alongside host Netherlands and other industrial countries, were emerging countries like China, Brazil, India, and South Africa. At the national presentations that were a new feature of this 2013 GRI conference, the participants from these countries explained their progress in CSR and reporting, drawing attention from many other participants. The theme of the South African presentation was the country's adoption of the world's first integrated reporting requirement, a subject that drew many questions from the floor.

The stronger presence of the emerging countries was a major change from the previous international GRI conference in 2010. Over the intervening three years, South Africa introduced a requirement for all listed companies to issue integrated reports, and in Brazil the stock market introduced a new index focused on governance. In India, CSR was added as a requirement under the Companies Bill, and in China, the number of enterprises issuing CSR reports topped 1,800 (see the table on page 81).

The emerging and developing countries, which are playing a growing role in the world's political and economic affairs, can be expected also to be increasingly prominent in the promotion of CSR.

(3) A new approach to sustainable governance

The principal actors in CSR are corporations, but the corporate sector alone cannot produce major changes in society. In order to achieve a paradigm shift that will turn the tide, interaction among corporations and other stakeholders is essential, along with the collaboration arising from such interaction.

The ISO 26000 standard sets forth the concept of social responsibility not just for corporations but for all organizations. It is based on the idea of universalizing the CSR codes of conduct formulated in the context of corporate operations so as to promote collective action for sustainable development by all organizations. And in a first for the ISO, the working group that drew up this standard adopted a multi-stakeholder process.

We are entering a new age of sustainable governance, with engagement by multiple stakeholders collaborating and interacting in such a way as to give rise to innovations leading to social reforms and solutions that will promote sustainable development. We need to rethink the role of corporations in this new context. And we should implement stakeholder engagement with a view to achieving dynamic interaction among stakeholders aimed at finding solutions to our social issues (see the text box below).

Stakeholder Engagement

Definition: The process of being actively involved with one or more stakeholders through dialogue or other means, with the aim of achieving a mutually acceptable outcome, in the course of a corporation's integration of its social responsibility into day-to-day practice.

Source: Keidanren, "Implementation Guidance on Charter of Corporate Behavior," 6th version (September 2010).

Progressive companies like Unilever are already undertaking initiatives to draw their entire value chains into their social responsibility framework. Unilever's "Sustainable Living Plan" calls on government agencies, NGOs, suppliers, consumers, research institutes, and other stakeholders to collaborate in achieving sustainable consumption. Corporations alone cannot change society, but through collaborative efforts like these, they can create the triggers for setting off social reforms and paradigm shifts. They should actively seek solid engagement with other stakeholders in the pursuit of common objectives.

February 16, 2015

New Directions for Chinese Diplomacy?

Kazuyuki Suwa

The government of Xi Jinping continues to send mixed signals on foreign policy, now flexing its muscles in the East China Sea, now touting its commitment to international cooperation. Kazuyuki Suwa reviews diplomatic developments in China since the spring 2014 session of the National People's Congress in the light of discussions with experts on the ground.

* * *

The National People's Congress held in Beijing from March 5 to March 14, 2014, received relatively little media attention, inasmuch as the 2013 meeting had previously approved all key party and government appointments. But as the first annual session since President Xi Jinping took office, the meeting (Second Session of the Twelfth National People's Congress) put the seal of approval on the new administration's goals and targets, and in this sense it holds considerable significance for policy trends going forward. In the following, I examine the trajectory of China's foreign policy approach since the NPC spring session with the aid of interviews conducted in Beijing.

The New Normal

In his Report on the Work of Government, delivered on the first day of the spring NPC session (March 5), Premier Li Keqiang made the following statement concerning China's foreign policy:

"This year is the 60th anniversary of the issuance of the Five Principles of Peaceful Coexistence.¹ The Chinese people love peace and cherish development,

Kazuyuki Suwa *Professor, School of International Relations, University of Shizuoka.*

¹ The Five Principles of Peaceful Coexistence are mutual respect for each other's territorial integrity and sovereignty, mutual nonaggression, mutual noninterference in each other's internal affairs, equality and cooperation for mutual benefit, and peaceful co-existence.

and China needs a long-term stable international environment for its modernization. We will continue to hold high the banner of peace, development, cooperation and mutual benefit; unswervingly follow the path of peaceful development; and unwaveringly implement a win-win strategy of opening up. We will resolutely safeguard China's sovereignty, security and development interests, and fully protect the legitimate rights and interests of Chinese citizens and legal persons overseas."² In addition, the State Council's report on government jurisdiction over implementation of the national agenda (referred to below as the "jurisdiction report") stated that foreign policy henceforth would be implemented in "a pragmatic and open fashion."³

The question is, how does Beijing intend to reconcile the "path of peaceful development" with the seemingly divergent course of "resolutely safeguarding China's sovereignty" at a time when Deng Xiaoping's exhortation to maintain "lie low and bide our time" seems more and more like an artifact of a bygone era? I posed this question to a young professor of international politics at a major university in Beijing and received the following answer (with the qualification that he had no role in the policymaking process and thus could only convey his "impressions").

"Since the outbreak of the 2008 global financial crisis," he said, "the so-called mainstream principles of peaceful development and biding our time have ceased to be the mainstream in foreign policy. Of course, there is always a range of opinion on foreign policy as on other issues, even in a country like China. But in the past, policymakers were able to hold off calls for a more aggressive stance by taking refuge in the principle of peaceful development. That's no longer possible.

"In Chinese foreign policy today," he continued, "there's no longer a single approach or policy direction that could be called mainstream. This creates fertile ground for the diffusion of extreme ideas—such as the notion that China can do whatever it wants by leveraging its economic power, and Maoist concepts like 'It's okay to let half the people die' [for the good of the nation]. In China today you hear a lot of talk about the importance of 'public diplomacy,' but the real reason for this seemingly progressive stance is that the people who make and implement policy are afraid of public opinion."

If this is an accurate assessment of the dynamic driving foreign policy in China today, then we who desire peace and stability in the region have reason to view China with a sense of genuine alarm.

² <http://english.people.com.cn/102775/209231/index.html>

³ http://news.xinhuanet.com/politics/2014-04/17/c_1110289335.htm

Inconsistencies on “Peripheral Diplomacy”

In the 2014 Report on the Work of the Government, “peripheral diplomacy” ranked number one on Beijing’s list of foreign-policy priorities, followed by developing countries, major powers, the Asia-Pacific Economic Cooperation forum (APEC), and multilateral cooperation.⁴ This new emphasis on relations with China’s closest neighbors is a direct reflection of the basic policy established by the Xi regime in an unprecedented working conference on peripheral diplomacy, held in Beijing on October 24–25, 2013.

The October 2013 conference was the first forum focusing specifically on peripheral diplomacy in the history of the People’s Republic of China. According to *Renmin Ribao* (People’s Daily), it was held to “establish strategic targets, basic policies, and comprehensive arrangements for peripheral diplomacy over the next five to ten years.” In his remarks to the participants, President Xi Jinping, who chaired the forum, reportedly called for “vigorous promotion of the principles of friendship, good faith, generosity, and tolerance in order to achieve the great revival of the Chinese people.” In a commentary on the conference carried by *Renmin Ribao*, Qui Xing, president of the China Institute of International Studies, stated unequivocally, “Among the categories of major-power, peripheral, developing-country, and multilateral diplomacy, the periphery is assuming increasing importance.” A companion article sought to convey the importance of the periphery in numbers, noting that the region consists of 29 countries with a combined population of 2.5 billion, while placing particular emphasis on the importance of China’s relations with Russia, Central Asia, the Association of Southeast Asian Nations, India, Pakistan, and South Korea. Conspicuously missing from the list was Japan.⁵

China’s Japan policy entered a period of instability immediately after the 2008 state visit of then President Hu Jintao, and Beijing has gradually intensified its hardline stance toward Tokyo since then. Designating 2015 as the “70th anniversary of the victory over fascism,” the Chinese leadership is calling for an international united front against its “principal enemy,” Japan.

It is unfortunate that the government of Xi Jinping has chosen to exclude Japan from the list of countries meriting stronger diplomatic efforts under its “peripheral

⁴ The Chinese use the term *zhoubian waijiao* in reference to diplomacy with neighboring countries. I have adhered to the literal translation here because I believe it reflects the persistence of a traditional Sinocentric worldview.

⁵ *Renmin Ribao*, October 26, 2013.

diplomacy” initiative, but it is consistent with the policy China has adopted toward Japan since late 2009, when the Japanese government “nationalized” its control over the disputed Senkaku Islands by purchasing several islands that were in private hands at the time. In its 2014 Report on the Work of the Government, the State Council was clearly targeting Japan when it stated, “We will safeguard the victory of World War II and the postwar international order, and will not allow anyone to reverse the course of history.”

Speaking to the press on March 8 on the sidelines of the NPC session, Foreign Minister Wang Yi underscored China’s intransigence toward Japan, insisting that “on the two issues of principle, history and territory, there is no room for compromise.”⁶ Such statements suggest that the road to Japan-China rapprochement could be a long and difficult one. As one Japanese government official said to me in Beijing, “There is, unfortunately, no possibility that these incursions by Chinese naval vessels into the waters around the Senkakus will come to an end. Now that Beijing has established and fleshed out a legal and institutional groundwork for the current policy, letting things slide is no longer an option.” At the time I felt his pessimism was warranted.

Nonetheless, the last few months have produced unmistakable signs of an overall thaw in diplomatic relations between Tokyo and Beijing. In early April, Hu Deping, former vice-chairman of the All-China General Chamber of Industry and Commerce and the son of late Chinese leader Hu Yaobang, visited Japan at the invitation of the Ministry of Foreign Affairs and met with Prime Minister Shinzo Abe and other officials, a possible signal of Beijing’s readiness to begin mending fences. In mid-April, Vice-Premier Wang Yang received a delegation from the Japanese Association for the Promotion of International Trade headed by veteran Liberal Democratic Party politician Yohei Kono. Later that month, Wang met with Tokyo Governor Yoichi Masuzoe during the latter’s visit to Beijing. It was the first time in 18 years that a Tokyo governor had traveled to the Chinese capital at the latter’s invitation.

Despite the unprecedented strains in bilateral ties, China cannot realistically ignore the objective importance of Japan in the context of either peripheral or major-power relations, especially given Beijing’s growing emphasis on “economic diplomacy.” In this sense, the development of Japan-China ties in the months and years ahead can be considered a litmus test of Beijing’s practical commitment to “peaceful development” going forward.

⁶ http://news.xinhuanet.com/english/special/2014-03/08/c_133170716.htm

Cracks in the Principle of Noninterference

Meanwhile, the ongoing crisis in Ukraine has called into question China's commitment to the Five Principles of Peaceful Coexistence, touted as central to Beijing's foreign policy since the establishment of the People's Republic of China. At issue in particular is the principle of noninterference in internal affairs, which Beijing has cited time and again in connection with its treatment of ethnic minorities and its handling of the Taiwan problem.

In mid-March, after the collapse of Ukraine's pro-Russian regime and its replacement by a pro-Western government, the Crimean parliament declared independence from Ukraine. The separatist government then signed a treaty with the Russian government under President Vladimir Putin to incorporate the region into the Russian Federation. Despite a chorus of international criticism, including a joint condemnation from the leaders of the Group of Seven industrial powers, Russia refused to reverse its action, and the annexation became a *fait accompli*. The crisis soon spread to eastern Ukraine, where pro-Russian forces stormed government offices in several cities. Since then the United States and the European Union have continued to engage the Kremlin in talks aimed at stabilizing the region, but tensions have only escalated.

Regardless of Russia's insistence that the majority of Crimea's inhabitants favored annexation, the act was clearly at odds with China's cherished principle of noninterference in internal affairs. Given Beijing's stated commitment to this principle and insistence that other countries respect China's sovereignty in regard to internal policies, the Chinese should have been among those most vigorously condemning Russia's annexation of Crimea and its continued intervention in Ukraine. But Beijing seemed more concerned with maintaining friendly ties with Moscow, which Xi Jinping has proclaimed are better than at any point in history. In an apparent effort to placate all sides, China offered only a most tepid and ambiguous response to the crisis, as typified by this statement at a March 2 Foreign Ministry briefing:

"China is deeply concerned about the current situation in Ukraine. . . . It is China's long-standing position not to interfere in others' internal affairs. We respect the independence, sovereignty and territorial integrity of Ukraine. There are reasons why the situation has reached this point in Ukraine today. China calls on all the parties involved to seek a political resolution of their differences through dialogue and negotiation based on respect for international law and norms governing international relations in order to maintain regional peace and stability."⁷

⁷ <http://www.fmprc.gov.cn/ce/cglagos/eng/xwfb/fyrth/t1133558.htm>

In keeping with this non-position, China abstained from a March 15 UN Security Council vote on a draft resolution urging member states not to recognize the results of Crimean referendum on annexation held on March 16. (The draft resolution was vetoed by the Russian Federation.)

Interestingly, the reaction within China to Beijing's noncommittal response was largely positive. Typical of media coverage was this report on the website Xilu.com, carried under the title "Why Are Russia and Ukraine Thanking China?":

"On March 18, President Putin delivered a fervently patriotic speech to the Russia Parliament, concluding by saying, 'We are grateful to those who have shown understanding of our actions in Crimea. We are deeply impressed by China's response. China's leadership has analyzed the situation in Crimea from all angles, from a historical and political perspective.' On the morning of March 21, the Ukrainian embassy in China held a press conference on the situation in Ukraine and the current state of and outlook for economic and trade cooperation between Ukraine and China. The Ukrainian ambassador responded to questions from domestic and foreign reporters. On the subject of China's position and response to the changing situation in Ukraine, the ambassador stressed his gratitude for the Chinese government's level-headed response to these events."⁸

Between Internationalism and Hegemony

The National Security Commission of the Communist Party of China, established at the Third Plenum of the Eighteenth Party Congress November 2013, met for the first time on April 15. Made up of members of the Politburo Standing Committee and empowered to coordinate all aspects of internal and external security policy at the highest level, the council is expected to have a decisive impact on foreign policy going forward. Commenting on external policy at the NSC's inaugural meeting, President Xi Jinping, who chairs the commission, said that the country would "seek peace, cooperation, a win-win situation, and a harmonious world." But how do such lofty sentiments apply to China's policy toward Japan?

When US President Barack Obama, meeting with Prime Minister Abe on April 24 this year, assured the Japanese government that the Japan-US Security Treaty applied to the Senkaku Islands, Beijing accused Japan and the United States of "ganging up" on China. Will this sort of backlash intensify, or will the government of Xi Jinping begin to steer a more moderate, conciliatory course? More generally, does Beijing's pledge to participate in international affairs as a "responsible power"

⁸ <http://junshi.xilu.com/20140324/1000010000417439.html>

herald a new phase in Chinese diplomacy? Will the regime of Xi Jinping find a way of reconciling the goal of “resolutely safeguarding China’s sovereignty” with the “path of peaceful development”?

Hitoshi Amako of the Waseda University Graduate School of Asia-Pacific Studies argues that China is caught in a basic dilemma in its relations with Japan as it wavers between the path of international cooperation and that of “great power politics,” or hegemony.⁹ Frankly, I fear that China has already resolved the dilemma by choosing the path of hegemony. If I am correct in this assessment, our task now must be to leverage the principles of international cooperation to which we adhere in order to draw China into the same circle of cooperation.

⁹ Hitoshi Amako, “Nitchu kankei no zento: Shu Kinpei seiken no taigai senryaku kara miru” (Outlook for Japan-China Relations from the Perspective of the Xi Regime’s International Strategy), *Toa*, April 2014.

February 25, 2015

Post-Summit Prognosis for Japan-China Relations

Takashi Suzuki

Japan and China made an important step toward rapprochement last November, when their top leaders sat down for the first bilateral summit in more than two years. But can they overcome fundamental sources of tension to build on that progress? China scholar Takashi Suzuki comments.

* * *

In November 2014, Prime Minister Shinzo Abe and Chinese President Xi Jinping sat down together on the sidelines of the Asia-Pacific Economic Cooperation summit in Beijing for the first Japan-China summit in two-and-a-half years. Their meeting set the stage for a thaw in a diplomatic freeze dating back to September 2012, when the Japanese government purchased three of the Senkaku Islands from their private owner.

The security climate around the Senkakus remained fraught in the months leading up to the summit. In incidents in May and June, Chinese fighter jets flew dangerously close to Japanese Self-Defense Forces aircraft patrolling the area, raising fears of a military clash.

Yet despite this tense atmosphere, efforts to lay the groundwork for a rapprochement were making steady progress. In May 2014 Japanese delegations from the ruling Liberal Democratic Party and the Japan-China Friendship Association visited Beijing and secured audiences with high-ranking Chinese officials, including Zhang Dejiang (chairman of the Standing Committee, National People's Congress) and Yu Zhengsheng (chairman of the of the Chinese People's Political Consultative Conference).

In June, private-sector figures from both countries conferred in Nagasaki at a

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meeting of the nongovernmental New Japan-China Friendship Committee for the 21st Century. In September, the Japanese and Chinese foreign ministers exchanged views on the sidelines of the United Nations General Assembly, and the two countries held a second round of high-level maritime consultations in Qingdao following a hiatus of two years and four months. These assiduous efforts paved the way for November's bilateral summit.

But what are the prospects for a substantive improvement in Japan-China ties in the wake of those talks? In the following, I will begin by assessing short-term developments in the light of the bilateral agreement issued prior to the summit. I will then look at some of the structural sources of discord and discuss the long-term outlook for progress.

November Harvest

The biggest accomplishment of the Japan-China summit was securing a commitment from both sides to move the relationship forward again after years of deadlock stemming from differences over the Senkaku Islands and historical issues. With this goal in mind, the two sides worked hard to reach a pre-summit agreement.

The document, whose strategic ambiguity earned it praise as a masterpiece of diplomacy, articulates a general agreement on four basic points: (1) reaffirmation of the policy of developing “a mutually beneficial relationship based on common strategic interests”; (2) “some recognition” of the need to overcome political differences stemming from historical issues; (3) establishment of a crisis-management mechanism to avert clashes around the Senkaku Islands and in the East China Sea; and (4) promotion of dialogue in multiple fields using various channels.

Points 2 and 3 refer obliquely to the two key issues that have blocked diplomatic progress until now: Abe's visits to Yasukuni Shrine and the Senkaku dispute. Most analysts have noted that Tokyo agreed on point 2 (regarding Yasukuni visits) in exchange for a commitment on point 3, on which no compromise was possible. Indeed, the document is notable for the relatively precise language of point 3 with regard to the establishment of a crisis-management mechanism to “avert the rise of unforeseen circumstances.” The agreement's key achievement, however, was point 4: “Both sides shared the view that, by utilizing various multilateral and bilateral channels, they would gradually resume dialogue in political, diplomatic and security fields and make an effort to build a political relationship of mutual trust.”¹

¹ This article follows the English translation issued by the Ministry of Foreign Affairs of

To a large degree, the content of the talks held between Abe and Xi on November 10 reiterated or elaborated slightly on these four points, with calls for further steps toward a mutually beneficial relationship based on common strategic interests, early implementation of a maritime communication mechanism between the two countries' defense authorities, and broad-based efforts to improve relations on various levels.² However, as one who has made a study of the political thinking and behavior of Chinese leaders, I was particularly intrigued by two statements by Abe regarding Beijing's foreign and domestic policies.

First, Abe praised Xi's leadership as an economic and social reformer, something the latter must have found particularly gratifying, given his challenges on the domestic front. "Since being appointed," said Abe, "President Xi has been boldly engaging in domestic economic reforms and other initiatives, and is exercising powerful leadership. I [too] am striving to restore vitality to Japan's economy and society."³ Second, Abe stated, "The peaceful development of China brings a favorable opportunity for the international community and Japan. I want to utilize that favorable opportunity, and cooperate as the world's second- and third-largest economies in order to fulfill both countries' responsibility for the peace and prosperity in the region and international community."

Former Ambassador to China Yuji Miyamoto, who is personally acquainted with both Abe and Xi, commented that "if the two of them could speak freely to one another, they would probably connect surprisingly well."⁴ I am inclined to agree that these two leaders might find it relatively easy to build trust on a personal level, depending on their mode of communication. But even if they succeed in building a personal relationship of mutual trust, there is no guarantee that they can overcome the major structural impediments to amicable Japan-China relations, discussed below.

I have spoken with experts and officials in both countries since the meeting between Xi and Abe, and for the most part their assessment of the talks was positive. But generally speaking, the Chinese side seemed more optimistic that the

Japan, "Regarding Discussions toward Improving Japan-China Relations," November 7, 2014, http://www.mofa.go.jp/a_o/c_m1/cn/page4e_000150.html.

² See MOFA, "Japan-China Summit Meeting," November 10, 2014, http://www.mofa.go.jp/a_o/c_m1/cn/page4e_000151.html.

³ While the official English version leaves out "too," the Japanese version has "*watakushi mo*." See http://www.mofa.go.jp/mofaj/a_o/c_m1/cn/page3_000999.html.

⁴ Yuji Miyamoto, "Nit-Chu shuno kaidan go no arubeki Nit-Chu kankei" (Japan-China Relations After the Japan-China Summit), *Nit-Chu Kankei Gakkai*, November 14, 2014, <http://www.mmjp.or.jp/nichu-kankei/taisinochugokuron/141114nichuushunoukaidan.html>.

summit would lead to a rebound in Japanese direct investment in China, which has declined sharply since 2013 (posting a year-in-year drop of 42.9% during the first 10 months of 2014).⁵ Whether these hopes will pan out is an open question. Unlike Chinese businesses, which operate under powerful political constraints, Japanese companies follow economic imperatives when making business decisions. And the economic reality is that growing risks—including rising wages and the threat posed by the real estate bubble—make China a less attractive investment destination than before, at least from the standpoint of Japanese manufacturers.

Bridges and Obstacles to Understanding

Perhaps the most obvious fact highlighted by the November meeting was the fragile state of Japan-China ties today and the constant vigilance that is still required to keep them on track. It is sobering to think that, more than four decades since the normalization of relations in 1972, our top leaders must forge a formal agreement calling not merely for political fence mending but for resumption of economic, cultural, and social relations. Moreover, the meeting between Abe and Xi has in no way resolved the fundamental historical and territorial issues that precipitated the recent chill in Japan-China ties. All it produced was an agreement by the two leaders to contain these intractable issues as best as they can. Needless to say, this will require self-restraint on both sides.

A basic source of friction between Japan and China is the latter's ever-growing and increasingly assertive military presence in the East China and South China Seas, including the area around the Senkaku Islands. Unfortunately, this behavior is unlikely to change as a result of the summit. Nor is Japan likely to depart from its longstanding policy of patiently relying on the Coast Guard and Maritime Self-Defense Forces to deal with the situation. Given the unlikelihood of a fundamental solution or a compromise by China anytime soon, we must content ourselves for now (perhaps for another year, perhaps for another three decades) with measures to ensure that tensions do not escalate into a full-blown crisis.

An even more fundamental problem—one that government-level talks have little power to change—is public opinion and the perception gap between the Japanese and the Chinese people with respect to their countries' policies and positions in the international order. A “mutually beneficial relationship based on common strategic interests” is all very well as a diplomatic slogan, but neither the Japanese nor the Chinese people have a clear idea of what such a relationship would look

⁵ *Asahi Shimbun*, December 9, 2014.

like or what role the other country would play in it. Largely as a consequence, mutual hostility between the Japanese and Chinese people has intensified over the past several years.

The results of the 2014 Japan-China Opinion Poll conducted by Genron NPO are revealing in this regard.⁶ The following are some of the survey's key findings.

1. In both Japan and China, the share of respondents with an “unfavorable” or “relatively unfavorable” impression of the other country stands at roughly 90%.
2. These negative images notwithstanding, about 70% in both countries agree that “the Japan-China relationship is important” and at least that many on each side see the worsening feeling between their two nations as a concern. (Specifically, 79.4% of Japanese respondents and 70.4% of Chinese respondents chose either “This is an undesirable situation; I have concerns,” or “The situation is a problem, and it needs to be resolved.”)
3. In Japan, the portion of those with an “unfavorable” or “relatively unfavorable” impression of China rose 2.9 points from the previous year to reach 93%, the highest level recorded since the survey began in 2005. In China, the corresponding figure was 86.8%, down 6 points from its peak in 2013.
4. The top reasons respondents identified for their negative impressions of the other country were as follows.

Top Japanese reasons for unfavorable impression of China:

- Behavior incompatible with international norms (55.1%)
- Selfish policies for securing resources, energy, food, etc. (52.8%)
- Criticism of Japan over historical issues, etc. (52.2%)

Top Chinese reasons for unfavorable impression of Japan:

- Kindling of territorial dispute through government purchase of Diaoyu Islands (64.0%)
- Failure to apologize adequately or show sufficient remorse for past aggression against China (59.6%)

⁶ Genron NPO and *China Daily*, “The 10th Japan-China Public Opinion Poll: Analysis Report on the Comparative Data,” September 9, 2014, <http://www.genron-npo.net/en/pp/archives/5153.html>.

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- Policy of working with the United States to contain China militarily, economically, and ideologically (41.8%)

5. Meanwhile, the top five reasons Chinese respondents identified for positive feelings toward Japan were as follows.

- High quality of Japanese goods (57.2%)
- Earnest, hardworking character of the Japanese people (53.8%)
- Kindness, courtesy, and high cultural level of the Japanese people (52.6%)
- Japan's advanced technology (41.0%)
- Japan's physical cleanliness and hygiene (38.2%)

As I see it, there are three important insights to be drawn from these survey results.

First, while the level of negative feeling between our two nations is deplorable, it bears noting that a majority of people in both countries wish for better ties. This is not to paint an overly optimistic picture or to suggest that improving bilateral relations will be an easy task. But these findings do indicate that the will for rapprochement is there, and if our leaders can get things moving in that direction, I believe they have a good chance of succeeding.

Second, the survey highlights significant differences in the reasons for each side's negative images of the other (finding 4). For China, the keywords are "historical issues," "Diaoyu Islands," and "containment," in that order. For Japan, they are "international norms," "Chinese foreign policy," and "reaction to historical issues."

Third, given the top reasons for China's unfavorable and favorable impressions of Japan (findings 4 and 5), we can surmise that a key to building friendship is to promote people-to-people exchange, even as we seek a political resolution to the historical and territorial issues. At the risk of sounding simplistic, I would venture to suggest that the best and fastest way to improve the Chinese people's image of Japan is to have more of them visit the country, come into contact with Japanese society and people, buy Japanese products and souvenirs, and return home laden with fond memories.

Thanks in large part to the falling yen, a record number of international tourists visited Japan in the first 10 months of 2014. During that time, the number of Chinese tourists jumped 80.3% from the same period in 2013, passing the 2 million mark to set a new record.⁷ This is an extremely welcome development not only

⁷ *Chunichi Shimbun*, November 20, 2014, and *Asahi Shimbun*, December 9, 2014.

from Japan's economic vantage point but also from the standpoint of Japan-China relations.

However, this takes us to a fourth observation. While Chinese impressions of Japan have a good chance of improving henceforth, Japanese attitudes toward China seem likely to deteriorate further. The biggest sources of negative Japanese feelings—overshadowing even backlash over the historical controversies and the Senkaku Islands—pertain to China's growing power, combined with its ambiguous relationship with the international order, its lack of respect for the rule of international law, and its apparent willingness to use its power to alter the status quo in the region. In fact, in the year between the 2013 and 2014 Genron NPO surveys—during which diplomatic progress between Tokyo and Beijing was nil—Japanese sentiments toward China sank to their lowest level ever, even as Chinese impressions of Japan improved somewhat as the immediate furor over the Senkakus and Yasukuni visit subsided.

A Distorted Self-Image

One of the basic factors underlying China's problematic policies and behavior on the international front is a gap between the way other countries view China and the way China views itself in relation to the international community.

In a survey of nongovernmental experts in 11 Asia-Pacific economies (Australia, China, India, Indonesia, Japan, Myanmar, Singapore, South Korea, Thailand, Taiwan, and the United States) released by the Washington-based Center for Strategic and International Studies in June 2014, the Chinese experts polled diverged sharply from the rest in their response to questions concerning US involvement in East Asia and China's impact on regional security.⁸ While 85.8% of respondents from countries other than China (92% of Japanese respondents) expressed support for the Obama administration's strategic rebalance to Asia, the Chinese surveyed disapproved of it by a margin of 77% to 23%. And while only 13.4% of non-Chinese experts (a mere 2% of Japanese) felt that China's impact on regional security was "very positive" or "somewhat positive," a full 83% of Chinese respondents gave it a positive assessment.

These findings suggest that China is quite cut off from the rest of the world in its perception of international and regional affairs. Under the circumstances, its

⁸ Michael J. Green, Nicholas Szechenyi, et al., "Power and Order in Asia: A Survey of Regional Expectations," CSIS, July 2014, http://csis.org/files/publication/140605_Green_Pow-erandOrder_WEB.pdf.

external policies and actions are unlikely to change anytime soon, and until they do, the Japanese public's views of China are unlikely to improve significantly.

A Challenge to the International Order?

Let us shift, now, from the short-term prognosis for Japan-China relations to long-term policy implications.

As I have discussed elsewhere, there are five basic modes that an emerging power like China can choose from when dealing with the existing international order.⁹

1. Cooperation mode: Actively supporting the existing order and participating in it as a constructive critic
2. Free rider mode: Passively supporting the existing order and reaping its benefits without contributing substantially
3. "My way" mode: Pursuing one's own path and policies without regard to the international order
4. Veto-group mode: Using one's veto power to obstruct the international order
5. Overthrow mode: Working actively to overturn the existing order and establish a new one

With respect to the general international economic order, China's trade policy and behavior have adhered mostly to mode 2, supplemented by some efforts at mode 1. On the other hand, as a non-member of the OECD's Development Assistance Committee, China's attitude toward the international development regime has basically conformed to mode 3. The difference relates partly to the fact that participation in the international development regime offers China relatively little in the way of direct benefits and partly to the fact that China's own official status and national identity as the world's largest developing country have given it leeway to ignore the OECD regime and follow its own policies in the realm of development cooperation.

However, the situation may have changed somewhat since October–November 2014, with the launch of the Asian Infrastructure Investment Bank, a Chinese ini-

⁹ Takashi Suzuki, "Kokusai enjo shakai ni taisuru Chugoku no mikata to sono gaikoteki shatei" (China's Stance Toward the International Aid Community and Its Diplomatic Range), in eds. Yasutami Shimomura and Hideo Ohashi, *Chugoku no taigai enjo* (China's Foreign Aid), (Tokyo: Nihon Keizai Hyouronsha, 2013).

tiative. Some experts believe that the establishment of the AIIB represents a challenge to the existing international development finance framework—in other words, a shift from mode 3 to mode 5.

At this time, the United States and Japan continue to oppose the AIIB. Australia, New Zealand, and South Korea have adopted a cautious attitude, in deference to their ally, the United States. However, in view of their close economic ties with China and the latter's importance in an uncertain global economy, as well as the progress of negotiations to date, we cannot assume that these three countries—let alone others with looser ties to the United States—will continue to hold out over the medium to long term.

January 08, 2015

Rain, Soil Erosion, and Desertification in Datong

Kunio Takami

The deep rifts of the Huangtu Plateau in Datong are a fascinating sight for visitors, but they also expose the consequences of overcultivation that results in a vicious cycle of environmental degradation and rural poverty. Kunio Takami of the nonprofit Green Earth Network introduces the harsh conditions that villagers in Datong must brave and the policies that have been implemented to halt the ongoing process of desertification.

* * *

Koji Hashimoto is a photographer whose work focuses on farmers and the villages where they live. Over the course of six years he traveled to the Huangtu Plateau in Datong, and in 2001 he published a book of photographs documenting life there. Almost all the landscape photos in the book show the distinctive eroded valleys of the plateau—deep rifts that the elements have cut into the silt-like loess soil. The rifts, some of them up to 100 meters deep, can be seen everywhere on the plateau and are familiar scenes for the people who live there. But they have a strange fascination for visitors from abroad, few of whom have ever seen anything like them before.

Datong's "Guerrilla Rains"

Average annual rainfall in the region is around 400 millimeters, two-thirds of which is concentrated into a three-month period from mid-June. The rain often comes in short, concentrated bursts that drench one narrow



Kunio Takami Executive Director, Green Earth Network.

area at a time; from an elevated vantage point, one can see black clouds moving across with great speed and the rain falling from the sky like a black curtain, often accompanied by violent lightening. I was in Datong several times when it received some 70 mm of precipitation per hour. In Japan, “guerrilla rain” is a phrase used to describe the summertime downpours that have become more frequent in recent years; it is also a perfect description for the violent deluges of Datong.



Over the course of its long history, the Huangtu Plateau has lost its woodlands and forests, so the rain now beats down on the naked earth, unprotected by vegetation. The rainwater quickly washes away, often taking the topsoil with it. The loess soil is basically silt, made up of tiny grains that have a particle diameter of between 0.004 mm and 0.06 mm. When it is dry, it bakes hard so that you can

barely break it with a shovel. Once decompacted, though, it splinters into fine wisps of powder-like sand, easily carried away on the wind. And the slightest amount of water is enough to turn it into a greasy, liquid slick.

Good farm soil does not appear out of the blue but is the result of hard work by many generations of farmers to make it fertile. Producing a centimeter of farm soil is said to take more than a hundred years. When the earth is washed away year after year, the quality of the soil deteriorates, and its capacity to support crops and other vegetation is lost. This is the process of desertification that has led to the Huangtu Plateau we see today. Ironically, rainwater is a chief culprit behind the rapid desertification here in recent years.

“Fields of the Three Runaways”

A true picture of this process is hard to grasp from a simple description. According to figures released by the Chinese government, more than 1.6 billion tons of earth flows into the Yellow River from the Huangtu Plateau every year. To illustrate just how much this is, I often ask people to guess how long a levee—measuring 1 meter high and 1 meter wide—one could build with this volume of soil. The choices I give are that it would be enough to circle the Earth at the equator 0.5 times, once, 3 times, 5 times, 10 times, and 30 times.

Generally, less than 1 in 10 is able to guess correctly. Based on a soil density of

1.4 grams per cubic centimeter, the levee would measure 1.14 million kilometers, which is 30 times the Earth's circumference. This is the amount of soil that is carried away by the Yellow River each year.

Local people describe the seriousness of the erosion with a phrase that translates roughly as “fields of the three runaways,” referring to the way in which the water, earth, and fertilizer escape from the fields every time it rains. In areas where steep hillsides are common and there is only a shallow level of topsoil, farmers grow their crops in fields that slope at an angle. Visitors are always astonished by the sight of these sloping fields and ask, “Why would anyone grow crops in a place like this?”



Dazhai, which became famous as a result of Mao Zedong's 1963 directive for the nation's farmers to learn from this village's example, is 270 km south of Datong in Shanxi Province. The problem of water erosion was particularly severe here, and to reduce the damage, local people organized mind-boggling landscaping and irrigation projects to turn the sloping fields level by creating a remarkable concentration of terraced fields. This achievement was what led Mao to extol the region's farmers as a model of hard work and self-reliance.



I visited Dazhai three times during the 1970s. Having grown up in a poor farming family in Tottori Prefecture, I could not help being impressed by the evidence of diligence I saw there. Just like in Japan, farmers in China have achieved great things through hard work. But a friend who visited Dazhai at around the same time remarked to me that he did not hear a single bird

singing while he was there. The reason, he realized, was because hardly any trees or forests were left in Dazhai.

The fact is that the summer rains are only half the reason for the rapid pace of desertification; the rest is due to human activity. The biggest factor in the deforesta-

tion of the Huangtu Plateau is overcultivation, with farmers plowing fields everywhere they could find space—including steep mountainsides.

Grazing sheep and goats are another problem. The damage is most serious in early spring, when goats, desperate for something to eat, tear up the grass by the roots with their front legs because there is no greenery left. People working in afforestation projects say that if 100 people plant trees, 100 goats will soon come along to eat them all up—even on steep, rocky slopes. The government is working hard to minimize damage by restricting grazing, but since the income from pasture animals, albeit small, is significant to farmers in the poorer villages, it has proven impossible to eradicate this style of farming entirely.

Some trees have also been cut down by local people for fuel. Datong is one of the most important coal-producing areas in China, and for many years coal was the main fuel used in the farming villages. But the rise in crude oil prices has sharply pushed up the price of coal as well; what was 60 yuan a ton in 2000 rose to 850 yuan in 2008 and is now more than 1,000 yuan. This has put coal out of the reach for many farmers. Instead, they burn the stalks and cobs of corn and sunflowers and the straw made from millet and similar plant materials; increasing numbers have also turned to the mountains to make up for any shortage.



Lingering Preference for Sons

The tendency is for farmers in poorer villages to have more children, perhaps due to the pressure to continue having children until a boy is born. There are fewer farmers in mountain and hillside villages, and they need to look after larger plots, since poor water and soil conditions result in low yields. It is not possible to keep large animals like horses, cows, donkeys, or mules in these villages, so farmers must till the land with their own hands. Until recently, it was also necessary to travel long distances to fetch water, and men were thus needed to do the heavy work. Despite slogans reminding people that daughters are just as important as sons and are capable of carrying on the family farm, the preference for boys has persisted owing to the need for male workers.

I should add, though, that as people's income has increased, they have become less particular about having sons, even in the farming villages. Parents comment



that daughters who marry into a family in another village will come home from time to time, often bringing food and money, while sons rarely look after them after marrying. And people tend to have fewer children as school attendance becomes a normal part of life, even without government restrictions on the number of children.

One of the first experts to be dispatched to Datong by the Green Earth Network, in August 1994, was Hisayuki Maenaka (now representative director), who unlike most other experts—who worked either in the tropics or within Japan—specialized in the Inner Mongolia Autonomous Region and other arid areas of China. He pointed out that although natural conditions are much harsher in Inner Mongolia, both the villages and farmers are much poorer in Datong, shedding light on important but often overlooked links between population and land use that give rise to a vicious circle of environmental degradation and rural poverty.

Today, major changes are underway in these villages. Younger people have migrated to the cities to find work, leaving only old people and children in the village. After a while, the children also disappeared, and the only ones remaining in the mountains today are the elderly.

Change also resulted from the policies promoted under Premier Zhu Rongji to encourage farmers to abandon their fields on steep hillsides and other places not conducive to farming and to allow these areas to return to woodland. This “back to greenery” policy was a bold attempt to reverse the long history of single-minded expansion of arable land. In actual implementation, there was a tendency for projects (and money) to be concentrated in villages with the best farming and economic conditions, sometimes resulting in strange sights of high-quality, roadside farm fields being covered by pines and poplars. But there is no denying that rural villages have become greener and that the environment has improved.

In December 2008 Datong was hit by a severe cold spell that made it impossible for us to continue our work in the mountains. I took this opportunity to travel to Dazhai, where I saw major changes since my last visit. The Hutou Hills, one of the places where the symbolic terraced fields had been hewn out of the mountain-

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side, had been turned into a forested park. Work had begun on the park in 1992, seven years before the government's reforestation policy began on a trial basis and the same year that we began our greening efforts in Datong. Just as human activity can destroy the environment, people also have the power to undo the damage and return the environment to something close to its original condition.

February 05, 2015

The World's Southernmost "Koisuru Fortune Cookie Project"

Naomi Collins

Japanese language is the third most popular foreign language in New Zealand, after French and Spanish. According to the Japan Foundation Survey Report on Japanese Language Education Abroad 2012, conducted in New Zealand on behalf of the Japan Foundation by Massey University's Naomi Collins, there were some 30,000 learners of Japanese in New Zealand in 2012, approximately 0.7% of the population. The following report by Collins, who is also coordinator of the Sasakawa Fellowship Fund for Japanese Language Education (Sffjle) –as NF-JLEP is called in New Zealand—is based on an account of the Koisuru Fortune Cookie Project, originally written by Masayosi Ogino, lecturer at the University of Canterbury, and Akiko Harada, senior expert in the Japanese language at the Japan Foundation. Sffjle implements various programs to encourage Japanese language education at all levels, such as by offering scholarships for university students and a range of support projects for school teachers. The video referred to below has been viewed over 12,000 times as of February 2015.

* * *

Many companies and municipalities have been producing dance videos based on AKB48's massive hit song "Koisuru Fortune Cookie" (Fortune Cookie in Love, also known as "Koitune"), and several of these videos have already been made by Japanese language learners overseas. However, it is noteworthy that our New Zealand "Koitune" video was created by high school and university students studying Japanese in Christchurch, along with their Japanese language teachers. This included 270 people dancing together in a large university lecture theater. Please take a look at our "Koitune" video—it's the world's southernmost version! [<https://www.youtube.com/watch?v=CQE8kGwWsv8>]

Naomi Collins Coordinator, Sasakawa Fellowship Fund for Japanese Language Education and the Ryoichi Sasakawa Young Leaders Fellowship Fund, Massey University, New Zealand.

One-Day Workshop at the University of Canterbury

New Zealand has a population of approximately 4.5 million people, but it is a country where Japanese language learning has thrived, as it ranks eleventh in the world in terms of Japanese language learner numbers (based on the Japan Foundation's 2012 data). However, in recent years the number of Japanese language learners in New Zealand has begun to decline, and, according to statistics from a research report commissioned by Sffjle (NZ),

“Japanese Language Education in New Zealand: An Evaluative Literature Review of the Decline in Students Since 2005,” and the NZ Ministry of Education’s “Education Counts,” the figure has now fallen to 45% of the peak it reached in 1996. Maintaining learner numbers is proving difficult in Christchurch in particular, partly as a result of the population exodus that occurred following the devastating 2011 earthquake.

The Sffjle research report notes that cooperation between high schools and also between high schools and universities is important for maintaining the number of learners and further enhancing the quality of language learning. With that in mind, and with the invaluable financial support of the Sffjle Program through its language camps, speech contests, and immersion days grants program, the Japanese language teaching staff at the University of Canterbury and high schools in Christchurch cooperated to carry out a “One-Day Japanese Workshop” for high school students studying Japanese. The “Koitune Project” was planned as a part of this workshop with the goal of encouraging learners to study together beyond the classroom and to deepen their interest in popular Japanese culture. But it developed a life of its own.



Canterbury University and Christchurch high school students work together at the workshop.

Completing the “Koitune Project”

We started this project by asking each high school to shoot and submit a “Koitune” video before the One-Day Japanese Workshop. Then we filmed all the participants dancing together on the day of the workshop, and finally we edited this and the individual school versions together to create the final version. Many students had

never heard of AKB48 or “Koitune” despite the widespread popularity of Japanese pop culture, such as the manga *One Piece* and *Shingeki no Kyojin* (Attack on Titan). We therefore had some concerns about whether everyone would engage in the project enthusiastically and whether there would be enough time for everyone to memorize the dance. Nevertheless, even those students who were not initially inspired by the idea started to enjoy dancing together after a few practice runs, and keener students even undertook special training on their own ahead of the video shoots.



High school students in Christchurch practice their moves for the “Koitune” video.

Finally, the day of the workshop arrived. After splitting up into smaller groups for Japanese lessons, all the high school students gathered in a large lecture theater for the final session. They were joined by 23 university students who had joined their language lessons during the day as mentors and teaching assistants, so the total number of “Koitune” dancers swelled to 270.

For many high school students, this was the first time they had been inside a large university lecture hall, and dancing in such a space was certainly a new experience for them as well. They all joined in the “Koitune” dance together, irrespective of their school, year, or level of Japanese proficiency. It was at this moment that they got a real sense of being part of a larger community of Japanese language learners.



Christchurch high school students interacting with the guest speaker.

Our “Koitune Project” may have ended, but the video symbolizing cooperation between Christchurch-area tertiary and high school Japanese language teachers and learners remains. In this video you can see our aspirations toward the potential for invigorating and developing Japanese lan-

guage learning in New Zealand.

We have all been inspired by the spontaneous smiles, the sincerity of the danc-

NIPPON FOUNDATION FUND FOR JAPANESE LANGUAGE EDUCATION PROGRAM

ers' efforts, the sense of belonging, and the many valuable instances of collaboration that arose out of this project. It has also inspired us to do our utmost to further develop Japanese language education in New Zealand.

January 26, 2015

A New Direction for America's Cuba Policy

Paul J. Saunders

US-Cuba ties took a major step forward with the announcement that the two countries would normalize relations. While the move was widely accepted by the US public, Paul Saunders believes that domestic politics may create obstacles in the short run.

* * *

The Obama administration's dramatic announcement that the United States will normalize relations with Cuba, establish an embassy in Havana, and loosen a variety of trade, financial and travel restrictions establishes a fundamentally new direction for US policy toward one of its closest neighbors.

Nevertheless, despite majority public support for the moves—and widespread popular acceptance that the five-decade US effort to isolate Cuba has failed—following through will not be easy. Indeed, with presidential elections looming in 2016 and broad political challenges facing an administration many see as weak, domestic politics may create significant obstacles in the short term. Over time, however, the prospects for a better US-Cuba relationship may improve.

Only the First Step

The most significant elements of the administration's new policy are plans to open a US Embassy in Cuba and to review the US designation of Cuba as a state sponsor of terrorism, as well as moves to ease travel regulations and trade rules (which took effect on January 16, 2015). The administration has so far had nothing to say about Cuban-Americans' property rights—an issue of great importance to many who fled the Cuban Revolution—and have suggested that the status of the US naval base at Guantanamo Bay is not on the table.

Paul J. Saunders Executive Director, Center for the National Interest (Washington, DC).

Notwithstanding the symbolic impact (and practical convenience for diplomats) of normalizing relations, it is the first step in building a new relationship with Cuba, not the last one. Likewise, loosening regulations governing travel and commerce can only do so much within the limits of current US law. From this perspective, removing the terrorism designation—which requires a review process that the White House has said should take no longer than six months—may be the most important step, in that it would actually end certain sanctions. But many more will remain in effect.

Of course, the biggest problem in going any further is the Republican Congress. Lifting the embargo on Cuba will require passing legislation to undo multiple rounds of sanctions, something toward which Senate and House Republicans presently seem disinclined. Likewise, sending a US Ambassador to Havana will require a Senate confirmation vote. Neither will be simple—or happen soon. (Either or both of these tasks may well fall to Obama's successor, if he or she wants to do it.) Senate action in particular could falter if any one of the body's three Cuban-American Senators decided to block it.

History is a useful reminder of the obstacles. In an interesting coincidence, a Republican Congress passed the last major sanctions legislation (the Cuban Liberty and Democratic Solidarity Act of 1996) during a Democratic administration. Many Democrats supported the bill, though with House Republicans theoretically able to pass it without any Democratic support and the 1996 elections approaching, some may have done so to avoid paying a price during the campaign for casting a vote that would not affect the outcome. Still, since this was the last big vote on Cuba, the vote totals may be useful to review: 74-24 favoring tighter sanctions in the Senate, and 294-130 in the House of Representatives. Republicans today actually have larger majorities in both chambers.

No Longer a Threat?

Still, public opinion has evolved substantially since that time. According to a January 2015 poll by the Pew Research Center, 63% of Americans now support normalizing diplomatic relations with Cuba and 66% support ending the embargo, despite the fact that only 32% think that Cuba will become more democratic afterward. [www.people-press.org/2015/01/16/most-support-stronger-u-s-ties-with-cuba/]

Notably, a CNN/Opinion Research poll found that between 1997 and 2014 the share of Americans who considered Cuba a “very serious” threat fell by more than half, while the number saying that it is “not a threat” nearly doubled. A com-

bined total of 72% believe that Cuba is “not a threat” or only a “slight threat.” In contrast, the same poll found that about 70% of Americans see Iran, North Korea and Russia as “moderately serious” or “very serious” threats. [www.washingtonpost.com/blogs/the-fix/wp/2014/12/18/whos-afraid-of-cuba-almost-nobody-anymore/]

No less significantly, an early 2014 Florida International University poll shows similar (and somewhat larger) majorities favoring normalization and an end to travel restrictions. [<https://cri.fiu.edu/research/cuba-poll/2014-fiu-cuba-poll.pdf>] A narrow majority of 52% oppose continuing the embargo—but some 63% believe that Cuba should remain on the terrorism list. Younger respondents and those who arrived in the United States since 1995 tend to support an opening to Cuba, while older people and those who fled the island earlier are more skeptical.

Taking all of this into account, the administration’s clear intent to move forward slowly with further changes is probably wise. Unless something unexpected happens, public opinion will probably continue to support greater engagement. Likewise, if the process shows slow but steady progress, its opponents may find themselves in a weaker position in the future.

At the same time, former Cuban leader Fidel Castro and current leader Raul Castro will not get any younger. Eventual leadership changes in Cuba might contribute to a more favorable domestic political environment in the United States by removing these two highly visible symbols of the past. That said, if Senator Marco Rubio (or Senator Ted Cruz) wins the presidency in 2016, outreach to Havana might stop abruptly.

The Obama administration is unlikely to complete its effort to change US policy toward Cuba before the president’s term ends, but his successor will have important new options.

February 5, 2015

Arbitration in Europe

Article 2 of the European Convention on International Commercial Arbitration

Nērika Lizinska

Nērika Lizinska, a Sylff fellow at the University of Latvia, used her Sylff Research Abroad (SRA) award to research state participation in international commercial arbitration in 2014. She conducted her research at the Swiss Institute of Comparative Law. It was in Switzerland that the European Convention on International Commercial Arbitration—which plays a significant role on this issue—was signed. A summary of her research regarding Article 2 of the convention is presented below.

* * *

Introduction

Everything starts with an idea. Parties then enter into a commercial contract with the hope of profiting from it in an optimistic frame of mind. At this stage, unfortunately, not all parties think that a dispute might someday arise and that a mechanism would be needed to resolve it. However, international trade and commercial transactions are specific and linked to particular legal systems (which laws are to be applied and which court will hear the case, etc.), that need to be agreed upon between the parties in any contract.

Businesses mainly choose arbitration (arbitration is the “settlement of a dispute by the decision of a person or persons chosen and accepted as judges”)¹ as a mechanism for dispute resolution, instead of litigation (litigation is “a formal process whereby claims are taken through court and conducted in public. Judgements are

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¹ A.S. Hornby & Ruse, *Oxford ESL Dictionary*, Oxford University Press, 1997, p. 30.

binding on the parties subject to rights of appeal”²) due to its neutrality (parties can choose the seat of arbitration), flexibility (“parties may control the manner of the proceedings having regard to the nature of the dispute and to their precise needs”),³ finality (there is no appeal), confidentiality, and speed of resolution. “Parties in cross-border disputes may be unfamiliar with the complicated procedure of litigation and the language of the national court. . . . [M]ost businesses want a quick and efficient remedy and are reluctant to wait for an extended period for their disputes to be resolved through national courts.”⁴

Nowadays, it is internationally accepted that a state, too, can conclude international commercial contracts with a private party (for example, to purchase goods) and can choose arbitration as a dispute resolution mechanism by adding an arbitration clause in a commercial contract. This means that in the case a dispute that cannot be otherwise resolved between the parties (for example, by negotiation or mediation, which “is essentially a negotiation facilitated by a neutral third party”),⁵ a claimant can seek arbitration.⁶ Although a state can act like a private party and has similar rights, there are plenty of issues and risks for contracting parties. The main risk is that when a state becomes a contractual party, dispute resolution can take a considerably different course from general procedures. This is why the inclusion of an arbitration clause for a commercial party in such agreements has become a precondition for concluding a commercial contract with the state. The state, too, has many considerations in this regard.

History and Application

At the international level, a document governing the capacity of states to conclude arbitration agreements is the European Convention on International Commercial

² Peter Fenn, *Commercial Conflict Management and Dispute Resolution*, Spon Press, 2012, p. 12.

³ Ibid, p. 89.

⁴ Sameer Sattar, “National Courts and International Arbitration: A Double-edged Sword?” *Journal of International Arbitration*, 27 (1), Kluwer Law International, 2010, pp. 51-52.

⁵ What is mediation? Detailed information available at <http://adr.findlaw.com/mediation/what-is-mediation-.html>.

⁶ State participation in international arbitration can be analyzed from various aspects, for example, whether arbitration as a dispute resolution mechanism is suitable for state contracts in general, is it possible to properly protect state interests in arbitration, and whether an arbitration clause in a state contract automatically implies a waiver of state immunity from jurisdiction and enforcement, etc.

Arbitration⁷ (hereinafter called the European Convention), signed on April 21, 1961, in Geneva at a meeting convened by United Nations Economic Commission for Europe. More than 30 countries are currently party to the European Convention, including Cuba, Burkina Faso, the Russian Federation, and Turkey,⁸ which became contracting parties in accordance with the provisions of Article 10 (1) and (2) of the European Convention.

Provisions regarding the application of the European Convention are stated in Article 1 (1), according to which “this Convention shall apply: (a) to arbitration agreements⁹ concluded for the purpose of settling disputes arising from international trade between physical or legal persons having, when concluding the agreement, their habitual place of residence or their seat in different Contracting States; (b) to arbitral procedures and awards based on agreements referred to in paragraph 1 (a) above.” This means that if arbitration agreements concluded for the purpose of settling disputes arising from international trade between physical or legal persons having, when concluding the agreement, their habitual place of residence or their seat in countries that are not contracting states—such as the United Kingdom, the Netherlands, and Switzerland—the European Convention will not apply.

Historically, “the intention of the European Convention was to introduce the first uniform set of rules concerning international arbitration in order to remove the obstacles created by widely differing national arbitration laws. With its scope focusing on Europe, the aim was to facilitate and promote European trade between the (back then) Eastern and Western block.”¹⁰ “When the European Convention

⁷ European Convention on International Commercial Arbitration, available at https://treaties.un.org/pages/ViewDetails.aspx?src=TREATY&mtdsg_no=XXII-2&chapter=22&lang=en.

⁸ Full list of contracting states available at https://treaties.un.org/pages/ViewDetails.aspx?src=TREATY&mtdsg_no=XXII-2&chapter=22&lang=en.

⁹ Article 1 (2) of the European Convention gives the following definitions: (a) the term “arbitration agreement” shall mean either an arbitral clause in a contract or an arbitration agreement being signed by the parties, or contained in an exchange of letters, telegrams, or in a communication by teleprinter and, in relations between States whose laws do not require that an arbitration agreement be made in writing, any arbitration agreement concluded in the form authorized by these laws; (b) as the term “arbitration” shall mean not only settlement by arbitrators appointed for each case (ad hoc arbitration) but also by permanent arbitral institutions; (c) the term “seat” shall mean the place of the situation of the establishment that has made the arbitration agreement.

¹⁰ Alice Fremuth-Wolf, “Issues Specific to Arbitration in Europe: The European Convention on International Arbitration as a Tool to Remedy Pathological Arbitration Agreements—There’s Still Life in the Old Dog Yet!” in Chapter 1 of C. Klausegger, P. Klein, et.al. (eds.),

was signed, . . . Europe was still dominated by the East-West conflict. The different political and economic systems made trade between parties coming from the two blocks very difficult. Each side had little confidence in the courts of the other side with the consequence arbitration was often the only option for dispute settlement acceptable to all parties. . . . The main purpose of the European Convention was to overcome these psychological barriers and the legal problems which were affecting arbitration in the East-West trade in Europe.”¹¹ In addition, it should be noted that “in certain countries that were to become Contracting States of the European Convention, public corporate bodies were not allowed to enter into arbitration agreements. This led the draftsmen of the European Convention to include Article 2 (1).”¹²

Right of States to Resort to Arbitration

With regard to the historical circumstances, Article 2 (1) of the European Convention states as follows: “. . . legal persons considered by the law which is applicable to them as ‘legal persons of public law’ have the right to conclude valid arbitration agreements.” The term “legal persons of public law” is used here instead of “state” in order to cover a broader scope of state institutions, such as state agencies, public entities, and governmental institutions.

There have often been cases in which the state argues that in accordance with its domestic laws, it is not entitled (lack of capacity issue) to enter into an arbitration agreement, thus an agreement, even if legally concluded, does not have legal force. There have also been cases where a state party concludes an agreement but then relies on its national (internal) law to prove that a contract is null and void, as its national law prohibits resorting to arbitration. For example, Article 2060 of the Civil Code of France prohibits French state public bodies and institutions from concluding arbitration agreements.¹³ Article 487 of the Latvian Civil Procedure

Austrian Yearbook on International Arbitration 2013, pp. 60–61.

¹¹ Stefan Michael Kroll, “Issues Specific to Arbitration in Europe: The European Convention on International Commercial Arbitration—The Tale of a Sleeping Beauty,” in Chapter 1 of C. Klausegger, P. Klein, et al. (eds.), *Austrian Yearbook on International Arbitration* 2013, p. 3.

¹² Nikolaus Pitkowitz, “Issues Specific to Arbitration in Europe: Is There Still a Scope of Application of the European Convention on International Commercial Arbitration?” In Chapter 1 of C. Klausegger, P. Klein, et al. (eds.), *Austrian Yearbook on International Arbitration* 2013, p. 106.

¹³ Article 2060 of the Civil Code of France, Title XVI of Arbitration Agreements, states, “One may not enter into arbitration agreements in matters of status and capacity of the

Law states, “any civil dispute may be referred for resolution to an arbitration court, with the exception of a dispute: . . . 2) in which a party, albeit even one, is a State or local government institution or the award of the arbitration court may affect the rights of State or local government institutions.”¹⁴ In Hungary, Act CXCVI of 2011 on National Assets, which came into force on January 1, 2012, states in Article 17 (3) that “in civil law agreements concerning national assets located on the territory of Hungary, the governing language may only be Hungarian, the governing law may only be Hungarian and the jurisdiction for the settlement of disputes may only be that of the Hungarian state courts.”¹⁵ At the same time, for example, Article 177 (2) of the Swiss Private International Act contains advanced regulation stating, “if a party to the arbitration agreement is a state, a stateheld enterprise or a state owned organization, it cannot rely on its own law in order to contest its capacity to be a party to an arbitration or the arbitrability of a dispute covered by the arbitration agreement.”¹⁶

Belgium also has special regulations.¹⁷ In fact, Belgium was involved in one of the first cases¹⁸ in which the court had to decide whether a state can invoke its domestic laws to avoid arbitral jurisdiction. “Benteler v. Belgium provides further authority for the proposition that a commercial arbitration between a [s]tate and a private party cannot be avoided simply by the [s]tate’s invoking a prohibition in its own law against arbitration by the [s]tate.”¹⁹ After this ad hoc decision, Belgium chose to use its rights provided in Article 2 (2) of the European Convention.

persons, in those relating to divorce and judicial separation or on controversies concerning public bodies and institutions and more generally in all matters in which public policy is concerned, (Act no 75-596 of 9 July 1975), however, categories of public institutions of an industrial or commercial character may be authorized by decree to enter into arbitration agreements,” available at <http://www.legifrance.gouv.fr/Traductions/en-English/Legifrance-translations>.

¹⁴ Latvian Civil Procedure Law, *Civilprocesa likums*. 14th edition. Rīga: TNA, 2010.

¹⁵ Gabor Bardos, “The Award and the Courts, Hungary: New Rules on Arbitration Related to National Assets” in Chapter 4 of C.Klaussegger, P.Klein, et al. (eds), *Austrian Yearbook on International Arbitration 2013*, p. 181.

¹⁶ Swiss Private International Law Act available at <https://www.swissarbitration.org/sa/en/rules.php>.

¹⁷ See Article 1676.2 of Belgium Code Judiciaire, May 19, 1998, available at <http://www.jus.uio.no/lm/belgium.code.judicature.1998/1676.2.html>.

¹⁸ Ad Hoc Award of November 18, 1983, Benteler v. Belgian State, *Journal of International Arbitration*, 1984, pp.184–90.

¹⁹ Jan Paulsson, “May a State Invoke Its Internal Law to Repudiate Consent to International Commercial Arbitration? Reflections On the Benteler v. Belgium Preliminary Award,” *Arbitration International*, Vol. 2, No. 2 (1986), p. 95.

Declarations

Article 2 (2) of the European Convention stipulates, “On signing, ratifying or acceding to this Convention any State shall be entitled to declare that it limits the above faculty to such conditions as may be stated in its declaration.” “The content of Article II met strong opposition from Civil Law countries where public entities are, generally, prohibited from resorting to arbitration. To accommodate these States, which otherwise would have not ratified the Convention, a second paragraph providing for the possibility of a reservation was added to Art. II.”²⁰

One may say that to some extent the European Convention has reached the objective set out in its Preamble,²¹ because at the present time only Belgium has such a declaration, as provided for in Article 2 (2). After the *Benteler v. Belgium* case, Belgium stated that “in accordance with article II, paragraph 2, of the [European] Convention, the Belgian Government declares that in Belgium only the State has . . . the faculty to conclude arbitration agreements”²² to avoid similar cases in the future.

When Latvia ratified the European Convention, it also made a declaration in accordance with Article 2 (2). It stated that Latvian state and local government authorities have no right to conclude arbitration agreements. At a time when there were discussions and debates about the withdrawal of the declaration, one of the draft laws stipulated that “local government authorities before concluding the arbitration agreement shall transmit a draft to the Ministry of Environmental Protection and Regional Development to obtain opinion from the State Chancellery that the arbitration agreement is in conformity with the state interest.”²³ Accordingly, if such a law were to be adopted, the State Chancellery would need to assess whether the arbitration clause included in international commercial contracts (between a local authority and a private party) is consistent with the public interest.

²⁰ Albert Jan Van Den Berg (general ed.), *Yearbook Commercial Arbitration*, Volume XX, 1995, Kluwer, p. 1017.

²¹ The Preamble of the European Convention states as follows: “. . . desirous of promoting the development of European trade by, as far as possible, removing certain difficulties that may impede the organization and operation of international commercial arbitration in relations between physical or legal persons of different European countries, have agreed on the following provisions.”

²² Declarations and reservations are available at https://treaties.un.org/pages/ViewDetails.aspx?src=TREATY&mtdsg_no=XXII-2&chapter=22&lang=en

²³ Draft law available in Latvian, “Grozījums likumā ‘Par Eiropas konvenciju par Starptautisko komercšķīrējtiesu,’” available at <http://titania.saeima.lv/LIVS11/saeimalivs11.nsf/0/ED4CEB6E5CF3B1A5C22579A00044FB8C?>

The questions this gave rise to were, what is the state interest (common good), how to determine it, and is it possible only from the content of the arbitration agreement to determine whether the state interest will be protected?

On December 23, 2013, Latvia notified the Secretary General of the United Nations of its full withdrawal of the declaration under Article II (2), made upon accession in 2003. Accordingly, these fundamental changes can be considered a new page for Latvian state and local government authorities and practitioners to record their experiences in the history of international commercial arbitration and for scientific researchers to document new ideas and findings in the field of arbitration.

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