

# JAPAN PERSPECTIVES

No. 18

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## What Abenomics Is Missing

*Structural Reforms Needed for Economic  
Revival*

## Breaking Free of Dependence on China's Rare Earths

## Why Extend the Term of LDP President?

## What Trump's Victory Means for Japan

# JAPAN PERSPECTIVES

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No. 18, January 2017

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October 11, 2016

## What Abenomics Is Missing

### *Structural Reforms Needed for Economic Revival*

Takeo Hoshi

*The BOJ's quantitative and qualitative easing policy has helped to lift the Japanese economy out of deflation, but unless wages rise further, the bank's target of 2% inflation will remain elusive. Noting that Abenomics has made little progress on its third arrow, financial expert Takeo Hoshi calls for full-fledged efforts to advance structural reforms.*

\* \* \*

On September 21, 2016, the Bank of Japan announced a “comprehensive assessment” of its quantitative and qualitative monetary easing (QQE) policy, concluding that the decline in real interest rates over the three years since QQE was introduced in 2013 has lifted the Japanese economy out of deflation.

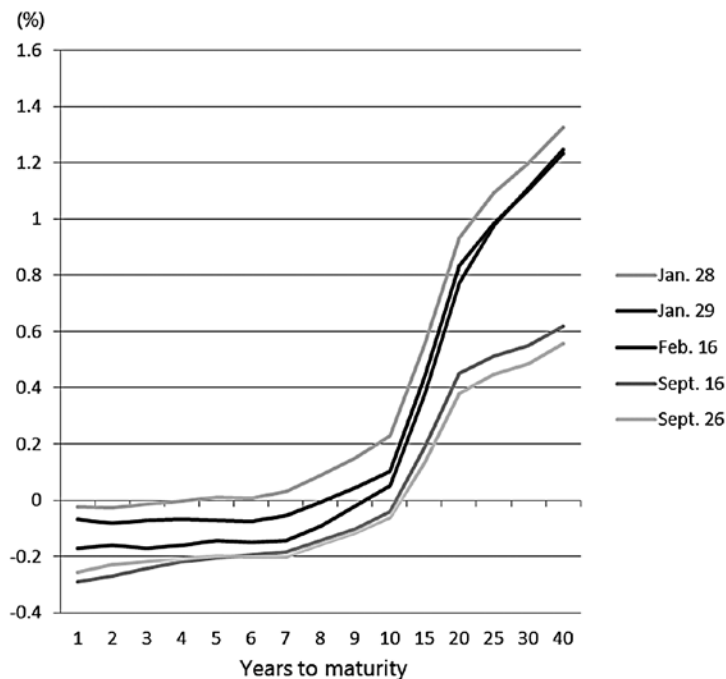
At the same time, the BOJ noted that its “price stability target” of 2%, which was to have been achieved in two years, is still not in sight. Inflation failed to materialize, the bank said, due to a fall in crude oil prices and other exogenous factors, as well as the fact that inflation expectations—which rose at the start of QQE—subsequently went flat and have recently weakened.

The negative interest rate policy that was introduced in January, the BOJ added, has substantially pushed down interest rates “across the entire yield curve,” affecting not only short-term but also long-term interest rates. But it also referred to the policy’s “negative consequences for financial institutions’ profits.” As the figure illustrates, the yield curve declined immediately after the January 29 announcement, and even 10-year Japanese government bond yields have now fallen into negative territory.

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Takeo Hoshi      *Chair of the Board, Tokyo Foundation; Henri H. and Tomoye Takahashi Senior Fellow in Japanese Studies, Freeman Spogli Institute for International Studies, Stanford University.*

### Changes in the Japanese Government Bond Yield Curve (2016)



### Valid Assessment

Based on the conclusions of its assessment, the BOJ also announced a new policy framework calling for “QQE with yield curve control,” establishing a target (of around 0% for now) for 10-year JGB yields and making an “inflation-overshooting commitment” to continue with QQE even after the price stability target of 2% has been attained.

On the whole, the bank’s assessment presents a level-headed analysis of the impact of its monetary policy, and its conclusions are quite valid. The focus it gave to the importance of inflation expectations is also correct, as the initial success of QQE was precisely the result of the impact it had on market expectations. Inflation expectations rose before QQE had any impact on actual price levels, leading to lower real interest rates (nominal rate minus expected rate of inflation), higher stock prices, a weaker yen, and a boost in economic activity.

For many years, the BOJ had frowned on nontraditional monetary policies, and this hindered Japan’s efforts to overcome deflation. Since the appointment of Haruhiko Kuroda as governor, though, the BOJ has dramatically shifted course, acting with firm conviction that deflation can be defeated through QQE.

The rate of inflation failed to rise as anticipated, however; consumer prices are no longer declining, as they had been under deflation, but the inflation rate remains stubbornly low, having long hovered below 1% and recently once again approaching 0%. And while there was an initial jump in inflation expectations, they, too, have begun to decline without ever having pushed up the actual inflation rate.

Why has this been the case? The BOJ's assessment points to the fact that in Japan, realized past inflation has a larger impact on wage negotiations than expected inflation, while medium- to long-term inflation expectations are more important determinants of wages in the United States and Germany. To test such an assertion more rigorously, it would have been helpful if the BOJ had offered a regression analysis using short-term inflation expectations as a variable as well. That said, one can still probably conclude that the biggest reason for the failure to reach the 2% inflation target was that inflation expectations were not fully incorporated in wages.

### **Doubts about Effectiveness**

While the conclusions of the BOJ's comprehensive assessment may be valid, I am skeptical about the effectiveness of the newly announced framework for yield curve control. The new policy is not an attempt at further monetary relaxation. As the figure shows, the yield on 10-year JGBs is already below the target of 0%. The effort to reinforce the BOJ's commitment by announcing that QQE will continue even after the 2% price stability target is reached is not effective, either. We might even say it is misguided.

There were times in the past when the bank's commitment was called into question. For example, the zero-interest-rate policy that was first introduced in 1999 was quickly terminated a year later, despite the fact that deflationary conditions still persisted. Various attempts at monetary easing undertaken over the ensuing decade achieved a certain degree of success, but they came to an end each time as soon as inflation returned to around 0%. There is no doubting the BOJ's commitment under Governor Kuroda, though, as the bank has repeatedly and unequivocally affirmed its intention to take all necessary policy steps to achieve 2% inflation.

What remains dubious is whether the policies taken to date, including negative interest rates, are effective. The most important conclusion of the BOJ's comprehensive assessment is that inflation expectations have failed to trigger higher wages and a surge in prices. The new framework for yield curve control, unfortunately, does nothing to address this issue.

One way of getting around this disconnect is to adopt measures that would lead directly to higher wages. Noting that Japan “needs meaningful positive inflation for reasons of fiscal stability,” Olivier Blanchard and Adam S. Posen of the Peterson Institute for International Economics proposed in a December 2015 *Financial Times* op-ed that nominal wages in Japan be boosted by 10% across the board (“Japan’s Solution Is to Raise Wages by 10 Percent”). While such measures are beyond the scope of monetary policy, the BOJ can certainly encourage the government to take action along these lines, as it would help the bank achieve its inflation target.

### **Need for Sweeping Reforms**

Achieving the inflation target is not the most important goal for Japan. What the Japanese economy needs more is real economic growth. Abenomics may have helped to halt a downtrend in prices and end deflation in the narrow sense of the term, but a more important test is whether it can more broadly lift the country out of the deflationary state in which it has been stuck for decades. This, though, as the BOJ has maintained all along, is not a task for the bank to tackle alone.

Lack of demand is not the only cause of the decades-long stagnation. If it were, and if Japan’s potential growth rate had not declined, the economy would have been hit by a runaway deflationary spiral—not the gradual lowering of prices that it actually experienced. This suggests that there were problems on the supply side as well.

Monetary and fiscal policy tools can be mobilized to prop up faltering demand and pull the economy out of deflation, narrowly defined. But unless supply-side issues are also addressed, there will be no return to robust growth. Such a path will require sweeping reforms to restructure the economy into a shape befitting its level of maturity.

The initial success of QQE substantially alleviated weaknesses in demand. The output gap (the difference between the potential output and actual output of an economy) has recently been hovering around 0%, according to BOJ estimates, suggesting that further monetary and fiscal expansion to boost demand would not promote growth. Of greater importance—now more than ever—are structural reforms to expand potential output.

The third of the “three arrows” of Abenomics is a growth strategy consisting of various reforms to boost potential output. Compared to the first arrow of monetary easing, though, very little progress has been made in this area. What we need is a comprehensive assessment not only of monetary policy but of Abenomics as a whole, particularly its growth strategy.



## ECONOMY

Twenty-one years ago, in September 1995, with telltale signs of deflation on the horizon, the BOJ took the preventive step of lowering the official discount rate to 0.5%. The statement released by the bank at that time concluded that the problems confronting the Japanese economy could not be solved with monetary measures alone and that drastic deregulation and other structural reforms were also needed to ensure the effectiveness of looser credit.

This has been the BOJ's position over the two decades since then. The BOJ has been doing more than its share, at least in the past few years. It is high time for the Japanese government to heed this call and advance full-fledged structural reforms, lest another valuable opportunity for economic revival be squandered.

*Translated from "Abenomikusu no sotenken o," Nihon Keizai Shimbun (Keizai Kyoshitu section), September 30, 2016. (Courtesy of Nikkei Inc.)*

August 25, 2016

## To Revive the Economy, Empower the Middle Class

*Redistribution as the Key to Revitalization*

Shigeki Morinobu

*In a recent piece in the Nihon Keizai Shimbun, Shigeki Morinobu calls for a working tax credit and other measures to reduce economic inequality and empower the middle class, arguing that the trickle-down approach of Abenomics has been tried and found wanting.*

\* \* \*

Three years have passed since the government of Prime Minister Shinzo Abe launched the expansionist economic program known as Abenomics. In that time, real economic growth has averaged 0.6%, well below the 2% achieved under the Democratic Party of Japan (2009–12). The basic reason for this failure to grow is lackluster consumer spending.

Some analysts blame the consumption tax hike of 2014 for this state of affairs. But a full two years after the tax rate went from 5% to 8%, consumption has yet to rebound. This suggests we should look elsewhere for an explanation.

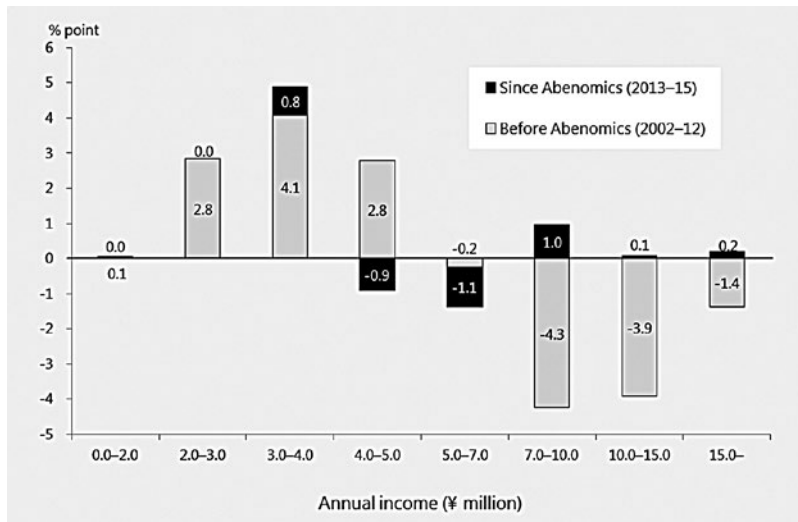
From statistics on household income and expenditures, we can identify two probable culprits: minimal gains in real family income and a decline in the average propensity to consume, reflecting financial anxieties about the future.

In 2015, Hitotsubashi University economist Takashi Oshio used data from the government's Survey of Household Economy to compare the distribution of income and wealth among Japanese households before and after the advent of Abenomics. He found that the percentage of households in the ¥4 million to ¥7 million income bracket dwindled after the policies went into effect, while those in the

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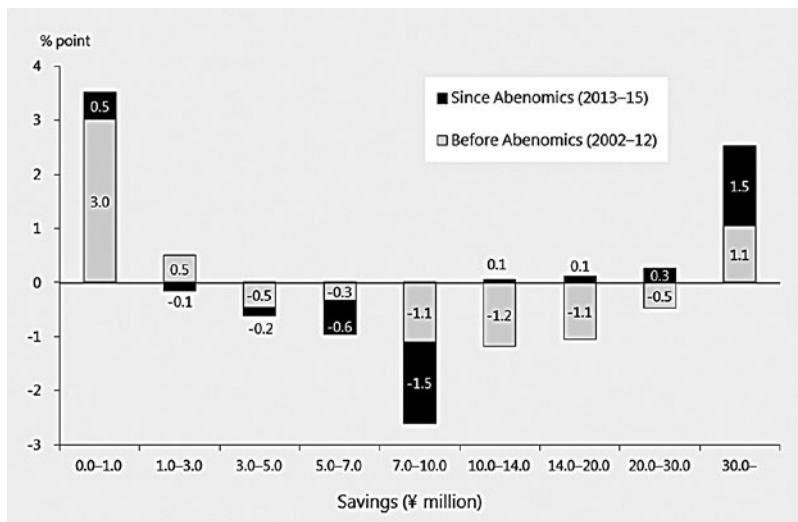
*Shigeki Morinobu* Senior Fellow, Tokyo Foundation; Professor of Law, Chuo University; President, Japan Tax Institute.

**Figure 1. Changes in the Distribution of Personal Income**



Source: Compiled by Takashi Oshio from "Survey of Household Economy," Ministry of Internal Affairs and Communications.

**Figure 2. Changes in the Distribution of Personal Savings**



Source: Compiled by Takashi Oshio from "Survey of Household Economy," Ministry of Internal Affairs and Communications.

higher and lower brackets grew, indicating an increasingly bipolar income distribution and a pronounced erosion of the middle class.

The same trend can be seen in the distribution of assets in the form of savings. Since the start of Abenomics, the percentage of households with a moderate savings balance has decreased, while the segment consisting of those with ¥30 million or more in savings has grown.

One important factor behind the growth in income inequality is the increasing percentage of jobs classified as nonregular employment, which typically pays less than the kind of permanent, full-time employment that was once considered the norm. At the same time, the rise in stock prices fueled by Abe's economic policies has benefited the wealthy and contributed to the bipolar distribution of assets.

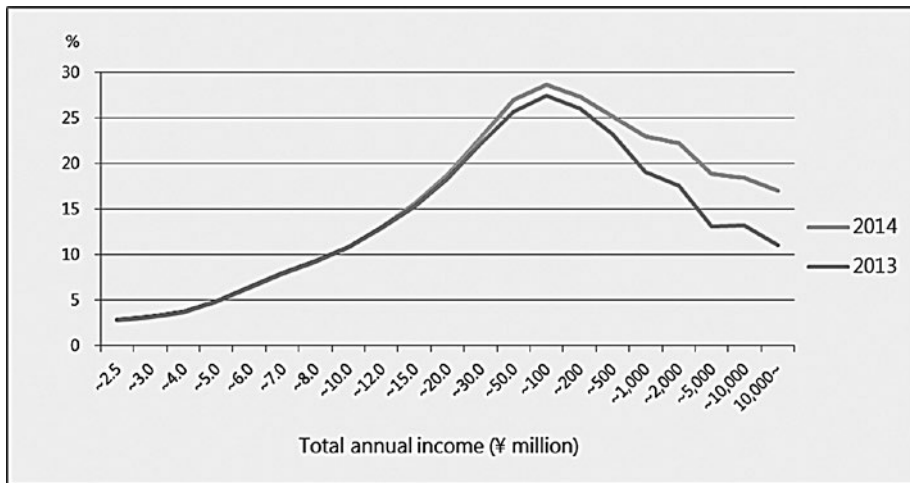
The promise of Abenomics was that a weaker yen would boost the profits of businesses reliant on exports, resulting in higher wages and more capital investment, and that these benefits would then trickle down to smaller businesses and regional economies. As the foregoing suggests, this "virtuous circle of growth and prosperity for all" has failed to materialize.

### **Permanent Policies for Income Redistribution**

The Organization for Economic Cooperation and Development uses the Gini coefficient to compare economic inequality in the advanced economies before and after taxes (including social insurance contributions) and transfers (social security benefits). According to the OECD, Japan has a relatively equitable income distribution before taxes and transfers but ranks among the more unequal countries once taxes and transfers are factored in. What this tells us is that the income-redistribution effect of Japan's tax and social security systems is among the weakest in the advanced industrial world.

The sluggish consumer spending of recent years reflects the erosion of the middle class in the midst of growing income disparities, compounded by a declining propensity to consume owing to material anxieties. This is a long-term structural problem that cannot be addressed effectively through occasional handouts, such as the distribution of shopping vouchers or supplemental payments to low-income pensioners. Such isolated measures are a waste of the taxpayers' money.

What the Japanese economy needs is permanent policies for redistributing income and wealth to prevent further economic polarization. Multiple studies by the International Monetary Fund, the OECD, and others have demonstrated that reducing disparities in wealth by redistributing income from those with surplus contributing capacity to those without has a positive effect on economic growth. From

**Figure 3. Effective Tax Rates According to Income Level**

Source: Compiled by the author from ““Sample Survey for Self-Assessment Income Tax,” National Tax Agency.

a common-sense perspective, it stands to reason that consumer spending would benefit from the transfer of income from the wealthy to lower-income households that devote a much greater portion of their income to consumption.

What, then, is the best way to go about redistributing income and assets?

As we have seen, Japan’s income redistribution mechanisms are weak, and social insurance contributions are at the heart of the problem. The National Pension system is regressive in that it collects the same monthly contribution from everyone regardless of income. Contributions to Employees’ Pension Insurance are adjusted according to income, but the system uses pay-as-you-go financing, which has the effect of transferring income from younger workers with lower incomes to wealthy retirees. We need to reverse the flow and redistribute income from wealthy seniors with surplus contributing capacity to middle- and low-income working people and their families.

A key source of income among wealthy seniors is capital gains and dividends. In Japan, such investment income is taxed separately from earned income at a fixed rate, which rose from 10% to 20% in 2014. The graph below charts the effective tax rates (all national income taxes combined) for taxpayers at different levels of income (earned and unearned) in 2013 and 2014. In both years, the burden peaked at ¥100 million and declined for those in higher income brackets. The reason is that the tax rate on investment income, which figures prominently in the income of wealthier taxpayers, is substantially lower than the top rate for earned income:

40% (45% since 2015). This disparity causes the effective tax rate to decline when a household's combined income exceeds ¥100 million.

### **Taxing Investment Income**

Raising the tax rate on investment income another 5 points is one obvious solution. Abenomics has fueled a rise in stock prices that has further padded the assets of the well-to-do. Increasing the tax burden on investment income from those assets would result in a more equal distribution of income and assets alike.

Raising the tax rate on investment income also makes sense from the standpoint of tax theory. The source of investment income is corporate profits, which have risen as a result of a corporate tax cut of more than 7 points under Abe's economic policy. It would be appropriate to make up this shortfall through taxes on investment income at the individual level. At the current rate of 20%, tax revenues from investment income come to slightly more than ¥4 trillion. All other things being equal, a 5-point increase would generate almost ¥1 trillion in additional revenues.

The main concern is that the impact of such a tax increase on the stock market could eat into working people's retirement savings or jeopardize their pension funds. With this in mind, the government should simultaneously expand the system of tax-free individual savings accounts (NISA), including Junior NISA for minors, and extend the tax-free period.

Next, we need to consider ways of reducing the burden on middle- and low-income working-age taxpayers. Disposable income for such households (income minus taxes and social insurance contributions) has been stagnant for more than a decade. The biggest factor here is not the consumption tax hike but the rising cost of social insurance—specifically, health insurance premiums and pension contributions.

According to estimates released by Keidanren (Japan Business Federation), average earned income rose ¥110,000 to ¥5.64 million between 2012 and 2014. But during the same time, social insurance contributions rose ¥50,000, yielding a net increase of just ¥60,000. Meanwhile, the annual social insurance burden for working people is expected to rise another ¥150,000 or so by 2020. Clearly, we need to consider the social insurance burden along with the tax burden when redistributing income.

One promising option is something along the lines of the working tax credit adopted in the Netherlands. This system has the advantage of being relatively cheap to administer, since it deducts a fixed percentage from an individual's total

tax and social insurance bill without requiring a refund. For Japan to adopt such a system, it would need to integrate the collection of taxes and social insurance contributions and make use of My Number—the new national social security/taxpayer identification system—to ensure accurate reporting of total income. In addition to reducing government outlays for livelihood assistance, a working tax credit provides an economic incentive to work. In Japan's case, it could help tear down the so-called ¥1.3 million barrier, which discourages married women from working full-time by exempting those making under that amount from social security contributions.

### **Empowering the Middle Class**

Planning and introducing a new system like this takes time. I suggest that the government begin with credits to reduce the burden of taxes and social insurance contributions on middle- and low-income working people with household incomes between around ¥4 million and ¥5 million. As the My Number system becomes firmly entrenched, credits can be added based on the number of children in the household.

Because redistribution inevitably yields losers as well as winners, politicians are usually reluctant to rock the boat. But redistribution of income via the tax and social security systems is among the government's most important responsibilities. It should be clear by now, moreover, that simply calling on industry to boost capital investment and wages will not get Japan back on the path to sustainable growth—nor will further delays in consumption tax increases that have been mandated by law to finance a stronger social security system (another important redistribution mechanism).

What the Japanese economy needs now is policies to expand and empower the middle class by shifting the burden from low- and middle-income earners, including the working poor, to high-income taxpayers (especially well-to-do seniors), while strengthening incentives to work.

*Translated from “Arubeki keizai taisaku to wa: Shotoku, shisan no saihaibun susumeyo,” Nihon Keizai Shimbun, April 21, 2016. (Courtesy of Nikkei Inc.)*

September 29, 2016

## Breaking Free of Dependence on Rare Earths

*China's Resource Nationalism Spawns Alternative Technologies*

Hikaru Hiranuma

*The ban China effectively imposed on exports of rare earths over a diplomatic row with Japan has had the unintended consequence of prompting Japanese companies to develop alternative technologies to avert resource security risks. Research fellow Hikaru Hiranuma argues that nations should think twice before politicizing supplies of energy and other resources—a move that will only lower their value.*

\* \* \*

**O**n July 12, 2016, Daido Steel and Honda Motor announced that they had succeeded in developing the world's first high-performance magnet containing no dysprosium or other heavy rare earth elements (HREE) and that it would be used in the driving motor of a hybrid vehicle to go on sale in the fall.<sup>1</sup> The achievement was significant for having the potential to alleviate Japan's resource procurement risks.

The adoption of the Paris Agreement to mitigate greenhouse gas emissions at COP 21 has prompted the auto industry to turn increasingly away from internal combustion engines and to embrace hybrid and electric vehicles, which use electric motors to generate power. The motors for such next-generation vehicles require high-strength permanent magnets, such as those made from an alloy of neodymium, iron, and boron. One problem is that they tend to lose their magnetism at high temperatures. Because car motors can reach over 200 degrees Celsius, dysprosium—a heavy rare earth element that preserves its magnetic properties even at high temperatures—has, until now, been alloyed with the other metals for use in hybrid and electric vehicles.

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*Hikaru Hiranuma      Research Fellow and Project Manager, Tokyo Foundation.*

<sup>1</sup> The 17 rare earths elements are broadly classified as being either heavy (including dysprosium) or light (including neodymium).



Being able to manufacture such vehicles hinges on a steady supply of magnetic rare earths for use in the motors. China is the chief source of dysprosium and other rare metals, putting companies at risk when they are unable to procure the resources from that country. In fact, Beijing effectively imposed an export ban on rare earths in September 2010, after a Chinese fishing trawler operating illegally in Japanese waters near the Senkaku Islands rammed into a Japan Coast Guard patrol boat, dealing a major blow to Japanese industry. Since then, risks have been mitigated for light rare earth elements thanks to resource-conservation efforts, the development of substitute materials, and the diversification of procurement sources, but the situation for heavy elements remained at high risk. The only commercially mined deposits for HREEs are in China, and alternative technologies had been difficult to develop. The recent announcement of an HREE-free permanent magnet is thus a landmark development that can help reduce industry's overreliance on supplies from China.



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*The Eiffel Tower in Paris is lit up as a virtual forest on November 29, 2015, during COP 21 as part of the "1 Heart 1 Tree" project to support reforestation.*

### Resource Nationalism's Unintended Consequences

At the same time, it correspondingly lowers the value of rare earths both for industry and as a political bargaining chip. Ironically, it was a Japanese invention that originally turned the metals into an indispensable resource for manufacturers worldwide. The neodymium magnet was developed in 1983 by Japanese engineer Masato Sagawa, who is now chief technology consultant at Intermetallics Co., Ltd. It had been produced without interruption—despite the fact that China was the only source of dysprosium—until the September 2010 trawler incident near the Senkakus. The value of rare earths is based on their (1) superior features that cannot be substituted by other materials and (2) accessibility by all those who seek them. By turning to resource nationalism and effectively stopping shipments to Japan, China cut off access to the resources, undermining the very conditions that had made them valuable.

The unavailability of fresh supplies sparked efforts to conserve the use of the

resources and to develop alternative materials, leading to the commercial application of a new, HREE-free permanent magnet in hybrid Honda vehicles. Demand for rare earths could subsequently decline; in an ironic twist, a Japanese invention once boosted the market value of the metals, and now another Japanese technological breakthrough could wipe out much of that value.

### **Lessons for Resource Diplomacy**

China has only itself to blame should the value of rare earths plummet, since it was by withholding access to the elements that Beijing compelled Japanese manufacturers to look for alternatives. Using resources to gain a diplomatic advantage in a territorial dispute will naturally trigger a hedging response out of resource security concerns and is unlikely to facilitate a resolution of the dispute. Since China's embargo, massive deposits of rare earths, including dysprosium, have been discovered off the Japanese island of Minami-Torishima. The usefulness of the elements to the electronic, auto, and environmental industries remains unchanged, so had supplies from China continued in a sustained, predictable manner, rare earths would no doubt have continued to bring benefits for both exporters and importers, and the seabed discovery may have been of even greater value.

One can only hope that countries will refrain from resource nationalism in the future, but continued vigilance is needed, inasmuch as Japan is heavily reliant on imports of fossil fuels like oil, coal, and natural gas. The adoption of the Paris Agreement by all parties at COP 21 clearly portended a major shift in global energy trends, as nations will increasingly be required to reduce greenhouse gas emissions and pursue carbon-free alternatives.<sup>2</sup> Progress is being made to lower the cost of generating energy from renewable sources and to stabilize supply so as to match demand; to achieve greater efficiencies in energy consumption; and to commercialize noncarbon energy systems, such as those using hydrogen as fuel. There is no denying the fact, though, that fossil fuels remain indispensable resources for humankind. Efforts will therefore be needed to lessen their negative impact through the active use of such technological innovations as carbon capture and storage.

The fossil fuel market today is quite volatile, with the monthly average price of crude oil (West Texas Intermediate) falling to \$30.35/barrel in February 2016, the lowest since 2003. Factors include slumping demand—caused by economic slow-

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<sup>2</sup> See "Five Key Perspectives for Japan's Energy Mix: Need for Close Attention to Shifting Domestic and Global Realities," on the Tokyo Foundation website, <http://www.tokyofoundation.org/en/t/6ue8o>.

downs in China, Europe, and elsewhere—and a glut in supply as a result of the shale oil revolution in the United States. The Medium-Term Oil Market Report published by the International Energy Agency on February 22, 2016, projects that supply will exceed demand by 1.1 million barrels in 2016 and that a balance will not be achieved until 2017. Prices may not return to their former levels until much later, moreover, given the current high levels of oil inventories. The report notes that investment in oil production contracted by 24% in 2015 and is likely to decline by a further 17% in 2016. If production falls too low, though, a sudden surge in demand could force prices to spiral upward. At the same time, there could be a further erosion of price levels should the lifting of Western economic sanctions on Iran spark renewed oil exports by that country.

Fossil-fuel-producing countries should note that resorting to resource nationalism could be just as self-defeating as was the case for China's rare earths. Politically motivated attempts to control the flow of resources will inevitably compel those who depend on such supplies to hedge against security risks, thereby accelerating the devaluation of those resources. With efforts to develop alternative energy sources gaining momentum in the light of the pledges made in Paris to reduce greenhouse gas emissions, countries risk seeing the value of their resources collapse should they attempt to gain a diplomatic edge by restricting exports. The lesson we should take to heart is that resource nationalism produces no winners and brings no benefits.

December 12, 2016

## Why Extend the Term Limit for LDP President?

Katsuyuki Yakushiji

*Top LDP officers recently approved a rule change that would allow Prime Minister Abe an unprecedented nine years at the helm of the ruling party. Political analyst Katsuyuki Yakushiji puts that decision in perspective.*

\* \* \*

**A**t a high-level meeting this past October, executives of the ruling Liberal Democratic Party decided to extend the maximum tenure for LDP presidents from the current six years (two three-year terms) to nine years (three three-year terms). With the LDP holding a decisive majority in the Diet, the party president is guaranteed the position of prime minister. Under the new rules, Prime Minister Shinzo Abe, elected LDP president in 2012, could conceivably remain in office until September 2021 and become the longest-serving prime minister in Japanese history.

Despite these implications for the highest office in the country, the LDP rule change has met with little dissent or even serious debate within the party. Perhaps the reason for this is that Abe's critics and rivals within the LDP understand just how irrelevant such changes really are in Japan's current political culture.

### Term Limits in International Perspective

Like most other parliamentary democracies, Japan has no set term of office for the prime minister per se. Being designated by and responsible to the Diet, the prime minister can stay in power as long as he or she has the support of the House of Representatives. Only an electoral upset that shifts the balance of power in that chamber or a vote of no confidence can force the prime minister to step down.

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From a legal standpoint, there is nothing to prevent one person from monopolizing the post of prime minister until his or her death.

In Japan's case, the LDP's internal bylaws place *de facto* limits on the tenure of a prime minister. But this practice is by no means the rule in other developed countries.

The Conservative Party of Britain imposes no cap on the tenure of its leader. The same is true for Germany's Christian Democratic Union and Social Democratic Party, Canada's Liberal Party, and Italy's Democratic Party. In these countries, neither national law nor the bylaws of the ruling party limit the number of years one can serve as prime minister.

### **The Reality of Japan's Revolving Door**

The LDP initially established a two-year term of office for the party presidency with no provisions on the number of terms one could serve. In 1960, the party added a rule explicitly stating that the president may be reelected; Hayato Ikeda was reelected twice and Eisaku Sato three times. In 1980, though, the party instituted a maximum limit of two consecutive terms. While the term of office was extended to three years in 2003, the two-term rule remained intact, setting an upper limit on the number of years one person can serve continuously as Japanese prime minister. The tenure of the head of government was thus institutionally restricted by internal party rules.

In reality, however, these rules have rarely been a limiting factor. Since the LDP was formed in 1955, only two of its leaders have served out their full terms: Yasuhiro Nakasone (1982–87) and Jun'ichiro Koizumi (2001–6). The vast majority have resigned for political reasons before their term of office ended. This applies even to Eisaku Sato, who held office for close to eight years (1964–72) before the party adopted term limits. In fact, since the end of World War II, Japan has had 31 prime ministers, including Abe, whose average tenure has been 2.3 years.

To put this in perspective, Britain has had just 15 prime ministers during the same period, for an average of 4.7 years in office. Canada has had 13 prime ministers averaging 5 years each, and Germany has had 8 chancellors with an average tenure of 8.8 years. Even in famously unstable Italy, cabinets enjoy a slightly longer lifespan (2.5 years) than in Japan. Heads of state also enjoy greater longevity in the United States and France, where the term of the president is set by law. The leaders of the world's other major democracies barely have a chance to learn the Japanese prime minister's name before a new one takes his place. Some, such as Sosuke Uno (June–August 1989) and Tsutomu Hata (April–June 1994), have

lasted only a few months. Clearly, this is not the fault of the LDP's four- to six-year limit. What is it about Japanese politics that forces such frequent changes at the top?

### **Turnover in the Era of Factionalism**

To analyze the underlying dynamic, we need to divide postwar politics into two broad periods. In the first, from 1955 to the early 1990s, the LDP had a virtual lock on power. The biggest opposition force during this era was the Japan Socialist Party, which had no serious hope of toppling the LDP and taking the helm. Accordingly, whoever achieved the position of LDP president was guaranteed the post of prime minister. And the selection of the party president was driven solely by internal considerations—specifically, the balance of power among the party's competing factions. Within about a year of electing a new leader, these warring factions would be maneuvering and scheming to replace him as soon as possible. The fact is that most LDP politicians were more preoccupied with these internal power struggles than they were with creating effective policies for the country.

Prime Minister Nobusuke Kishi (1957–60), himself forced to resign over the turmoil that attended the 1960 revision of the Japan-US Security Treaty, deplored the relative lack of continuity in Japan's political leadership. Arguing that the party president's two-year term of office would force a change of prime minister every two years, he advocated a four-year term.

In 1971, the LDP responded to such pressure by lengthening the term of office from two to three years. By the mid-seventies, however, faction bosses Takeo Fukuda and Masayoshi Ohira were tired of waiting for their turn. They protested that three-year terms were too long and that they ran counter to the "tempo of the times." Finally, in 1977, the rules were amended again, and the term shortened to two years. Fukuda, having finally made it to the top spot, though, quickly changed his tune, insisting that the government could accomplish nothing with the ruling party engaged in a major fracas once every two years. He argued that a presidential term of 5 or even 10 years was needed to get things done.

But the fact is that not one LDP president during this time served out two full terms of office. That being the case, it is hard to see how the length of the term itself would make any difference. As Fukuda's example demonstrates, the clash of opinion over the length of a presidential term was merely an extension of the factional power struggles going on within the LDP.

## **Rule by Public Opinion Poll**

Japanese politics entered a new era in 1993, when infighting caused the LDP to fracture and fall from power for the first time. An even more fundamental change came with the electoral reforms of the mid-1990s, which replaced the lower house multiseat districts with single-seat constituencies and proportional representation.

Under the old multiseat system, several LDP candidates would typically be running in a single district, each candidate relying on resources from one of the LDP factions, as opposed to party headquarters. The factions competed fiercely with one another in these elections in order to boost their numbers in the Diet and maximize their chances of dominating party elections. It was often remarked that the LDP was not so much a single party as a collection of warring factions.

The switch to single-member constituencies altered this dynamic. With each party, including the LDP, fielding no more than one candidate per district, the endorsement of party headquarters began to carry far more weight than the support of a faction. Moreover, as the opposition gathered sufficient strength to challenge the LDP, the popularity of the ruling party's top leader became an important factor determining the party's electoral success. The LDP became increasingly preoccupied with the cabinet's approval rating, a figure drawn from public opinion surveys carried out by the media.

This new dynamic applied not only to the LDP but also to the Democratic Party of Japan, which held power from 2009 to 2012. An unpopular prime minister threatened the election prospects of the candidates in each district and ultimately the party's control of the Diet. Consequently, whenever the media published survey results indicating a substantial drop in the cabinet's approval rating, elements within the ruling party would start agitating for a change in leadership. Since the second half of the 1990s, low approval ratings—or in some cases election setbacks—have forced early resignations again and again. One notable exception was Koizumi, who enjoyed an unusually and consistently high rate of support (around 50%).

In most cases, public approval starts out fairly high when a new prime minister takes office, only to take a nosedive as the economy flounders or political scandals unfold. The same problem afflicted Abe during his first stint as prime minister (2006–7). In earlier years, the cabinet might have ridden out such criticism, but nowadays a sharp drop in support invariably sparks a media feeding frenzy, further eroding the cabinet's image and making it difficult to recover. Some prime ministers have chosen to bow out early to avert a loss of seats in the Diet. A few have stood firm, only to be forced out after an electoral setback.

## Breaking the Cycle?

This time around, Abe appears to have broken the cycle. The economic policies collectively known as Abenomics have at least succeeded in buoying stock prices, and voters are largely pleased with the prime minister's hard line vis-à-vis China, backed up by a fortified alliance with the United States. After several harrowing years under the DPJ, they find the current atmosphere of stability reassuring. But how much longer will the prime minister's fortunes last?

In a public statement explaining its decision, the LDP panel charged with reviewing party rules on the president's term of office argued that the structural issues facing Japan, including those stemming from demographic aging and population decline, require long-range planning and policymaking. "Since strong leadership and a certain amount of time will be required to carry out the sort of bold reforms needed to meet these challenges, a stable administration is desirable." Whatever else may have changed within the LDP, this propensity for facile rationalization has not.

Interestingly, the committee's statement expressly notes that the recommended change "is only a revision of the rules governing the official term of office and does not guarantee the actual tenure of the president or the stability of the administration."

As one LDP official put it, "However long we make the president's term of office, if the LDP suffers a major setback in the next election, Prime Minister Abe will have no choice but to step down. And the economic outlook isn't good. In other words, no one actually thinks an extension of the presidential term will enable Abe to stay in office for nine years."

From its formation in 1955 through the 1980s, the LDP maintained its grip on the government despite constant internal feuding. But its base of support today is nowhere near as strong as it was back then. The ruling party can no longer afford to ignore the vicissitudes of public opinion. It will keep the current prime minister in power as long as his popularity holds. When the fickle public grows disillusioned, the party will replace him with someone new. This is the new reality dictating internal politics in the LDP.



December 19, 2016

## China Steers a Perilous Course in the South China Sea

Bonji Ohara

*China has risked isolating itself internationally with its high-handed conduct in the South China Sea. Bonji Ohara looks at the reasons for Beijing's hardline policy and recent shifts in Chinese diplomacy.*

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In mid-September this year, Chinese and Russian forces engaged in joint military drills in the South China Sea. The drills themselves were not a new development; China and Russia have been conducting such exercises, dubbed Joint Sea, every year since 2012. While Russia sent two *Udaloy*-class destroyers and a *Ropucha*-class landing ship, the overall scale of the exercise was no larger than usual.

The real issue was the location chosen for the exercise. This was the first time that the drills were held in the South China Sea, where China has caused widespread alarm by building artificial islands and establishing military outposts in an effort to make a *fait accompli* of its sweeping and hotly disputed territorial claims. In fact, it was only in July that the Permanent Court of Arbitration in The Hague, ruling on a case brought by the Philippines, issued a wholesale rejection of Chinese claims.

What are the motives driving Beijing's risky conduct and hardline foreign policy in this region? In the following, I hope to shed some light on China's perplexing behavior over the past few months.

### Why China Needs to Control the South China Sea

The basic rationale for China's claims and conduct in the South China Sea is na-

tional security. Driving its foreign policy in the region is a concern that, absent a major deterrent, the United States will use its military might to defend its own interests in the face of China's drive for economic expansion. Viewed in this light, control over the South China Sea is an urgent priority from the standpoint of safeguarding Chinese security. This does not alter the fact that unilateral action by



*Russian President Putin (right) and Chinese President Xi (left) attend a June 25, 2016, welcoming ceremony in Beijing during Putin's state visit to China.*

China in the South China Sea poses a threat to other countries and constitutes an aggressive challenge to the international order, but it does provide insight.

Underlying Beijing's view of the United States as a genuine threat to China's security is a victim mentality and a sense of entitlement stemming from real and perceived historical injustices extending back to the era of great-power imperialist intervention in China, which the Chinese refer to as the "century of humiliation." His-

tory has taught the Chinese that international relations is a big-power game in which the stronger countries prey on the weak, and that the only way for China to guard against being preyed on again is to surpass the United States in military might. Like the proponents of offensive realism, China's leaders seem to believe that "status quo hegemons" have a strong motive for aggression against rising powers, and they have fashioned their foreign policy accordingly, with a view to countering perceived threats from the United States and Russia.

Also rooted in history is Beijing's belief that China, as one of the World War II victor nations, is entitled to play an integral role in the design of the international order.

The Chinese government has repeatedly stressed the idea that international relations today are characterized by a "lack of justice, equality, and fairness."<sup>1</sup> Speaking in Beijing on September 3, 2015, at a ceremony commemorating "the victory of the Chinese people against Japanese aggression and the defeat of fascism," President Xi Jinping called for "a new type of international relations featur-

<sup>1</sup> Liu Yandong, "Join Hands to Create a Bright Future of Peace and Prosperity," address at the opening ceremony of the Fifth World Peace Forum, Tsinghua University, July 16, 2016, [http://www.fmprc.gov.cn/mfa\\_eng/wjdt\\_665385/zyjh\\_665391/t1384919.shtml](http://www.fmprc.gov.cn/mfa_eng/wjdt_665385/zyjh_665391/t1384919.shtml).

ing win-win cooperation.”<sup>2</sup> The specific target of dissatisfaction is the international trade and investment regime, which China feels is stacked against developing and emerging economies like its own. The message is that recent setbacks to China’s growth are the fault of unfair rules adopted under the economic leadership of the United States and Europe.

As the Chinese government sees it, the continued expansion of Chinese trade and overseas investment is fundamental to the nation’s stability. If economic development is arrested before living standards rise sufficiently across the board, it could lead to social unrest and undermine the legitimacy of the Communist Party’s rule. For this reason, China must continue to pursue its overseas economic interests vigorously, regardless of American-led obstruction.

The white paper on China’s military strategy, issued by the State Council in May 2015, makes the case that military strength is needed to safeguard the nation’s economic interests.<sup>3</sup> This reflects the belief of China’s strategists that the United States and its allies could resort to military means if necessary to counter China’s rise and its challenge to the existing economic order.

At the same time, China’s leaders are well aware that, as things stand, China cannot win a war with the United States. For now, it must avoid any direct military confrontation and focus on changing the rules governing international economic activity. In the meantime, effective control over the South China Sea would constitute a powerful deterrent to a feared US aggression. In conjunction with the One Belt, One Road infrastructure initiative linking China primarily with the rest of Eurasia, it would also help China in its bid to compete with the United States in enhancing its global military presence.

### **Playing Chicken in the China Seas**

With these considerations in mind, Beijing made it clear even before the Permanent Court of Arbitration handed down its decision on July 12 that it had no intention of honoring an unfavorable ruling. On July 5, at a US-China dialogue in Washington, DC, former State Councillor Dai Bingguo dismissed the forthcoming decision

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<sup>2</sup> [http://news.xinhuanet.com/english/2015-09/03/c\\_134583870.htm](http://news.xinhuanet.com/english/2015-09/03/c_134583870.htm).

<sup>3</sup> “China, as a large developing country, still faces multiple and complex security threats, as well as increasing external impediments and challenges. Subsistence and development security concerns, as well as traditional and non-traditional security threats are interwoven. Therefore, China has an arduous task to safeguard its national unification, territorial integrity and development interests.” [http://eng.mod.gov.cn/Press/2015-05/26/content\\_4586805.htm](http://eng.mod.gov.cn/Press/2015-05/26/content_4586805.htm).

(widely expected to go against China) as “a scrap of paper.” In a July 6 telephone conversation with US Secretary of State John Kerry, Chinese Foreign Minister Wang Yi echoed those sentiments, calling the tribunal “a farce.”

This diplomatic defiance continued after the ruling was issued. On July 13, immediately after the court handed down its decision, Beijing published its official response in the form of a position paper titled “China Adheres to the Position of Settling through Negotiation the Relevant Disputes between China and the Philippines in the South China Sea.” In it, the government maintains that “pursuant to China’s national law and under international law . . . China has, based on Nanhai Zhudao [islands in the South China Sea claimed by China], internal waters, territorial sea, contiguous zone, exclusive economic zone, and continental shelf. In addition, China has historic rights in the South China Sea.”<sup>4</sup>

At around the same time, China stepped up its provocations around the Senkaku Islands, the disputed Japanese-administered group of islets in the East China Sea. On June 6 this year, a Chinese naval vessel entered the contiguous zone around the Senkaku Islands for the first time. Early in August, large numbers of Chinese fishing boats and Chinese government vessels appeared in the area, making incursions into the territorial waters around the islands. On August 26, some 200–300 Chinese fishing boats were observed in the contiguous zone. Moreover, a group of as many as 15 Chinese government vessels entered the contiguous zone prior to 8:00 am.<sup>5</sup> This is the kind of behavior described as “salami slicing”—a strategy of incremental encroachments to gradually assert China’s presence and alter the territorial status quo without going so far as to provoke a military confrontation.

The Chinese government has tied the dispute over the Senkakus to historical issues that have long divided China and Japan, and having done so, it is unlikely to back down. However, sovereignty over the Senkakus—unlike the ability to control the South China Sea—is not an urgent strategic priority for Beijing. What, then, accounts for this escalation in provocative behavior?

Given the timing, it seems reasonable to posit some connection with the case on which The Hague issued its unfavorable ruling in July. A commentary published by Xinhua on July 5 portrayed Tokyo’s reaction to the decision—in a dispute in which it was not directly involved—as having an ulterior motive. The Japanese government, explained the author, was trying to isolate China internationally (and further its own ambitions for expansion into the South China Sea) while keeping

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<sup>4</sup> [http://english.gov.cn/state\\_council/ministries/2016/07/13/content\\_281475392503075.htm](http://english.gov.cn/state_council/ministries/2016/07/13/content_281475392503075.htm).

<sup>5</sup> <http://www.mofa.go.jp/files/000180283.pdf>.

China so preoccupied with the legal controversy that it would ease off on Japan in the East China Sea.<sup>6</sup> A Chinese expert with whom I communicated suggested that the intensification of Chinese activity around the Senkakus was a retaliatory gesture against Tokyo's alleged stratagem.

### **Looming Isolation**

However, China was fast isolating itself internationally through such conduct in the South and East China Seas. This trend was accelerated, moreover, by the tough, intransigent posture of the Chinese Foreign Ministry.

Given the widespread expectation that the decision by The Hague would go against China, Beijing should have been doing its utmost around that time to secure the trust and friendship of its neighbors in Southeast Asia. Instead, it provoked an angry reaction from Indonesia and Malaysia, who complained of the disrespectful attitude and high-handed tone taken by Foreign Minister Wang Yi and a deputy foreign minister at the June 14 China-ASEAN foreign ministers' meeting in Yunnan Province.<sup>7</sup>

Following the ruling from The Hague, the first order of business for Beijing was hammering out an agreement with the Philippines. Reaching an understanding with the plaintiff in the case would have gone a long way toward softening criticism from the international community. Yet according to then Foreign Secretary Perfecto Yasay Jr. of the Philippines, Wang Yi used menacing language in his request for bilateral talks with the Philippines, and Manila declined.<sup>8</sup> With such diplomatic missteps, China exacerbated its own predicament.

China's provocative behavior around the Senkaku Islands in August was another error in judgment. Beijing must have known that Japan would protest such an incursion vigorously, and it could have predicted that Tokyo would make its case to the international community. Indeed, following the August 26 incidents, the website of the Japanese Foreign Ministry released detailed information in English on the movement of Chinese vessels around the Senkaku Islands that month.

It cannot have been advantageous for China to receive such negative publicity on the eve of the Group of 20 summit in Hangzhou (September 4–5). For China to come under criticism at the summit it was hosting would surely undermine Presi-

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<sup>6</sup> <http://world.people.com.cn/n1/2016/0705/c1002-28524835.html>.

<sup>7</sup> See <http://asia.nikkei.com/Politics-Economy/International-Relations/How-Beijing-failed-to-win-over-ASEAN-in-the-South-China-Sea>.

<sup>8</sup> See <http://www.latimes.com/world/la-fg-philippines-south-china-sea-20160718-snap-story.html>.

dent Xi Jinping's prestige. It was looking as if China would end up thoroughly isolated.

### **Averting Disaster**

However, signs of diplomatic flexibility began appearing around mid-August. At a series of high-level working meetings between Chinese and ASEAN officials, the parties agreed to draft a code of conduct in the South China Sea by mid-2017. In essence, Beijing was acceding to precisely the kind of multilateral framework that it had previously rejected. The members of ASEAN, for their part, were content to refrain from criticizing Beijing in international forums like the G20 as long as they could look forward to China's cooperation in the drafting of rules and avoid a confrontation.

As a gesture toward Washington, meanwhile, Beijing announced its ratification of the Paris climate change agreement just before the G20 summit opened. This paved the way for Washington to join with Beijing in formally joining the agreement, an achievement avidly sought by President Barack Obama in the final legacy-building phase of his presidency. In his talks with Obama before the summit opened, Xi was able to present an image consistent with his call for a "new model of great-power relations," one in which China and the United States, despite their differences, would avoid military confrontation and cooperate in areas on which they can agree.

Where Japan was concerned, the Chinese managed to present an outwardly conciliatory demeanor without actually yielding an inch. Japanese Prime Minister Shinzo Abe was eager to sit down with Xi on the sidelines of the G20 summit to urge China to conduct itself with restraint in the South and East China Seas and abide by international law. Xi agreed to a bilateral meeting on the afternoon of September 5, immediately after the summit's close, but the talks took place in a notably simpler room than that in which Xi had received other heads of state, and the cordial smiles with which Xi had welcomed Abe to the summit were totally absent.<sup>9</sup>

In response to Abe's request that China exercise restraint in the East China Sea to avoid raising tensions, Xi made it clear that while China had its own views on that subject, "the two sides must protect the peace and stability of the East China Sea," and he proposed accelerating the pace of discussions aimed at creating a hotline and other mechanisms to prevent unintended military encounters. By shift-

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<sup>9</sup> <http://www.asahi.com/articles/photo/AS20160905004625.html>.

ing the subject to conflict avoidance in the future, he made it difficult for the Japanese side to resume its protests over past actions.

In his remarks at a press conference following the bilateral summit, Abe referred repeatedly to the G7, a group the China regards with resentment and suspicion. This may have been his way of registering his dissatisfaction with the outcome of his meeting with Xi.

From the standpoint of the Chinese government, which escaped harsh censure during the G20 summit, the event can be considered a resounding success, particularly when viewed as a performance for domestic consumption. After driving to the very brink of international isolation with its intransigent hardline diplomacy, Beijing deftly changed course just in time to avert a foreign relations disaster.

### **Vagaries of Internal Politics**

What supplied the impetus for this diplomatic course change? To answer that question, it may be helpful to return to the escalation of activity around the Senkaku Islands that began on August 5.

The movement of vessels around the Senkakus during August clearly took China's provocative behavior to a whole new level, and Tokyo's statements on the South China Sea issue seem inadequate to account for such a sudden escalation. In terms of bilateral relations between Japan and China, there was nothing on the front burner that could explain the outburst in activity around the islands at that time.

On the other hand, the heightened maritime activity occurred just as top current and former leaders of the Communist Party were gathering in Beidaihe (the site of an annual informal "summer summit") to mull basic policy and personnel issues with an eye to the 2017 National Congress of the CPC, held every five years. This suggests that the display around the Senkakus may have been more for internal consumption than anything else.

Signs of a diplomatic shift began to appear immediately after that, and it may be that internal politics played a key role here as well. One clue may be the profile of Foreign Minister Wang Yi carried in the August issue of the magazine *Huanqiu Renwu* (*Global People*), published on August 6. Typically, the magazine's coverage of government figures highlight top-ranking Communist Party leaders past and present; for example, the July issue featured Xi Jinping's deceased father Xi Zhongxun, secretary general of the State Council, along with Deng Xiaoping, and the March issue profiled Xi Jinping himself. The choice of Wang Yi, who ranks significantly lower in the party hierarchy, could be a sign of favor from Xi. Such a

vote of confidence would doubtless give Wang and his ministry more discretion to set diplomatic policy.

Since 2002, there has been no representative of the Foreign Ministry within the Politburo, the CPC's top decision-making body, and this is often cited as a reason for China's all-too-frequent diplomatic blunders. Some Chinese experts have raised the possibility that Wang Yi could receive such an appointment.

Whatever the case, it seems probable that the real explanation for China's shift to a combination of hardline assertiveness and flexible diplomacy lies in internal considerations and machinations on which we can only speculate. And if internal politics are behind this foreign policy shift, it follows that the future could hold further surprises for Japan and other countries in the region. We need to understand China's long-term strategic goals and remain focused on the big picture so as to avoid overreacting to short-term swings.



November 24, 2016

## Economic Drivers of Social Instability in China

Takashi Sekiyama

*The easing of growth in China threatens to exacerbate social tensions arising from disparities in income, wealth, and opportunity. Takashi Sekiyama attempts to identify possible economic triggers for social unrest and assess the potential for conflict in the years ahead.*

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China's economy is decelerating. After a long period of double-digit growth ushered in by the economic reforms of the 1980s, the pace of expansion has fallen to 7.7% in 2013, 7.3% in 2014, and 6.9% in 2015. With the slowdown expected to continue, many China watchers have voiced concern about the potential for social unrest. In the following, I attempt to identify the key economic factors affecting China's social stability in the years ahead and consider the possible impact of current trends in the coming years.

### Identifying Key Economic Factors

#### *Rural-urban inequality*

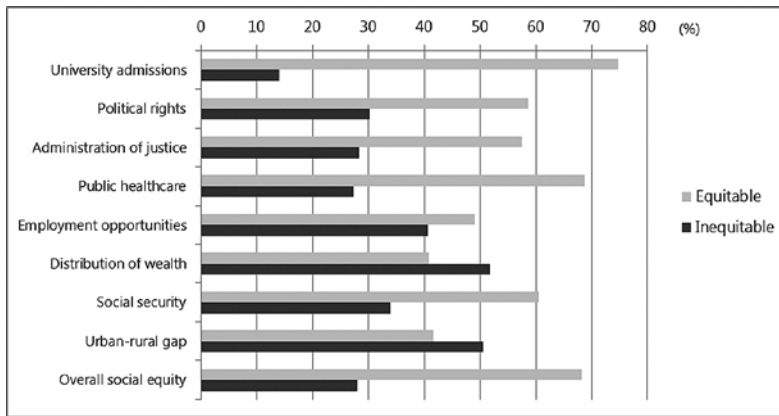
A 2015 nationwide survey conducted by the Institute of Sociology of the Chinese Academy of Social Sciences asked respondents to characterize various aspects of Chinese society as either equitable or inequitable.<sup>1</sup> The two areas most



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<sup>1</sup> Li Peilin, ed., *2016-nian Zhongguo shehui xingshi fenxi yu yuce* (Analyses and Predictions of Social Conditions in China, 2016) (Beijing: Shehui Kexue Wenxian Chubanshe, 2016).

**Figure 1. Perceptions of Social Equity and Inequity in China**

Source: Li Peilin, ed., *2016-nian Zhongguo shehui xingshi fenxi yu yuce (Analyses and Predictions of Social Conditions in China, 2016)* (Beijing: Shehui Kexue Wenxian Chubanshe, 2016), p. 129. Note: Questionnaire administered in cities and villages spanning 31 provincial-level administrative divisions, with 8,925 of those surveyed providing valid responses.

frequently cited as being inequitable were income and wealth distribution and the treatment of urban and rural populations (Figure 1).

Notwithstanding these popular perceptions, statistics released by the Chinese government suggest that the economic divide between China's urban and rural areas, as well as overall economic inequality, has actually diminished in recent years (Figures 2 and 3).

The fact is that few Chinese scholars go along with the assumption that economic inequalities between rural and urban areas are destabilizing to Chinese society. They argue that the rural Chinese are more likely to use their neighbors or their own past standard of living as a yardstick than to compare themselves with people dwelling in distant cities they have never visited. Moreover, as Figure 4 suggests, living standards have been rising in urban and rural China alike, and at more or less the same pace.

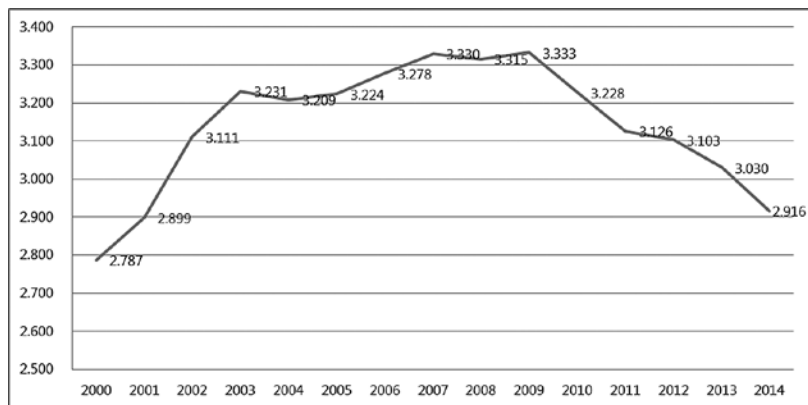
These are persuasive arguments against the notion that the rural-urban gap is a key destabilizing factor for Chinese society.

### *Inequality within urban and rural communities*

That said, income inequality within urban communities on the one hand and rural communities on the other has definitely been on the rise. Figures 5 and 6 chart

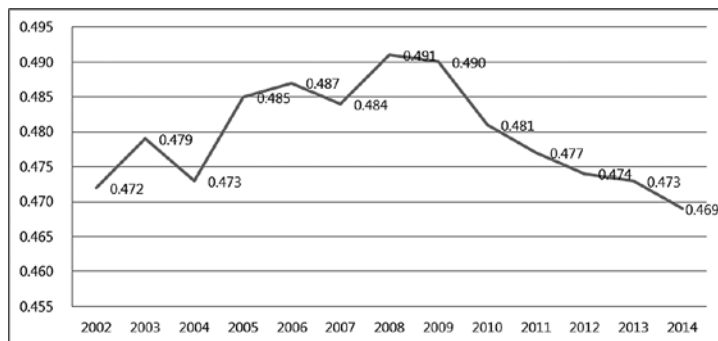
## VIEWS ON CHINA

**Figure 2. Ratio of Urban to Rural Mean Income, 2000–14**



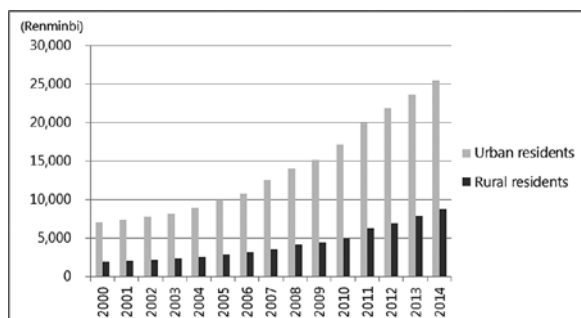
Source: *Ibid.*, p. 25.

**Figure 3. China's Gini Coefficient, 2000–14**



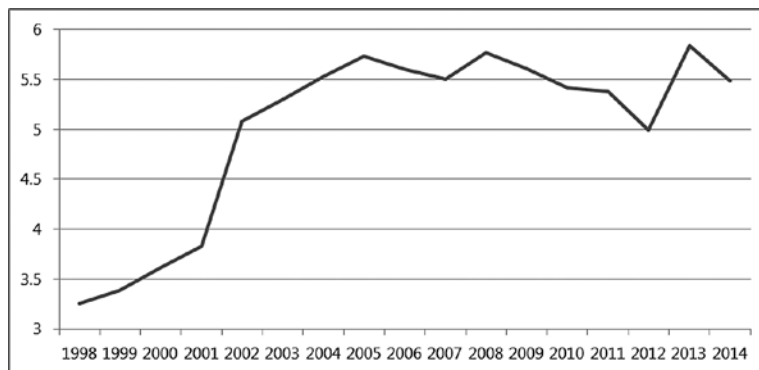
Source: National Bureau of Statistics of China, *China Statistical Yearbook*.

**Figure 4. Trends in Urban and Rural Consumer Spending**



Source: National Bureau of Statistics of China, *China Statistical Yearbook*.

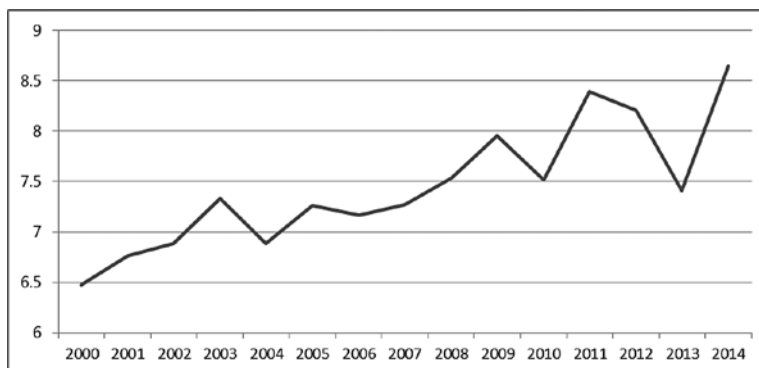
**Figure 5. Income Gap in Urban China**



*Source: Based on data from the National Bureau of Statistics of China, China Statistical Yearbook.*

*Note: Ratio of mean disposable household income in top 20% to that in bottom 20%.*

**Figure 6. Income Gap in Rural China**



*Source: Based on data from the National Bureau of Statistics of China, China Statistical Yearbook.*

*Note: Ratio of mean disposable household income in top 20% to that in bottom 20%.*

these growing disparities in urban and rural areas, respectively, as seen in the ratio of mean disposable income among the top 20% households to that among the bottom quintile.

Contributing to the growth in economic inequality within urban and rural communities is a climate of unequal opportunity exacerbated by corruption among government officials and the discriminatory treatment of rural migrants in Chinese cities under the *hukou* (household registration) system. This suggests that reforms

targeting such social issues, if successfully implemented, could have a major impact on social stability by halting the growth in economic inequality within China's urban and rural districts.

### *Price inflation and unemployment*

In terms of purely economic phenomena, increases in basic living costs disproportionately impact young people and impoverished households who live more or less hand to mouth, thus contributing to growing economic disparities in both urban and rural China. Another key economic factor driving inequality is unemployment, since economic disparities within a given region or community will naturally grow if a high percentage of the residents there lose their jobs and find themselves without income.

The destabilizing potential of these two factors can be seen in China's own 1989 Tiananmen Square protests on the one hand and in the 2010–11 Tunisian “Jasmine” Revolution on the other. These upheavals illustrate how rapidly rising prices or soaring unemployment can cause a sharp decline in living standards among the masses, particularly young and low-income citizens, precipitating a grassroots rebellion.

### *Tiananmen protests*

Soaring consumer prices were an indirect cause of the massive nationwide protests—the largest in the history of the People's Republic of China—that culminated in the Tiananmen Square incident of 1989. As the government lifted price controls under the second stage of economic reform, the cost of living rose sharply. The consumer price index, which had risen by only 1%–2% between 1981 and 1984, jumped 20.7% in 1988 and 16.3% in 1989 (Figure 7). The results of a 1987 survey indicated that the real income of urban households had fallen by 21%, and a 1988 survey registered a drop of 35%. A full 83% of urban residents surveyed expressed dissatisfaction over rising prices.<sup>2</sup>

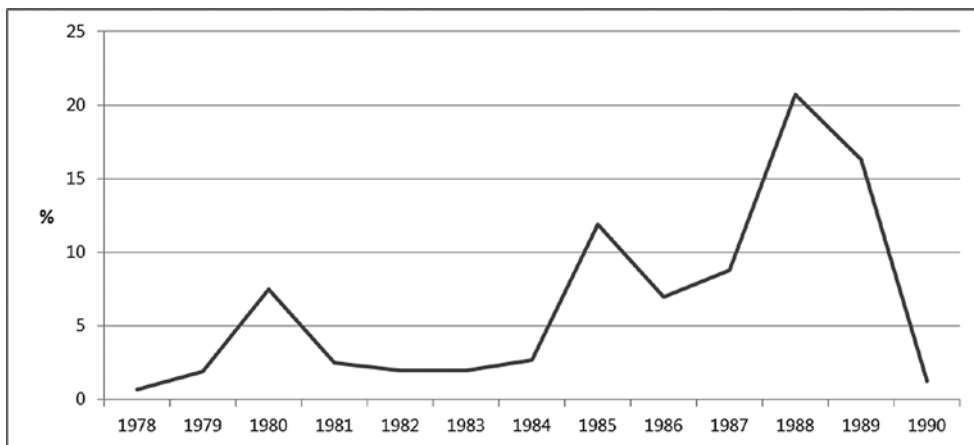
### *Tunisian Revolution*

For an example of unemployment as a factor driving social unrest, we can look to

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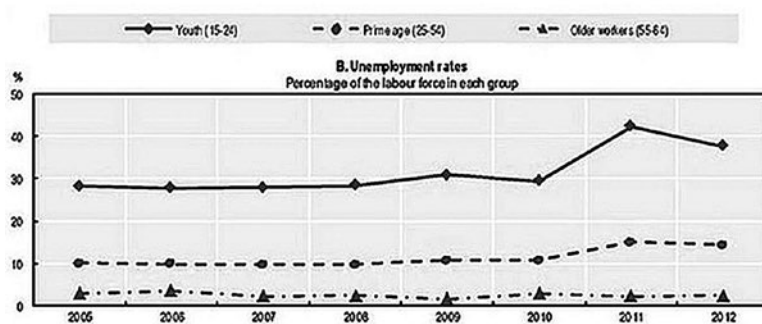
<sup>2</sup> Satoshi Amako, *Chuka Jinmin Kyowakoku shi* (History of the People's Republic of China) (Tokyo: Iwanami Shoten, 1999), pp. 143–146

**Figure 7. Changes in China's Consumer Price Index, 1978–90**



Source: National Bureau of Statistics of China, *China Statistical Yearbook 1999*.

**Figure 8. Unemployment Rates in Tunisia**



Source: Organization for Economic Cooperation and Development, *Investing in Youth: Tunisia, 2015*.

Tunisia, where it clearly contributed to the grassroots uprising that broke out in late 2010. Although the Tunisian economy was growing at a respectable rate of 3.8% in 2010, unemployment had been hovering between 12% and 13%, and joblessness among youth (those aged 15–24) was extremely high, averaging 30% in 2010 and jumping to about 40% in 2011.

Because of these circumstances, dissatisfaction built up among young Tunisians and others in the population who were not sharing in the benefits of economic growth. Amid this rising discontent, the self-immolation of one young man was

enough to spark anti-government protests that spread nationwide, ultimately leading to the ouster of a regime that had ruled for 23 years.

### Reference Points

What conclusions might we draw concerning the levels at which price inflation and unemployment could trigger social unrest in China? The most recent and relevant reference points at our disposal come from China in the years leading up to the Tiananmen Square protests of 1989 and Tunisia on the eve of the 2010–11 revolution. To be sure, these movements took place in different economic, social, and political circumstances from those prevailing in China today. But with such differences in mind, I believe we can draw some useful information regarding the “safe” thresholds for inflation and unemployment.

#### *Inflation*

In terms of price inflation, China in the 1980s actually offers two reference points. Student protests first broke out in 1985, when the consumer price index rose 11.9%. Four years later, after consumer prices jumped 20%, students spearheaded a series of demonstrations at Tiananmen Square in Beijing, which inspired a nationwide protest movement. Based on this experience, it would make sense for the Chinese government to be wary of inflation in excess of 10% and to consider anything approaching 20% as inside the danger zone.

#### *Unemployment*

In Tunisia, overall employment approaching 15% and youth unemployment in excess of 30% helped trigger a grassroots revolution. Such high levels of unemployment are unlikely in China. From the 1980s on, the nation has never once experienced double-digit unemployment—a legacy, perhaps, of a system in which the *danwei*, or workplace unit, was responsible for looking after its workers and their families throughout a worker’s career.

China’s official unemployment rate has been more or less stable at 4% in recent years. On the other hand, many analysts believe that those figures grossly understate the actual situation, since they count only registered urban residents who previously enrolled in unemployment insurance through the workplace, thus excluding the rural unemployed, jobless migrant workers, and others who have not officially entered the labor force.

### *Economic inequality*

Another reference point for urban income inequality as a trigger for social unrest might be the 2011 Occupy Wall Street protests in New York City. According to a study by New York University Professor Andrew Beveridge, the mean income of the top 20% of earners in Manhattan (\$420,015) is almost 43 times as large as that of the bottom quintile (\$9,681).<sup>3</sup> An urban income gap on this order was a factor behind large-scale demonstrations even in a country like the United States, where citizens have the means to protest public policy at the ballot box. In China, which offers no such democratic outlets for dissent, it seems likely that a much smaller disparity would be enough to fuel a protest movement and that such unrest might spread much more widely and rapidly.

### **Outlook for the Chinese Economy**

With these rough reference points in mind, let us consider China's 10-year economic outlook and see if we can assess the potential for serious social unrest driven by the kinds of economic triggers we have discussed.

### *Growth*

Let us begin with economic growth. In its medium-term forecast "Economic Prospects in China and ASEAN4" (2015), the Japan Center for Economic Research predicts that China's economic growth will slow each year over the next decade, declining to less than 4.5% by 2025.<sup>4</sup> The International Monetary Fund (2016) offers a more optimistic outlook, forecasting that China's economy will expand at a rate of 6.3% in 2016 and 6.0% in 2017 and suggesting that growth could hold steady at around 6% through 2020. The Asian Development Bank (2015) forecasts average annual growth in the vicinity of 6% through 2020 and 5% from 2021 to 2025.

I am inclined to be slightly more conservative than even the JCER with regard to China's potential for growth in the coming decade. I predict that the growth rate will decline by 0.3–0.5 points each year over the next decade, falling to 3%–4% by 2025. The shrinking labor force is the most obvious reason for pessimism, but even more important is the fact that investment, a major engine of expansion in

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<sup>3</sup> <http://www.socialexplorer.com/blog/post/4772?p=4772>.

<sup>4</sup> [http://www.jcer.or.jp/eng/pdf/asia\\_midterm.pdf](http://www.jcer.or.jp/eng/pdf/asia_midterm.pdf)



recent years, is bound to slow as demographic aging and income redistribution force down the savings rate. At the same time, China will be hard pressed to sustain the rapid rise in total factor productivity that helped power the economy's expansion over the past four decades. Although there is clearly some room for improvement in TFP over the next 10 years, the pace of growth is sure to decline year by year.

By sometime in the 2020s, in short, China is likely to find itself outpaced by the world economy as a whole as it enters an era of slow economic growth. The lowest growth rates China has thus far experienced since the economic reform were 4.3% in 1989 and 4.1% in 1990, following the government crackdown on the Tiananmen Square protests. In another 10 years, average annual growth can be expected to fall beneath that level, even in the absence of such external shocks as economic sanctions. Between now and 2020, an actual economic contraction seems unlikely, but it would not be surprising to see year-to-year GDP growth dip below 2% as a result of a fall in aggregate demand.

### *Unemployment*

Although China currently enjoys relatively low unemployment, slower economic growth is sure to have an impact on the jobs picture. Ultimately, the aging of Chinese society will cause the working-age population to shrink, but in the years between now and 2020, millions of migrants will continue streaming from the countryside to the cities in search of work, and millions of young urbanites will reach the age of productivity. Together, they will create a need for close to 10 million new urban jobs annually over the next five years and more than 5 million new jobs between 2020 and 2025.

In recent years, China has typically created between 1 million and 1.5 million new jobs for every 1% of GDP growth. Assuming the pattern continues, the Chinese economy would need to maintain at least 6% growth between now and 2020 to meet the demand for 10 million new jobs annually, and at least 3%–4% growth in order to add 5 million jobs a year thereafter. Unless it maintains that pace, unemployment will become a pressing problem, especially among the young.

### *Price inflation*

As noted previously, the one economic factor that has actually fueled social unrest in China since the market-based economic reforms took effect is rapid price inflation. From this standpoint, one of the most serious economic risks facing China in

the mid-2020s and beyond is the possibility of stagflation: rising prices in the midst of stagnant growth. If a jump in oil prices, rising domestic labor costs, or a burgeoning social security burden were to push up production costs and cause prices to rise faster than demand, economic activity would slow down and unemployment rise, even as prices shot higher. In that case, the government would find itself hard pressed to deal with one problem without exacerbating the other. This is the dreaded specter of stagflation.

Many of the world's industrially developed countries suffered from stagflation in the 1970s, when the 1973 oil embargo and subsequent energy crises created new challenges that governments were ill-prepared to address with their accustomed policy tools. In Japan, the consumer price index jumped 23% in 1974, while economic growth fell to -1.2% in the first economic contraction of the post-World War II era. This brought an abrupt end to Japan's era of rapid economic growth.

Like Japan in the 1960s and early 1970s, China has enjoyed an extended period of rapid growth. If it should err in its response to the challenges of a new era of slow growth, it could easily find itself facing the dangerous dilemma of double-digit inflation amid economic stagnation and high unemployment.

## **Reform and Conflict**

Of course, as mentioned previously, the risk of unrest is profoundly influenced by social and political factors as well as purely economic ones. Unless the government makes a real attempt to address economic inequality through reforms targeting the disadvantaged and vulnerable (the urban poor, farmers, the young, etc.), dissatisfaction with the government is bound to mount, threatening social stability. But reforms that could help redress those inequities tend to be inimical to China's privileged groups and vested interests (the wealthy, party officials, state-owned enterprises, etc.). This conflict can lead to indecision and inaction, and inaction can prove dangerous.

Let us return for a moment to the situation China faced in the second half of the 1980s. This was a time when dissatisfaction was spreading rapidly among society's disadvantaged elements owing to the economic hardship of spiraling prices and growing inequities fueled by the abuse of political power. The party leadership was split on how to see the nation through the crisis, with the conservative camp asserting the need for stronger state control and the reform camp advocating political liberalization along with further economic reforms.

Amid this political standoff, pro-democracy students in Beijing and around the country took to the streets. Meanwhile, the Tibetan independence movement was

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gathering momentum in the west, starting with the 1987 protests and riots in Lhasa. In the end, both movements were put down by force, signaling the victory of the hardline camp led by Deng Xiaoping. How will the Chinese government respond when faced with a similar choice in the future?

Under President Xi Jinping, the trend is clearly toward stronger state control. Perhaps Xi feels that powerful top-down leadership is needed to overcome the resistance of vested interests and push through groundbreaking reforms. In either case, this course puts the powers that be on a collision course with pro-democracy and pro-independence forces and raises the grim possibility of another armed crackdowns leading to further loss of life.

September 6, 2016

## Is China on the Cusp of a Middle-Class Revolt?

Tomoko Ako

*While Chinese leaders point to the Brexit vote and the rise of Trumpism as evidence of democracy's shortcomings, Tomoko Ako argues that China is just as vulnerable as the West to the economic forces that are fueling political upheaval by threatening the welfare of the middle class.*

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On June 24, as the world reeled from the news that British citizens had voted to withdraw from the European Union, China's state-run news service Xinhua published comments citing the outcome of the June 23 referendum as evidence that the West's vaunted democratic system was powerless to defend against the rising influence of nationalism and right-wing extremism.

There is no arguing with the proposition that democracy has its shortcomings. But surely another key factor behind the growing influence of nationalism and right-wing extremism in Britain is the economic inequity that has squeezed the working and middle class, fomenting political instability and undermining democracy. Viewed from this standpoint, China is scarcely immune to the forces that are challenging political leaders in Britain and elsewhere.

### The Middle Strikes Back

The results of Britain's June 23 referendum revealed a stark generational and class divide. According to the Lord Ashcroft exit poll, the percentage of those voting to remain in the EU was 73% among voters in the 18–24 age group, 62% in the

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Tomoko Ako    *Associate Professor, Graduate School of Arts and Sciences, University of Tokyo.*

25–34 group, 57% among those aged 55–64, and 60% among voters 65 and older. By income level, 57% of those in the upper-middle and upper income brackets voted to remain, while 64% of working-class and low-income voters favored leaving. While “remainers” cited concerns about the impact of withdrawal on employment and the economy, “leavers” stressed national sovereignty, self-determination, and control over immigration as reasons for voting as they did.<sup>1</sup>

The rise of anti-immigrant feeling among the working class has close parallels in the United States, where Donald Trump secured the Republican Party’s nomination over the summer with blatant appeals to the same kind of sentiment. In an article in the *National Journal*, John Judis characterized the core of Trump’s support as “middle American radicals”: angry middle- and lower-middle-income voters who are lashing out at the government for policies that they believe favor the rich and the poor at the expense of ordinary working people. According to Judis, these are predominantly white, non-college-educated, blue-collar and low-level white-collar workers whose politics resist any neat classification as conservative or liberal.<sup>2</sup>

Observing such developments around the world, I was reminded of the fierce protests that middle-class parents recently staged in China over proposed changes to college and university admissions quotas.

In mid-May this year, thousands of angry parents in Jiangsu and Hubei provinces demonstrated to demand “fairness” in the university admissions system, in some cases clashing with police. Similar protests subsequently broke out in cities in Henan, Zhejiang, and Hebei provinces.

The target of the Chinese parents’ anger was a plan, announced jointly by the Ministry of Education and the National Development and Reform Commission, to adjust regional quotas for admission to China’s colleges and universities. The plan would require schools in the 12 wealthiest provinces, where institutions of higher education are concentrated, to reallocate a total of 160,000 slots to applicants from the underdeveloped central and western regions, which have far fewer colleges and universities. For institutions in Jiangsu, a prosperous region that includes the cities of Nanjing and Suzhou, this would mean allocating 38,000 slots to nonlocal students. (The local-enrollment quota for Beijing schools

<sup>1</sup> Ashcroft, Lord, “How the United Kingdom Voted on Thursday . . . and Why,” Lord Ashcroft Polls, June 26, 2016, <http://lordashcroftpolls.com/2016/06/how-the-united-kingdom-voted-and-why/>.

<sup>2</sup> John B. Judis, “The Return of the Middle American Radical: An Intellectual History of Trump Supporters,” *National Journal*, October 3, 2015, <https://www.nationaljournal.com/s/74221/return-middle-american-radical>

would stay unchanged, and that for Shanghai would be cut by a mere 5,000 slots.)<sup>3</sup>

### China's Unfair University Quotas

Ironically, the whole point of the reforms that triggered the protests was enhancing the equity of a system widely criticized as unfair. China has a uniform National College Entrance Examination, which determines students' eligibility for admission to various schools solely on the basis of their scores. However, individual colleges and universities, which are heavily concentrated in the country's urban areas (particularly Beijing), have regional admissions quotas that favor local residents. To keep to these quotas (which are determined through negotiations with the local and central government), they set different threshold scores for applicants from different provinces. This system makes it extremely difficult for rural applicants to gain admission to a prestigious university.

Exacerbating the problem is China's *hukou*, or household registration system, which raises often-unsurmountable obstacles to changes in one's legal residence. Because of this system, and massive migration from the countryside since the 1980s, an estimated 200 million city-dwellers today are classified as migrant laborers. Even after many years living and working in the city, they remain registered as residents of their native villages, as do their children. This affects the children's university admissions status. For example, students who have attended Beijing high schools but have a Sichuan *hukou* must return to Sichuan to sit for the university entrance examination. To gain admission to a Beijing university, they must vie with countless other rural applicants for the few slots that those schools have set aside for nonresidents, thus reducing their chances of gaining entrance to first- or second-tier institutions. Not a few have actually lost out to registered Beijing residents with lower test scores.

In 2000, a full 43% of all students enrolled in China's 100 or so national universities (the nation's top-ranking schools) were registered local residents. In 2008, the Ministry of Education directed the national universities to reduce that figure to less than 30%, and by 2011 it had fallen to 25%. In 2015, the government called on those schools to reserve 2% of their admissions for applicants from high schools in impoverished districts.

However, in a system in which educational opportunity is circumscribed by one's regional origins, these piecemeal adjustments have done little to close the

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<sup>3</sup> See [http://www.moe.edu.cn/srcsite/A03/s180/s3011/201605/t20160504\\_241872.html#sthash.yzRIUbOK.dpuf](http://www.moe.edu.cn/srcsite/A03/s180/s3011/201605/t20160504_241872.html#sthash.yzRIUbOK.dpuf).

education gap. Between 2013 and 2015, the acceptance rate at China's first-tier universities (the top 140 or so institutions) averaged 24.4% for registered residents of Beijing and 21.5% for residents of Shanghai. For applicants from with Sichuan or Shanxi residency, it was 5.4% and 7.1%, respectively.<sup>4</sup>

Meanwhile, as we have seen, the latest proposal for mitigating the system's inequities by expanding nonresident quotas has provoked an angry backlash from middle-class parents in Jiangsu and Hubei, provinces considered rich in educational resources (ranking just below Beijing and Shanghai).

It should be noted that of the 38,000 slots to be reallocated from Jiangsu residents to applicants from other provinces, only 9,000 are places at four-year universities, which are the key to real economic and social advancement in China. The remaining 29,000 are slots at relatively low-prestige two- and three-year vocational and technical colleges. Under the circumstances, students and parents from the inland provinces are unlikely to view the reform as a major victory for educational equality.<sup>5</sup>

In fact, vocational and technical colleges in Jiangsu (as in other prosperous provinces) have struggled in recent years to fill their enrollment targets, and an increase in those colleges' out-of-province quotas was welcomed by the schools and the provincial government. Nor are local students likely to suffer significantly as a result.

Jiangsu parents, however, are concerned about the 9,000 university slots, worrying that an influx of outsiders will deprive their children of a slot in the local four-year university of their choice. At bottom, these sentiments are not so different from those of the angry, white Trump supporters who believe that immigrants (backed by the government) are threatening their way of life and economic well-being. Like the United States, Britain, and other countries around the world, China is facing the formidable challenge of juggling competing class interests in the face of growing economic disparities and slowing economic growth. In China, moreover, the problem is exacerbated by the absence of a democratic decision-making process driving government policy.

To be sure, reforming admissions at the state level is a challenge, particularly given the recent trend toward decentralization of the admissions system. Jiangsu in particular is pioneering a new system that factors in a variety of required and elec-

<sup>4</sup> See [http://gaokao.eol.cn/zhiyuan/zhinan/201512/t20151225\\_1351335.shtml](http://gaokao.eol.cn/zhiyuan/zhinan/201512/t20151225_1351335.shtml).

<sup>5</sup> Li Zhanggao, "Mingan gaokao jian zhao" (The Sensitive Subject of Decreasing College Entrance Opportunities), *Minzhu yu fazhi shibao* (Democracy and Legal Times), June 2, 2016.

tive subjects as well as assessments of moral character, citizenship, aptitude, and so forth, in an attempt to evaluate the whole student as an individual and alleviate the current system's intense focus on a single high-stakes entrance examination. But such reforms seem unlikely to bear fruit until the authorities begin to treat education as a means of developing the skills and knowledge an individual needs to achieve his or her own goals, not simply as a tool of economic development. Equal educational opportunity is fundamental to such an approach.

The current system does not guarantee fair competition, and in the absence of fair competition, talented students will seek opportunities overseas, and China's brain drain will continue.

### Fragmentation in the EU and China

Commenting on the Brexit vote, Hokkaido University Professor Ken Endo writes, "The European Union lacks the legitimacy to overturn the holy trinity of nationalism, democracy, and state sovereignty. Even though the European Council is directly elected by popular vote, its democratic legitimacy is extremely tenuous, given that voter turnout has fallen as the council's powers have grown." The EU is not a state but a regional federation of states, Endo stresses. When a majority of the people in its member states reject the federation and express their will through the democratic process, there is no way to stem the tide. This is what happened in Britain's referendum.<sup>6</sup>

Of course, China differs from the EU in many respects, most notably its form of government. Nonetheless, I believe Endo's basic assessment could also be applied to the central government of the People's Republic of China. Does this government have any more legitimacy in the eyes of the average Chinese citizen than the European Council does for the average British voter? Even though the international community recognizes the People's Republic of China as a unified sovereign state, it seems to me that Endo's characterization of the EU as a regional federation lacking the legitimacy of a democratic state also describes the situation in the People's Republic of China.

The lack of a unified social security system in China exacerbates the economic disparities between the prosperous provinces and the less advantaged regions. Moreover, under the *hukou* system, which has remained largely impervious to re-

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<sup>6</sup> Ken Endo, "Eikoku wa EU ridatsu de notauchimawaru koto ni naru" (Britain Will Writhe from the Pain of Brexit), *Toyo Keizai*, June 27, 2016, <http://toyokeizai.net/articles/-/124569>.



form, one's residence is fixed and passed down to one's children.<sup>7</sup> This means that the social services one is eligible to receive, as well as the educational opportunities on which social and economic betterment depend, are essentially determined at birth. While some people succeed in changing their *hukou* to a locale that offers better services and opportunities thanks to academic or career achievements, their numbers are extremely limited. These inequities are fostering a situation in which residents of Beijing or Shanghai value their local identity over their national identity, just as British citizens recently decided they valued their national identity over their identity as Europeans.

When I first undertook fieldwork in rural China in the mid-1990s, the villagers I spoke to frequently described themselves as “backward” in comparison to “a well-educated city dweller” like myself. They seemed all too aware of their educational disadvantages, yet at that time they seemed undaunted. They still bought into the notion that the New China held almost limitless opportunities for advancement for those that were willing to study hard. Now these people feel they have been deceived, and their frustration is turning into resentment toward the government.

In contrast, the urban middle class has flourished. But as the economy contracts and the government moves to adjust its social policies, members of this class are becoming keenly aware of real and imagined threats to their vested interests. It remains to be seen how an increasingly divided China responds to these socioeconomic challenges.

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<sup>7</sup> See Tomoko Ako, “China’s Safety Net Shackled to Family Registers,” Nippon.com, November 6, 2012, <http://www.nippon.com/en/in-depth/a01404/>.

November 1, 2016

## China's Senkaku Incursion in Perspective

### *Byproducts of a Dysfunctional System*

Ichiro Inoue

*The unprecedented entry of a Chinese naval vessel into the seas around the Senkaku Islands last June elicited a raft of conflicting analyses, some of them highly alarming. International relations expert Ichiro Inoue reexamines the incident and its implications in the context of China's foreign-policy decision-making process.*

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On June this year, a Chinese navy frigate entered the contiguous zone around the Senkaku (Diaoyu in Chinese) Islands in the East China Sea. China has a history of sending its Coast Guard vessels to waters around the Senkakus as part of an ongoing effort to undermine Japan's claim of effective control of the islands. However, this was the first time a Chinese warship had entered the seas around the Senkakus. The Japanese government responded by summoning the Chinese ambassador in Tokyo at 2:00 am to lodge a protest.

Most China watchers in the media and the academic community have long since had their say on the incident, which occurred several months ago. But the analyses and comments offered in the immediate wake of the affair muddled the waters with a wide range of theories, and there has been little progress since then in gravitating toward a widely accepted conclusion, much less reaching a consensus. Focusing on the timing of the incursion, for example, some analysts posited a connection with the May 26–27 Group of Seven Ise-Shima summit, while others linked it, even less plausibly, to President Xi Jinping's birthday.

In short, while the incident may seem like old news by now, it raises important questions to which our experts and pundits have yet to provide a coherent answer. For this reason, I believe it is worth reexamining the affair in a broader perspective in an effort to shed light on the forces driving such a breach of precedent.

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## A Deductive Approach

Given the opacity of China's decision-making mechanisms and the particularly thick veil of secrecy surrounding its military, no one on the outside can claim with any certainty to understand the intentions underlying the June incident. But I believe we can and must narrow down the range of plausible interpretations by objectively examining the situation in all its aspects and making logical deductions on the basis of the information at our disposal. One important category of information in this connection is our accumulated knowledge regarding China's foreign-policy decision-making process. Of course, generalizations and extrapolations from known facts do not guarantee a correct interpretation in any specific instance. Information that comes to light farther down the line may reveal that something atypical occurred this time around. But in that case, we will be able to characterize it as an outlier, and treat it accordingly.

Let us begin, then, by laying out the key questions that need to be asked in relation to the June incident.

The first question is obvious. China had thus far refrained from sending naval vessels (as opposed to Coast Guard patrol boats) into the waters around the Senkaku Islands. Why, then, did a naval frigate enter the contiguous zone on this occasion? Does the action represent a basic change in Beijing's policy toward Japan and the Senkakus?

At least as important is how and if the movements of the Chinese warship were connected to those of the three Russian naval vessels that entered the contiguous zone around the same time, tracked by Maritime Self-Defense Force patrol ships. Does the simultaneous presence of Chinese and Russian naval vessels in the area indicate some coordination between Beijing and Moscow on the territorial issue? Or was the Chinese ship merely reacting to the movement of the Russian and Japanese naval vessels into waters that China claims as its own? And if the latter is the case, was it the Russian or the Japanese ships that provoked the Chinese reaction?

This brings us to a question that comes up each time a Chinese provocation of this sort occurs: Where along the chain of command did the decision to act take place? Was this a rogue action by one ship's commander? Or did it take place with the foreknowledge and approval of top Chinese leaders, including even Xi Jinping? Did China's Foreign Ministry know what was taking place? Did the ambassador to Japan?

With regard to the incident's timing, we need to look at a number of potentially related developments occurring around the same time. These include the move-

ments of a Chinese reconnaissance vessel that sailed into Japanese territorial waters near Kuchinoerabu Island (off of Kagoshima Prefecture) on June 15 and was subsequently observed in the contiguous zone near Kitadaito Island (Okinawa Prefecture) on June 16; a sharp increase in patrols by Chinese Coast Guard vessels around the Senkakus since last March; and the recent spike in encounters between Chinese and Japanese military aircraft in the East China Sea. How might such developments relate to the June 7 incident in which a Chinese fighter jet intercepted a US reconnaissance aircraft over international waters in the East China Sea?

Is there a connection between the June incursion near the Senkakus and international tensions over China's sweeping territorial claims in the South China Sea? Was the move a premeditated gesture of defiance toward the United States, which has challenged those claims with its "freedom of navigation" patrols? Or was it, as others suggest, a retaliatory response to Tokyo's position on China's maritime policy in that region? Why, in either case, would Beijing deliberately embark on a course of action that seems calculated to provoke tensions with Japan at a time when it finds itself increasingly isolated from the international community as a result of its stance on sweeping Chinese sovereignty over the South China Sea?

In the following I hope to propose some plausible answers to these questions through deductive reasoning based on an objective review and analysis of the situation.

### **The Mirror Image Trap**

A common pitfall when it comes to analyzing the behavior of other countries is the "mirror-image fallacy"—the assumption that others are driven by the same logic, emotions, and considerations that motivate us. The error derives from a failure to appreciate the impact of different cultural, social, philosophical, and political systems.

A country's foreign policy is affected by the structure of its decision-making apparatus, and China and Japan differ significantly in this respect, as well as in their basic worldview. Although China's foreign-policy decision-making process remains opaque in many respects, most experts agree that it is severely fragmented as a result of sectionalism between competing policy-making and decision-making entities within the Communist Party of China, the State Council, and the military establishment. In addition, bureaucratic bloat, a legacy of socialism, makes it difficult and time-consuming to reconcile competing interests in each of these branches. The bloated and complex organization of China's government, party, and military apparatuses also magnifies the distance between the top decision makers

and those who implement policy on the ground, while fostering an organizational culture in which top leaders are treated with exaggerated reverence.<sup>1</sup>

The military's basic policy-making entity is the Central Military Commission, a party and government organ outside the internal governance structure of the People's Liberation Army. Deliberations on security policy pass from the Central Military Commission to the CPC's Politburo, China's top policy-making body. In recent years, the Politburo has reserved 2 of its 25 positions for senior military officials but none for members of the Foreign Ministry or other representatives of the foreign-affairs community. This organizational structure makes it very difficult for the Foreign Ministry to exert an impact on policy areas that the military has staked out as its own—even when they clearly intersect with diplomatic affairs. On the other hand, the Foreign Ministry is often called on to intervene diplomatically—after the fact—when a decision made without its approval leads to serious problems.<sup>2</sup>

### Reactive Coordination

China also has various supra-ministerial policy coordination and consultation bodies, but the function and impact of these entities is by no means clear. The Foreign Affairs Leading Small Group is a long-standing body established to exercise oversight on foreign policy matters. The National Security Leading Small Group, established in 2000, shares the same office and appears to be identical in makeup (“one body, two signboards”). However, these entities are not permanent administrative bodies but merely conferences of high-ranking (ministerial level) government officials, who gather on an ad hoc basis to coordinate on specific issues as they arise. They are equipped to react to crises that have already emerged, not to formulate policy proactively.<sup>3</sup>

In 2013, after President Xi Jinping took office, the government established an even higher-ranking entity for decision making on matters of national security: the

<sup>1</sup> See Richard Bush, *The Perils of Proximity: China-Japan Security Relations* (Brookings Institution Press, 2010), pp. 138–70.

<sup>2</sup> See Thomas J. Christensen, “More Actors, Less Coordination? New Challenge for the Leaders of a Rising China,” in Gilbert Rozman, ed., *China's Foreign Policy: Who Makes It, and How Is It Made?* (Asan Institute for Policy Studies, 2012), pp. 35–36.

<sup>3</sup> See Yun Sun, “Chinese National Security Decision-Making: Processes and Challenges,” Brookings Institution Center for Northeast Asian Policy Studies Working Paper, May 2013, <https://www.brookings.edu/wp-content/uploads/2016/06/chinese-national-security-decisionmaking-sun-paper.pdf>, pp. 10–12.

Central National Security Commission, chaired by the General Secretary of the Communist Party (Xi Jinping) and vice-chaired by the second- and third-ranking officials of the CPC. But there is no sense of a permanent working-level organization supporting these leaders in their decisions. Thus, while the NSC may have elevated policy coordination and decision making to a higher level, it seems unlikely to enhance China's capacity for proactively heading off conflicts or preventing their escalation.

In Japan, each of the key cabinet agencies, including the Foreign Ministry and the Defense Ministry, seconds high-level officials to the Prime Minister's Office, and these "executive secretaries" and their staffs are on hand at all times to inform and advise the prime minister. Offices of the president and the premier to provide support functions similar to executive secretaries in Japan existed during the regime of Hu Jintao, and Xi Jinping, too, has such an office. However, the aides stationed in Xi Jinping's office (though doubtless high in party rank) are not senior military officers or foreign policy officials. Although one assumes some system exists for conveying information on security and foreign policy directly to the nation's top leader, there is no permanent institutional mechanism, as in Japan. Under the circumstances, it seems unlikely that the head of state has swift, uninterrupted access to the latest information on foreign policy and security developments.

China also lacks a system for lower-level coordination and fine-tuning of military and diplomatic policy. In Japan, the Ministry of Defense seconds Self-Defense Forces officers to serve in key departments of the Ministry of Foreign Affairs, and these desk officers play a pivotal role in liaison and coordination between the two communities in areas where their interests intersect. This facilitates inter-agency coordination near the ground at the early stages of a crisis and helps prevent the escalation of conflicts. Although China assigns military attachés to its embassies and other foreign missions, it does not appear to have a domestic mechanism comparable to Japan's.

All told, China's policy coordination on matters pertaining to foreign relations (inclusive of both diplomacy and security) tends to be reactive, kicking in only when a problem reaches a crisis level. Where Japan and the United States are concerned, the situation is exacerbated by Beijing's tendency toward stubborn intransigence. Of course, if a problem continues to escalate, high-level officials from various ministries and committees, including the party's top leadership, will meet and pass down a decision, but the kind of sweeping policy decisions made at this level inevitably leave plenty of room for interpretation at the tactical level.<sup>4</sup> Each

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<sup>4</sup> See Lu Ning, *The Dynamics of Foreign-Policy Decision Making in China* (Boulder, Colorado: Westview Press, 1997), p. 40.

time the top leadership adopts a basic policy direction, individual departments down the chain of command tend to overreact in crafting their own policies to match, and petty officials outdo one another in their zeal to implement them. Structurally, the system is not conducive to the ongoing adjustment of policies to prevent conflict.

Structurally speaking, the military enjoys a high degree of independence with respect to policy making, and within the party apparatus, senior military officers invariably outrank top Foreign Ministry officials. This makes the reconciliation of policy differences between the military and the Foreign Ministry a particularly difficult challenge. Let us suppose that the government's foreign-affairs experts concluded that current policy in the South China and East China Seas was isolating China internationally, and that some shift or adjustment was in order. It would take considerable time, and probably some major outside impetus, to alter the thinking of China's senior military officers and commanders and change the way they actually operated in the field. This assumes, of course, that said foreign policy experts could enlist the active support of the party's top leadership, which has grown increasingly preoccupied with domestic issues and proportionately insensitive to the reaction of the international community.

In Japan, where foreign-policy decision making is considerably more efficient and compact, there is a tendency to ask questions like "What are China's intentions?" or "What does Xi Jinping want?" on the assumption that the government of China, like that of Japan, actually has a unified foreign policy and is working as a team to achieve coherent goals consistent with the national interest. This fallacy is all too common in scholarly analyses of security issues, such as those treating the naval incursions of last June, in part because most scholars in international relations have been trained to treat nation-states as rational unitary actors.

Amid the negative sentiment and tension dominating Japan-China relations over the past few years, it is easy to lose sight of the fact that China even now has highly qualified, conscientious experts—not just independent researchers but also members of the government—who are able to analyze international affairs objectively and who seek a more cooperative relationship between China and the rest of the world. Unfortunately, experts of this persuasion are apt to fall silent when international tensions are running high. This is a key difference between China and a fundamentally democratic nation like the United States, where experts and pundits feel free to dissent openly from the government's current foreign policy, sometimes igniting a major public controversy and providing the impetus for a course correction when current policy proves unsuccessful.

## China and Russia in Cahoots?

To return to the June incident, one of the noteworthy aspects of China's incursion was that it occurred right around the time that three Russian naval ships sailed into the contiguous zone around the Senkakus followed by MSDF patrol ships. These circumstances immediately raised the question of whether China and Russia were engaging in a coordinated operation. According to a June 15 report in the *Nihon Keizai Shimbun*, the website of the Russian embassy in Tokyo posted a statement denying any such collusion, but soon removed it. The Chinese state media subsequently carried a number of commentaries and analyses that seemed calculated to fuel Japanese suspicions of coordination between China and Russia. In addition, Japanese analysts have cited anonymous statements from "well-placed Chinese sources" in support of such a link.

Such statements need to be approached with considerable skepticism. Information from anonymous Chinese sources, including scholars and government figures, are notoriously unreliable. When it comes to military operations, the testimony of an acquaintance in the military or the Foreign Ministry is of little value unless that person was part of the decision-making process or is in charge of a section directly involved. Those who are really in a position to know are not in the habit of communicating with foreign analysts, pundits, or reporters, let alone divulging state secrets. Meanwhile, those who are not in the loop are often reluctant to admit their ignorance. The fact is that the "informed" Chinese sources that Japanese analysts are wont to cite have a history of passing on bad or incomplete information, whether out of an impulse to exaggerate their own knowledge or out of a deliberate intent to mislead. We should not take anonymous statements by Chinese government or military figures at face value.

It is true that the defense ministers of China and Russia, meeting in April 2016, agreed to deepen military cooperation and increase the number of joint military exercises in 2016, and this has contributed to speculation that the incursions by Chinese and Russian ships were linked. But coordination on the Senkakus would signal a major strategic policy shift by Russia, which has thus far taken a neutral position on the territorial dispute. Such a shift would require more than an agreement between defense officials. It would entail major decisions by, and agreements between, the top-ranking civilian officials of both governments, including their foreign ministers and heads of state. If Russia and China have in fact embraced such a shift in policy, then this is a serious development indeed, and Japan will have to carefully rethink its own strategy. But on a matter such as this, in which Japan is a key stakeholder, it can be safely assumed that the Japanese government, with



its advanced surveillance and analysis capabilities, has access to far more and better information than any single independent observer.

## Conclusion

Using the foregoing analysis to narrow the range of possibilities, let us once again ask why China would break with its longstanding policy of not sending warships into the area contiguous to the Senkaku Islands. Was the move, as some have opined, a deliberate policy shift in response to Japan's opposition to China's claims and actions in the South China Sea? In other words, did Beijing make a considered decision to use the navy—specifically, movements around the Senkakus in the East China Sea—to express its diplomatic displeasure with Tokyo's position vis-à-vis the South China Sea?

As noted above, such a policy shift could not take place at the sole discretion of the military but would require close consultation between a country's foreign policy and military strategists. And given the vertically fragmented character of China's foreign-policy decision-making apparatus, one may well question the probability of such seamless, coordinated policy adjustment in response to recent events.

That said, the June incursion near the Senkakus is broadly consistent with China's maritime behavior in the wider region over the past six months. In addition to the series of events mentioned earlier, we might note the May incident in which two Chinese military aircraft intercepted a US military reconnaissance plane over the South China Sea, as well as the military exercises conducted in the waters near the Paracel Islands in early July.

On July 12, meanwhile, an international tribunal in The Hague, ruling on a case brought by the Philippines, rejected China's claims to sovereignty over much of the South China Sea, declaring them to be without legal basis. Despite this clear international rebuke, China has given no sign, at least publicly, of softening its tough stance or modifying its hard-line tactics. Such intransigence in the face of strong international headwinds—by no means limited to disputes involving Japan—reflects a domestic political environment that has made it extremely risky for Beijing to adopt a conciliatory approach in this area of foreign policy.

The Chinese government's swift release of a "white paper" refuting the ruling of the Hague tribunal indicates that Beijing had anticipated an unfavorable outcome and had prepared its hardline response in advance. It would appear from this that China's top leaders had already agreed on a basic policy of standing firm on maritime territorial issues, regardless of international criticism. And as we have seen,

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when China's top leaders lay out a broad policy, it sets off a chain reaction of policies by each subordinate agency.

With all of this in mind, I would suggest that the June incident around the Senkakus was initiated neither by a field officer acting on his own discretion or by any direct order or concrete policy originating at the top. The most likely explanation, rather, is that Beijing's top leaders reached a consensus to toughen the government's public stance on maritime sovereignty issues, and China's military tacticians and commanders applied that basic policy as they deemed fit. In any case, it is safe to assume that the Chinese ambassador in Tokyo was in the dark—at least until he was awakened at two o'clock in the morning.

August 15, 2016

## China's Social Divisions and the Search for a Common "Baseline"

Junko Oikawa

*Transcending the conflicting interests of China's increasingly divided and fragmented society has become a preoccupation among government leaders and intellectuals alike. Junko Oikawa examines this phenomenon through the lens of trending buzzwords, particularly the ubiquitous di xian (baseline).*

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To understand the situation in China today, we need to look at the changing relationship between society and the state. The government of President Xi Jinping has placed top priority on maintaining social stability, but it is struggling to reconcile the varied and often conflicting interests of an increasingly diverse and complex society.

There are many ways to study and assess this kind of change, but my own approach involves analyzing public discourse in an attempt to understand the thinking and behavior of the people who make up Chinese society. In this context, it has become fairly standard to highlight trending watchwords and catchphrases as clues to prevailing attitudes. My hope is that careful attention to the nuances of such jargon can contribute to our picture of Chinese society's growing complexity.

My immediate focus in this paper is the term *di xian* ("baseline" or "bottom line"), a buzzword that appears again and again in public discourse on the subject of social reform. China watchers encounter it continually in media commentary and scholarly analysis, as well as in our personal communications with Chinese scholars and journalists. According to the dictionary I have at hand, *di xian* has the core meaning of a boundary line or goal line in games like soccer and tennis and the figurative meaning of "minimum condition" or "lower limit." In discussions of

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social reform, *di xian* is generally used in the sense of “basic standards” or “core goals.” Some typical usage examples are *zuo ren de di xian* (minimum living standards) and *she hui dao de di xian* (core social mores). In this article, I have opted to retain the Chinese in most contexts so as to avoid misleading translations.

Why have commentators embraced the term *di xian* when speaking of the need to build a better society? How does its usage reflect the changing relationship between society and the state? And what exactly are China’s core goals for social reform?

### China’s Social Divisions

The first thing we need to consider when grappling with these questions is the conflicts and divisions that have rent Chinese society in recent years. Not long ago, it was possible for Chinese analysts to group the social structure into one of two broad categories: establishment (*ti zhi nei*, or “within the system”) and nonestablishment (*ti zhi wai*, or “outside of the system”)—in other words, those who support the status quo of one-party rule by the Communist Party of China and the dissenters. But political and social discourse today does not lend itself to this kind of either/or classification. On such topics as political reform and liberalism, one encounters a remarkably wide range of views from people inside as well as outside the political establishment. Public discourse today exhibits an unprecedented degree of complexity as analysts and commentators clash along various axes that defy the establishment/nonestablishment dichotomy.

One expression of this phenomenon is the phrase *Zhao jia ren*, meaning “the Zhao family” or “the Zhaos,” which enjoyed an explosion in popularity on the Chinese Internet around the end of last year. It initially appeared in a series of commentaries circulating online concerning revelations that interests backed by powerful figures in the party and the military had played a pivotal role in a high-profile domestic corporate takeover fight—a story that had sparked public indignation. In the commentaries, Qiao Mu, a professor at Beijing Foreign Studies University, referred to those privileged elements as *Zhao jia ren* in an allusion to Lu Xun’s 1921 novella *A Q zheng zhuan* (The True Story of Ah Q), in which the protagonist, an uneducated peasant, is berated by the patriarch of the powerful and wealthy Zhao family for claiming to be a member of that clan.<sup>1</sup> In no time, the

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<sup>1</sup> The articles were published on the website of the Hong Kong-based *Oriental Daily*. See [http://hk.on.cc/cn/bkn/cnt/commentary/20151225/bkncn-20151225000320555-1225\\_05411\\_001\\_cn.html](http://hk.on.cc/cn/bkn/cnt/commentary/20151225/bkncn-20151225000320555-1225_05411_001_cn.html), <http://hk.on.cc/cn/bkn/cnt/commentary/20160101/bkncn->

expression *Zhao jia ren* went viral as a code word for the politically well-connected in contemporary Chinese society, and it was not long before the CPC issued a directive prohibiting the term's use by the media.<sup>2</sup>

Of course, other terms and phrases have been used to convey the existence of a privileged stratum in Chinese society. For example, the *quan gui ji tuan* ("dignitary groups") are interests that have gained disproportionate influence through party connections. The phenomenon whereby individual family members and friends of party officials have amassed great wealth has been dubbed "dignitary capitalism"—the Chinese equivalent of crony capitalism. The "princelings" (*tai zi dang*) refers to the offspring of the party elite of the previous generation. Particularly powerful in both the political and economic sphere is a group known as the "second-generation reds" (*hong er dai*), the descendants of senior party officials recognized for their contribution to the Communist revolution.

However, *Zhao jia ren* goes beyond these earlier terms. Through its allusion to a Lu Xun novel familiar to most Chinese, it clearly implies the existence of an entrenched, insurmountable gap between the haves and have-nots comparable to that between the landowners and the peasant class in prerevolutionary China. This points to an important shift in attitudes. In the heyday of economic reform, there persisted a widespread belief that hard work would be rewarded and that some degree of economic inequality was the unavoidable price of growth. But nowadays opportunity seems closed off to all but the privileged few—the Zhaos and their ilk. Members of the latter group, needless to say, are bound and determined to hold onto their influence and privilege, while the masses view their activities with mounting resentment and despair. The meteoric rise of the term *Zhao jia ren* is evidence of the depth of the new divisions rending Chinese society today.

## Diverging Baselines

The public take on government-led reforms is shifting as well. Not long ago, critics and commentators embraced the saying, "To reform is to seek one's own death; not to reform is to wait for death"—an aphorism conveying at once the urgency and difficulty of pursuing structural reform. Nowadays, the trend seems to be toward the blatant pessimism of headlines like "Reform is dead." Xi Jinping's pledge to "comprehensively deepen reform" in the five areas of the economy, politics, culture,

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<sup>2</sup> See <http://www.aboluowang.com/2016/0105/671614.html>

society, and “ecological civilization” has proven difficult to fulfill in the face of stubborn structural obstacles.

Against this background of stalled reforms and ever-more-pronounced social divisions, commentators inside and outside official circles have seized on the concept of *di xian*. What are the basic social goals on which all elements of this increasingly divided society can agree? A few years back, the question emerged as a prominent theme in the reform debate. The thinking seemed to be that if the nation could clearly articulate its core values and goals, it might finally be able to make real progress toward reform.

The concept of *di xian* has been the subject of several academic works that have attracted notice in recent years. Prominent among these is the 2013 book *Gong tong de di xian* (Seeking a Common Baseline) by the historian Qin Hui, a professor at Tsinghua University. In this work, the author argues that the Chinese must transcend the old ideological divisions between left and right and strive for social reform aimed at achieving, at a minimum, “the basic freedoms, rights, and social guarantees.” In 2014 came *Guo jia di xian: Gong ping zheng yi yu yi fa zhi guo* (National Baseline: Equity, Justice, and the Rule of Law), a collection of essays on the theme of *di xian* by 18 Chinese scholars, edited by Yu Keping, director of the Center for Chinese Government Innovations at Peking University. Significantly, all of the contributors agree on the paramount importance of the rule of law and the need to promote democratic decision-making within the Communist Party. For the authors of this work, *di xian* refers to the rule of law.

How do these independent views square with the official use of *di xian* within the Xi Jinping regime?

Beginning with his address to the CPC’s 18th National Congress in November 2012, Xi’s early discourses on national leadership frequently featured the phrase *di xian si wei*, commonly translated as “bottom-line thinking.” In a series of major speeches in 2013 and 2014, Xi asserted that China’s leaders must “adhere to *di xian si wei*,” which he explained as “preparing for the worst while striving for the best” without avoiding or concealing difficult truths.<sup>3</sup> In this context, Xi’s *di xian* seemed to denote a foundation from which one builds—the base camp from which one climbs to reach the peak.

But the government’s interpretation and use of the term *di xian* have changed markedly since then. The term appears repeatedly in the CPC’s updated code of conduct and disciplinary sanctions adopted in October 2015. In the context of these strict new guidelines and penalties, *di xian* denotes the basic ethical norms to

<sup>3</sup> “Yi di xian si wei ding bian jian,” *Renmin Ribao*, March 17, 2014.

which party members are expected to adhere at all times. At the same time the revised regulations were announced, the government launched a campaign to raise awareness under the slogan “Maintain high standards, preserve the *di xian*.” As the Xi regime undertook a vigorous anti-corruption drive, *di xian* was transformed from a leadership buzzword into a watchword for party discipline. In this context, the government was using it in the same basic sense as the intellectuals who defined it in terms of freedom, rights, social guarantees, and the rule of law—that is, a basic standard or benchmark. The context and nuance, however, were quite different.

The *di xian* as defined by China’s scholars and intellectuals is by no means consistent with the government’s goals. Instead of a shared baseline, we are seeing the emergence of multiple baselines. For today’s “Zhaos,” for instance, *di xian* is the line they need to uphold to guard against threats to their own privileged position. Independent, reform-oriented intellectuals, meanwhile, are finding it more and more difficult to speak out on the basic goals of *di xian* reforms. The Xi regime has pursued a ruthless crackdown on free speech, banning the use of such language as “universal values,” “constitutional government,” and “civil society” in the media and the classroom. The Chinese government seems determined to root out Western values and assert complete ideological control over the nation.

### Where the Official and Popular Visions Intersect

Around the time that *Zhao jia ren* was trending, a short essay was being passed around and shared via social media. The author was Zi Zhongyun, a party elder and former director of the Institute of American Studies of the Chinese Academy of Social Sciences. The piece, titled *Chao ye de gong shi yu fen qi* (Disconnect Between the Official and Popular Perceptions), was actually a transcription of remarks made by Zi Zhongyun in February 2014 at a mass meeting of editors and writers involved in the liberal monthly journal *Yanhuang Chunqiu*, and it had already appeared in print in the April 2014 issue of the magazine. At the outset of her remarks, Zi Zhongyun asks whether the perceptions of the Chinese government and those of the Chinese people have anything left in common. Her answer is that the government and the people seem to agree on at least one point: No one wants an outbreak of civil or social turmoil; everyone hopes that Chinese society can negotiate a peaceful transition via progressively deepening reforms.

Avoiding civil unrest may seem like a depressingly passive goal compared with the basic freedoms and rights that other intellectuals have set forth as a vision for Chinese society. As a *di xian*, it might seem a dramatic lowering of the bar. Some

critics might even criticize it as a craven compromise with the “stability first” policies of the current regime. But the revival of these remarks after a period of two years suggests that they resonate strongly with readers.

The fact is that quite a few Chinese intellectuals appear to have waxed cynical about reform, having witnessed the political turmoil of the Arab Spring and the outbreak of terrorism in its aftermath. “We may have an authoritarian government,” they are sometimes heard to say, “but at least it’s better than anarchy and civil war.” That said, Zi Zhongyun’s statement was not an expression of cynicism or resignation. I was in attendance at the meeting in 2014, and her words left a deep impression on me. She continued by saying, “What China needs above all else is citizens with the capacity for rational, modern thought, not an ignorant, submissive populace.”

How will the concept of *di xian* evolve in the years ahead? The current regime is concerned first and foremost with maintaining the political status quo, and social stability is a precondition for the continued survival of the system. But from that standpoint, surely the bottom line should be upholding the basic rights of the citizens as set forth in the Constitution of the People’s Republic of China. The current regime has given plenty of lip service to the rule of law. Now it needs to follow through on that promise and enforce full compliance with the nation’s constitution.

At the same time, the Chinese people must become more conscious of their rights, and this requires an even more active role by scholars, civil rights lawyers, and other intellectuals who exert an influence on public opinion. This pooling of resources from the public and private spheres—each leveraging its own strengths—is the single most important condition for genuine social reform in China. Needless to say, such a joint effort can only happen if there is a place for free speech and public discourse.

If, on the other hand, the reality of Chinese society remains in stark conflict with the government’s platitudes about the rule of law, then the divisions in Chinese society will continue to deepen, leading to social unrest that could ultimately threaten the stability of the regime.



November 16, 2016

## What Trump's Victory Means for Japan

Tsuneo Watanabe

*Trump's surprising election victory has alarmed many in the United States and other countries, but the practical tenor of his recent remarks, notes Senior Fellow Tsuneo Watanabe, should dispel fears of a major disruption in America's global commitments.*

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Donald Trump's stunning upset has sent many people into shock, both in the United States and the rest of the world. One fear is that the deeply divisive rhetoric of Trump the candidate will continue even after he enters the White House, further polarizing the conservatives and liberals and crippling America's ability to lead. Another is that the policy direction of his presidency remains unclear owing to his failure to substantively address broader policy issues during the campaign.

These two factors, though, are precisely what propelled him to victory. His antiestablishment remarks struck a chord among lower-income white voters, especially along the Rust Belt, who were deeply frustrated with both the Republican and Democratic Parties. And while criticizing existing and planned free-trade agreements, such as NAFTA and the TPP, for taking away American manufacturing jobs, he kept mum on tax reforms that could significantly alleviate the wealth gap—much to the relief of moneyed, traditional Republican supporters—calling instead for lower corporate taxes and the repeal of Obamacare.

Going forward, Trump is unlikely to alienate America's elites, despite the expectations of angry, anti-establishment voters who were instrumental in putting him in office. In fact, neither the president-elect nor his inner circle is committed—economically or socially—to addressing the concerns of blue-collar workers and instead has interests that are much more aligned with those of the establishment.

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*Tsuneo Watanabe*     *Senior Fellow, Tokyo Foundation; Senior Research Fellow, Sasakawa Peace Foundation.*

## Promising Developments

While this contradiction could pose difficulties for the administration, it is something that will reassure many in Japan, whose interests also overlap those of the US establishment. That Mike Pence, who embraces traditional Republican values and has emphasized the importance of American allies and free trade, has been named to lead the transition team should be welcomed here, as it will help smooth over ties with mainstream Republicans, including House Speaker Paul Ryan.

Another promising development is news that Mike Flynn is being considered for the post of national security advisor, which would enable the retired Army lieutenant general and former director of the Defense Intelligence Agency to emphasize the importance of maintaining continuity in America's defense policy.

The TPP, though, could fall victim to Trump's need to address voter frustrations, given that he is unlikely to introduce taxes that would narrow the wealth gap or to attempt to reverse the wave of globalization. This may be the only significant difference, though, with the trade policies of the Barack Obama administration.

Japan's chief interests are in keeping Washington engaged in international affairs and in ensuring that the global economy remains open and free. On that score, there is probably no need to fret over his surprising election victory or to take his brash campaign remarks too literally. That said, there is lingering concern over whether Trump can acrobatically manage to keep the profound contradictions in his administration from tripping him up. Both Americans and the rest of the world will continue to closely follow how the transition unfolds, keeping their fingers crossed that the Trump presidency will ultimately be marked by stability and effectiveness.

September 26, 2016

## The War on Terror Then and Now

### *Battling a Mutating Monster*

Noboru Yamaguchi

*Fifteen years after the attacks of 9/11 precipitated the war on terrorism, security expert Noboru Yamaguchi discusses the challenge of responding to terror's ever-mutating threat to security around the globe.*

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**O**n September 11, 2001, an event occurred that profoundly altered the course of history. In a series of coordinated attacks orchestrated by al-Qaeda, terrorists hijacked four US passenger airliners, flying two of them into the Twin Towers of the World Trade Center in New York City and another into the Pentagon in Washington, DC. (The fourth crashed in a field in Pennsylvania.) The attacks precipitated an American-led international response that the US government christened the “global war on terrorism.”

Today, 15 years later, the conflict continues with no end in sight, as conditions in the Middle East continue to fuel extremism and terror. As we pass the 15-year mark in this war, I would like to highlight three security challenges confronting the international community.

### **New Potential for Mass-Destruction**

The first challenge is confronting the ever-growing threat of mass destruction and murder by a range of methods to which we gave little thought prior to 9/11—including some that remain largely under the radar.

The terrorists' use of such a commonplace object as a passenger plane to achieve massive destruction has raised a host of new concerns. The automobiles,

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trains, and airplanes that permit us to transport people and goods in large quantities at high speeds can be converted fairly easily into highly destructive weapons. The transportation networks on which we depend hold hidden dangers, and the same can be said of almost every aspect of our public infrastructure.

The accident at the Fukushima Daiichi Nuclear Power Station on March 11, 2011, underscored the dangers posed by our own infrastructure. The earthquake that hit the Tohoku region also triggered a secondary disaster of huge proportions when the resulting tsunami disabled the reactors' cooling system, leading to multiple meltdowns and the release of radioactive material over a large area. We cannot discount the possibility of an act of sabotage with similar consequences. Given the importance of computer control systems in today's nuclear power plants, it is conceivable that a cyber attack by a hostile group could disable a plant in much the same way that the tsunami did.

Computer networks play a critical role in virtually every aspect of our public infrastructure, and their role is expanding daily. Rapid advances in information and communications technology have brought artificial intelligence and the internet of things within reach. The diffusion of such technologies could leave us all the more vulnerable to cyber attacks that could cause widespread chaos and destruction by crippling public transportation or telecommunications networks, the water or power supply, or healthcare systems and facilities, not to mention industrial infrastructure like chemical plants and oil refineries. We must prepare and defend ourselves against this threat.

In Japan, much discussion has been devoted to the topic of cyber security in recent years, but the emphasis is usually on criminal activity targeting the financial system or the theft of confidential information. We need to focus more on the threat of cyber terrorism—not merely conventional cyber crime but the use of computer networks to cause physical damage and destruction on a large scale. It is urgent that we pursue measures to detect and defend against such attacks and confine whatever damage they may cause.

## **Changes in Organization**

The second challenge is adapting to the changing means by which terrorist groups direct and manage such organizational functions as fundraising, recruitment, planning, preparation, and implementation.

In the days when Osama bin Laden was at the helm of al-Qaeda, the group had no fixed headquarters or regionally centralized structure. Instead, it had a far-flung network of cells and relied on email and cellphone communications to plan and

coordinate attacks. Al-Qaeda's financial support network, centered on wealthy donors, was dispersed as well, albeit concentrated in the Middle East. In the context of this physical dispersion, electronic communications were essential to the sort of funding, planning (extending to airline pilot training for the perpetrators), and real-time coordination needed to carry out four nearly simultaneous hijackings on September 11.

Within a decade, however, intelligence agencies in the United States and elsewhere had dramatically boosted their surveillance capabilities vis-à-vis email and cellphone communications, making it extremely difficult to transmit the information and money involved in large-scale international terrorist operations without being detected.

Taking over where al-Qaeda left off, the so-called Islamic State, widely known as ISIS, has adopted a different strategy. By seizing physical control of territory in Syria and northern Iraq, it has been able to raise revenue through the sale of oil, gas, and other resources produced in those areas, supplemented by taxes and fees levied on local businesses and individuals. This territory also appears to constitute the base for much of the training and preparation that support ISIS-sponsored terrorism. That being the case, the international community is right to place high priority on reclaiming this territory, since doing so will deprive ISIS of its main physical bases and sources of revenue.

The point to keep in mind, however, is that taking back this physical territory will not eliminate the threat posed by ISIS. Recent advances in encoding technology are making it easier for dispersed terrorist cells to evade government surveillance as they communicate with one another electronically. We must prepare for the possibility that terrorist groups will shift back to the geographically decentralized model of the bin Laden era. Good intelligence is vital to the prevention of a resurgence in the old al-Qaeda model of terrorism, and for this an effective global intelligence network is essential.

### **Smart Development Policies**

Challenge number three is to patiently pursue long-term policies and strategies that



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*The 9/11 Memorial at the site of the former World Trade Center complex.*

address the conditions that give rise to terrorism. We may erase ISIS's territorial gains over the short term, but unless we can immunize the local populace from the influence of terrorist groups, their resurgence is only a matter of time. We must help build an environment in which local residents feel motivated not only to withhold their support from terrorists but also to inform authorities of their movements. This requires not merely good law enforcement but also the development of public infrastructure—including roads, electric power, and water supply—to support the economic stability of local communities. It also requires job creation via a combination of public works projects and efforts to revitalize and nurture local industry.

We need to recognize that economic development and the restoration of public order are inextricably linked. Beginning in 2003, members of the Japan Self-Defense Forces played an active role in postwar reconstruction efforts in Iraq. From the initial deployment of a contingent to Samawah in southern Iraq until the withdrawal of troops in 2008, the program aimed to restore stability to local communities by providing clean water and rebuilding hospitals, roads, and other public infrastructure. At the same time, the program was at pains to ensure that such reconstruction and rehabilitation projects generated local jobs.

When people have gainful employment, they are motivated to protect the source of their income. In Iraq, this meant maintaining the basic level of safety needed for the SDF to carry out its reconstruction activities. As a consequence, residents of the communities that benefited from these activities were careful to keep undesirable elements from moving into the area. Improved safety and stability resulting from such local cooperation made it possible to implement more ambitious projects using Japan's official development assistance. By the time the Ground Self-Defense Force units withdrew from Samawah in 2006, numerous jobs had been created, and the construction of a thermal power plant was underway. This is a good example of how economic development and public order reinforce one another in a virtuous circle.

Conversely, a vicious circle can take hold if the local people lack opportunities to build decent lives through legitimate means. One of the biggest reasons for the failure to restore order and root out terrorism in Afghanistan is the rampant cultivation of opium poppies. A lawless environment works to the benefit of those groups that make their money through such illicit means as the production and sale of opium. And we know that terrorist groups rely heavily on profits from the drug trade to fund their activities. From this standpoint, terrorists have an economic as well as a political stake in undermining stable government and the restoration of law and order.

We can assume that many Afghan farmers resort to poppy cultivation not out

of any malicious intent but because they see no other viable way of earning a living. Finding attractive alternatives for these farmers is thus a basic prerequisite for restoring law and order to the region. One noteworthy development project established a processing facility to produce juice concentrate from pomegranates, a major fruit crop in parts of Afghanistan. Other programs are promoting cultivation of herbs, such as saffron, that command high prices. By building distribution systems to deliver these products to overseas markets, we can help set in motion the virtuous circle described above.

### **Japan Is Not Immune**

To conclude, I would like to comment on the relevance of all of this to Japan. From a Japanese perspective, the threat of terrorism may seem fairly remote. Conditions in the country today are not particularly conducive to the rise of homegrown terrorism, and Japan does not present itself as an obvious target for Muslim extremists from a geographical or religious standpoint. But the Japanese people would be foolish to conclude that terrorism is other people's problem.

From a historical standpoint, we would do well to recall that Japan was once an exporter of terrorism. On May 30, 1972, three members of the Japanese Red Army, acting on behalf of the Popular Front for the Liberation of Palestine, attacked Lod Airport (now Ben Gurion International Airport) near Tel Aviv, killing 26 people and injuring 73. The perpetrators did not expect to return alive, and some commentators see a link between this massacre and the subsequent perception among Islamic extremists equating suicide attacks with jihad.

The Red Army and other radical leftist groups in Japan carried out numerous domestic attacks as well during the 1970s, including the 1974 bombing of the Tokyo headquarters of Mitsubishi Heavy Industries, which killed 8 and injured 376. Japan managed to overcome such instability and build a safe and peaceful society, thanks both to the determination of law enforcement officials, who took full advantage of international intelligence networks in tracking down the culprits, and to the deradicalization of Japanese politics accompanying the development of our economy and the maturation of our society. In these respects, Japan's experience holds important lessons for the global war on terrorism.

On a more immediate level, recent events have made it abundantly clear that neither Japanese society nor Japanese nationality confers immunity from the threat of Islamic terrorism. The July 1, 2016, attack in Dhaka, Bangladesh, claimed seven Japanese lives, and one of the terrorists is believed to have resided in Japan until recently. Any effort on the part of Japan or any other country to halt such violence

## INTERNATIONAL AFFAIRS

and bring peace to international society will be considered a hostile act by terrorist groups and their supporters.

At a time when the international community has aligned itself squarely against the scourge of terror, there can be no middle ground or neutral position. Japan must take an unequivocally clear and consistent stand: We will not tolerate terrorism, nor will we compromise with terrorists in any way, shape, or form.



August 16, 2016

## Obama's Nuclear Legacy

Paul J. Saunders

*President Obama is looking for ways to leave a lasting foreign policy legacy and substantiate his 2009 Nobel Peace Prize based on a vision for a “world without nuclear weapons.” This will be a highly challenging task, notes Paul Saunders, that will require the support of allies and rivals.*

\* \* \*

**E**arly in the summer, US officials began to suggest that President Barack Obama could use his final months in office to pursue several nuclear weapons initiatives. While some appear more dramatic and others less so, few appear likely to succeed. More important, none appears likely to make the world a better place, as Mr. Obama seems to hope.

### Foreign Policy Problems

It is hardly surprising that the president should be looking to improve his decidedly mixed foreign policy legacy before leaving office in January 2017. Mr. Obama promised to get the United States out of Iraq and then failed to deliver by moving too far and too fast toward his objective. He contrasted Afghanistan—the “good” war—to Iraq but has been unable to accomplish much there either. His most significant new military action, US support for and eventually leadership of NATO air strikes in Libya, produced chaos rather than security. His rejection of air strikes or other intervention in Syria has prompted widespread criticism among Democrats as well as Republicans.

No less problematic, President Obama's ineffective handling of the Middle East has perhaps fatally undermined his “rebalancing” of US policy toward Asia. The United States still has one foot firmly rooted in the region; moreover, Iraq, Afghan-

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

istan, Syria, Libya, and other ongoing conflicts drain the time and attention of senior government officials who can work only a certain number of hours each day. On top of this, the principal architects and advocates of the rebalancing policy left government long ago, and both its military and its economic components have lost momentum. The administration's gross underestimation of Asian (and European) interest in China's Asian Infrastructure Investment Bank (AIIB) did not help either.

Secretary of State John Kerry has responded to the administration's crumbling foreign policy by launching what looks like a one-man effort at diplomacy with Russia, meeting his counterpart Foreign Minister Sergey Lavrov at least four times in the last six months and focusing largely on the crisis in Syria. White House officials are privately dismissive of Kerry's attempts to engage Moscow and appear to expect little from it; this understandable but rather gloomy attitude can easily produce a self-fulfilling prophecy.

### **Nuclear Dreams and Global Realities**

Nevertheless, the president and some of his political advisors appear determined to deliver something to substantiate Mr. Obama's 2009 Nobel Peace Prize, which the Nobel Committee awarded on the basis of his "vision of and work for a world without nuclear weapons." Unfortunately, as even the Nobel Committee implicitly acknowledged in presenting the award, the only "work" that President Obama had done to bring about a world without nuclear weapons in October of 2009—seven months after he entered office—was to create "a new climate in international politics," something that did not last too long.

Moving forward, the Obama administration faces three considerable challenges in pursuing the president's "Prague agenda," named for an April 2009 speech in the Czech capital during which the Mr. Obama outlined his goal to do away with nuclear weapons. One is domestic and two are international.

Mr. Obama's domestic problem is that he has no support from a Republican-controlled Congress either to make significant changes in domestic policy on nuclear weapons or to negotiate major international agreements. Philosophically, most Republicans see nuclear weapons as essential to US national security and dismiss efforts to eliminate them as hopelessly naïve. Politically, many Republicans also resent the Obama administration's decision to force a Senate vote on the 2010 New START agreement with Russia during a lame-duck session; the White House feared that a larger Republican minority in the incoming Senate (following the November 2010 elections) could block the deal.

This Republican discontent—and broader Republican distrust of President

Obama—has pushed the Obama administration toward possible policies that do not require Congressional approval. According to press reports, some ideas include a “no first use” declaration, a UN Security Council resolution banning nuclear tests, or a decision to cancel or delay a new nuclear-capable cruise missile. The latter could violate an understanding with Senate Republicans who voted for the New START treaty based on assurances that the administration would move forward with nuclear modernization plans.

At the international level, President Obama may have a difficult time finding governments interested in his ideas. Many US allies have already expressed strong reservations about a “no first use” declaration, which they argue could undermine America’s extended nuclear deterrence and expose them to greater risk of attack—particularly by newly more assertive nuclear-armed major powers like China and Russia. Pursuing this in the face of significant opposition from US allies would expose the president to further domestic criticism and could even force his former Secretary of State, Hillary Clinton, to distance herself from the idea during the presidential campaign. Since Republican nominee Donald Trump would likely also attack it, the White House would be declaring something that neither of the president’s potential successors would continue—meaning that there would be no conceivable benefit to Mr. Obama’s legacy.

Some of the administration’s other ideas, like a UN Security Council resolution or an extension of the New START treaty, could only work with Moscow’s agreement. This is the second international problem with President Obama’s end-of-term nuclear ambitions.

Russia’s principal concerns today relate to America’s missile defense systems and to conventional prompt global strike weapons that (Moscow argues) could allow Washington to launch a disarming first-strike without using nuclear missiles. Those are the limits the Kremlin would likely seek, and neither is likely to be palatable in the United States. Indeed, moving toward a world without nuclear weapons arguably requires both of these technologies. More generally, the administration’s wider approach to Russia ensures that President Putin is unlikely to be interested in doing Washington any favors.

Looking ahead to President Obama’s last few months in office, he and his advisors may well continue looking for creative new ways to leave a lasting foreign policy legacy. Their biggest challenge may well be that it is almost impossible to build anything enduring alone, without the support of the US Congress or America’s allies and without interested negotiating partners among US rivals. This is an ironic conclusion for a president whose rejection of unilateralism won so much praise in 2009.

November 7, 2016

# How Japanese Businesses Practice Social Sustainability: A Profile

Zentaro Kamei

*The results of the second Tokyo Foundation questionnaire survey on CSR reveal that efforts are being made by many Japanese companies to integrate their core corporate activities and sustainability initiatives. With the adoption of the SDGs, more business may be prompted to think in global terms to ensure a sustainable future.*

\* \* \*

## 1. ABOUT THE TOKYO FOUNDATION'S CSR CORPORATE SURVEY

### *A. Structure of the Survey*

The CSR reports, sustainability reports, and other documents issued by companies provide basic information for examining the state of corporate social responsibility in Japan. Making comparisons using just these reports may be difficult, but in recent years Japan, too, has been making advances toward the application of common guidelines in this field with the publication of integrated reports. We also see studies by Toyo Keizai and other organizations,<sup>1</sup> along with NTT Resonant's questionnaire survey of readers of environmental and CSR reports<sup>2</sup> and a growing number of surveys on socially responsible investment that draw on investors' perspectives.<sup>3</sup> The results of such studies and surveys have made it easier to undertake

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Zentaro Kamei      *Research Fellow and Project Manager, Tokyo Foundation.*

<sup>1</sup> For example, Toyo Keizai publishes *CSR kigyō sōran* (Comprehensive Corporate Listing of CSR).

<sup>2</sup> This survey, directed at readers of CSR reports, has been conducted since 2000. It also contains international comparisons and provides extremely important material for examining CSR in Japan. NTT has also held symposiums based on the survey.

<sup>3</sup> These include the surveys by the Japan Sustainable Investment Forum (<http://www.jsif.jp.net/>).

comparisons among companies and to ascertain the current state of CSR as a management issue and a component of corporate activity.

Although corporations are increasingly being looked to as key actors in efforts to resolve social issues, there has not been much progress on analyzing and verifying the meaning of CSR initiatives for the companies that undertake them, how they are related to the creation and maintenance of corporate value, and other issues pertaining to social and corporate sustainability.

In the Tokyo Foundation's latest CSR survey, we have taken into account the importance of integrating CSR activities with business operations, as was made clear in the 2014 CSR White Paper,<sup>4</sup> along with issues relating to the pursuit of such integration. In designing the latest questionnaire we have revised the list of social issues and the responses that have been hypothesized to contribute to integration. While doing so, however, we maintained the overall structure of the previous survey for the sake of consistency, notably the order of priority for the resolution of social issues and links to business activities, along with collaboration with nongovernmental and nonprofit organizations and of issues that companies face in promoting CSR.

In selecting the categories of social issues for our survey, we referred to the Millennium Development Goals, the UN Global Compact, the ISO 26000 guidelines for social responsibility, and other relevant materials, and at the same time we drew on our own distinctive perceptions as a public policy think tank. Social issues are generally shared across national borders, but many Japanese corporations have a tendency to look at domestic and overseas issues separately and show relatively less interest in the latter. For this reason we maintained the distinction between domestic and overseas issues in our latest survey.

In revising our categories of social issues, we looked at them not just as discreet phenomena but also in terms of who were being affected and what their causes were. We bundled issues where the targets of assistance were closely related or that had similar causes; conversely, we segmented items that needed to be distinguished on the basis of these criteria (Figure 1).

We asked respondents to identify specific responses that they consider effective for the sake of integration. And to clarify differences by type of company and the nature of CSR initiatives, we asked in greater detail about specific cases.

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<sup>4</sup> In 2013, the Tokyo Foundation conducted a survey of approximately 2,000 Japanese companies to learn of their CSR initiatives. Essays based on the survey results and case studies of six companies were compiled into a CSR White Paper, published in Japanese in July 2014. English translations are available at <http://www.tokyofoundation.org/en/topics/csr>.

**Figure 1. Revision of Social Issue Categories for the Survey<sup>5</sup>**

Previous Survey	Current Survey
1. Human rights	1. Human rights
2. Poverty, hunger	2. Poverty, hunger
3. Child poverty	3. Women's advancement
4. Child mortality & maternal health	4. Disease prevention, mortality risk
5. Women's advancement	5. Environmental pollution
6. HIV/AIDS, malaria, mortality risk	6. Ecosystem preservation
7. Environment	7. Climate change
8. Local community	8. Local community
9. Other	9. Aging
	10. Other

**Figure 2. Major Survey Items Hypothesized to Contribute to Integration**

Level of globalization
• By sales volume, number of employees
Implementation of PDCA cycle (esp. C & A)
• Does/does not monitor impact of initiatives, evaluation methods
• Duration of individual initiatives
Stakeholder dialogue
• Differences depending on dialogue partner
Governance (management) structure
• Backgrounds and diversity of board members

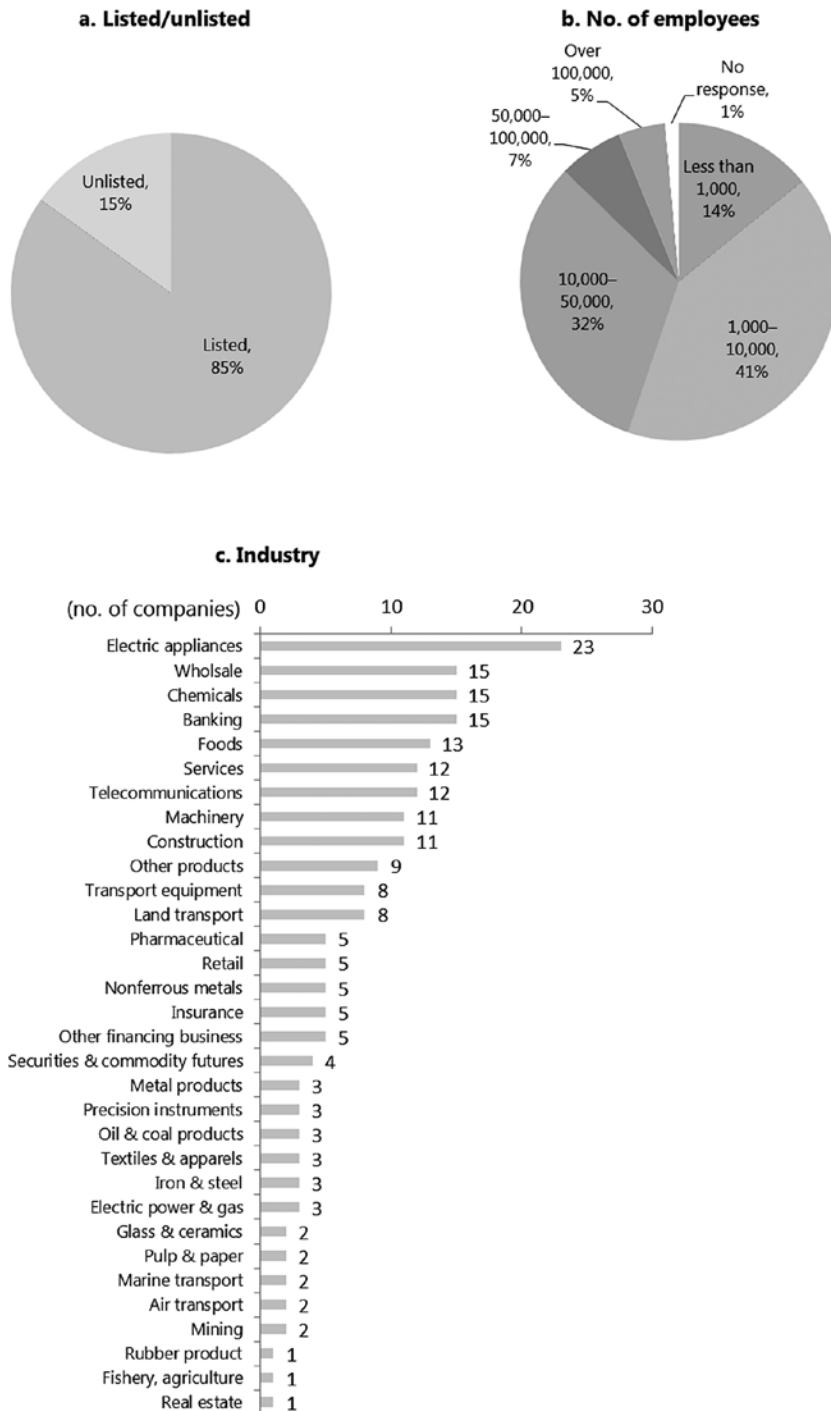
## ***B. Replies***

### ***(1) Over 200 responses***

In line with the points noted above, on August 1, 2014, we sent a questionnaire survey to about 2,000 listed and major unlisted corporations based on public in-

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

**Figure 3. Breakdown of Responding Companies**



formation. We received responses by post or email from 212 corporations by the October 31 deadline.

Of the responding corporations, 85% were listed and 15% unlisted; over 80% of them had more than 1,000 employees (Figures 3a and 3b). The breakdown by industry, shown in Figure 3c, was similar to that of the previous survey.

## ***(2) Who responded?***

We received responses from 212 companies. How does this compare with other CSR surveys?

Needless to say, the survey was not sent to a random sampling of companies and so does not reveal statistical trends with respect to Japanese companies' overall perceptions regarding CSR and social issues.

Companies report that they receive many requests to complete questionnaires of this sort. Inasmuch as their corporate responsibilities are being questioned, many give careful attention to this task. Due to limited time and personnel, though, they are forced to set priorities. Under the circumstances, any questionnaire receiving over 100 responses, CSR veterans note, can be called successful.

Perhaps a more important consideration in gauging the validity of this survey is the potential bias of the responses.

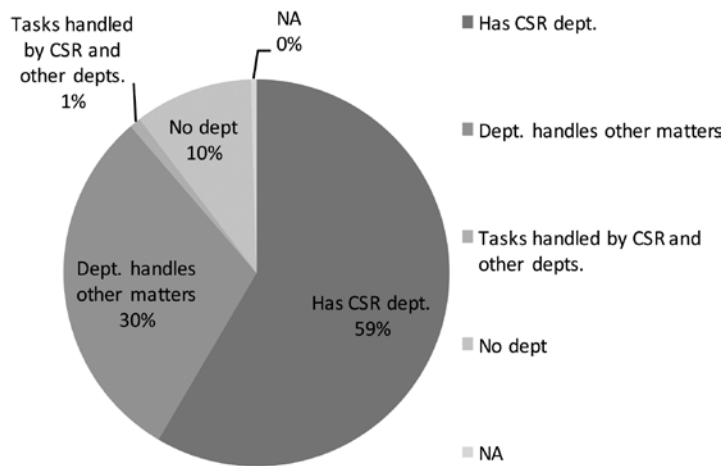
As noted above, most of the respondents were large companies, and around 90% had a department responsible for CSR, including cases where it also handles other matters (Figure 4). By way of reference, about 400 Japanese companies are believed to have departments responsible for CSR.

Both this time and in last year's survey, many of the companies to which we sent questionnaires noted that the questions were hard to answer. We sought not just information about the content of their CSR initiatives but also explanations of the social issues that they were seeking to address with those activities. The "hard to answer" comment seems to hint at one feature of Japanese companies that we noted in the 2014 White Paper, namely, a tendency to place greater emphasis on action than on deliberation. There is little thinking oriented to taking an overview of social issues, identifying which of them the company should address, and considering what concrete action to take based on the company's strengths and relevance to its business operations.

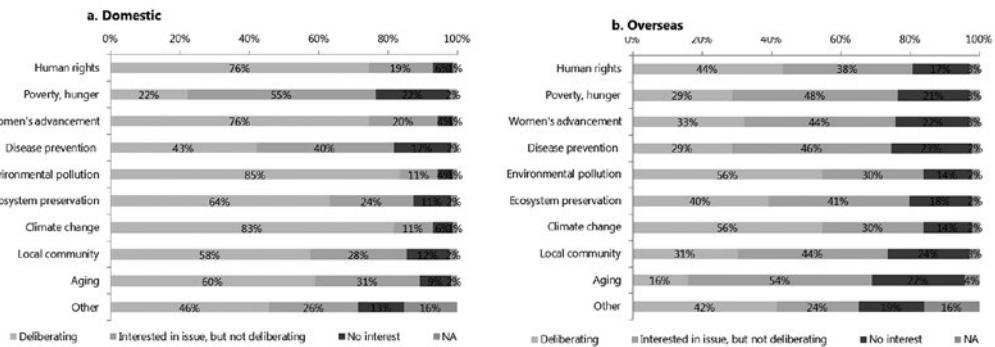
Which were the companies that were able to answer even the "hard" questions? They are large in scale, able to designate personnel responsible for CSR, and conscious of social issues from a long-term perspective—the group of companies, in other words, that are leaders in the CSR field. The results of our survey, then, can



**Figure 4. CSR Departments at Responding Companies**



**Figure 5. Deliberation by Type of Issue**



*Note: Responses to the question, "Of the following issues, on which are you conducting deliberations?"*

be thought of as representing the status of CSR at companies with the most advanced programs in Japan.

## 2. MAIN FINDINGS

### A. Initiatives by Type of Issue

Now let us look at some of the findings from the survey, beginning with the level

of interest companies show toward each type of CSR issue. We asked respondents to report their company's degree of interest in each of 10 categories of issues (including "other"), both within Japan and (as a separate answer) overseas.

### ***(1) Less interest in "ecosystem preservation"***

The results on the domestic side are presented in Figure 5a. In the previous survey, the environment was an issue for which the degree of integration with business operations was high. In the latest survey we divided this issue into three items: environmental pollution, response to climate change, and ecosystem preservation. While respondents' interest in the first two items—pollution and climate change—was high, they showed notably less interest in ecosystem preservation.

As in the previous survey, interest in the issue of poverty, hunger, and income inequality was low, the lowest, in fact, for any of the items.

### ***(2) Mistaking internal issues as social ones***

Comparing the domestic and overseas results on the deliberation of social issues, we find that the figures for overseas are lower overall.

With regard to poverty, hunger, and income inequality, though, respondents showed greater interest on the overseas side. Even though poverty is a serious and growing problem within Japan,<sup>6</sup> the business community seems not very concerned.

For human rights, women's advancement, and aging, the domestic levels of interest are higher than the overall average. I will come back to the issue of aging, but there is a strong likelihood that companies are treating the issues of human rights and women's advancement as internal concerns—pertaining to their employees and other affiliated personnel—rather than as problems involving conditions in society.<sup>7</sup> This mindset may be adequate for purposes of maintaining and strengthening in-house solidarity, but companies should also be responsive enough to take an interest in conditions outside the organization and to actively engage with members of society, viewing this as an opportunity to reconfirm their *raison d'être*. By

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<sup>6</sup> Japan's relative poverty rate is high among the members of the Organization for Economic Cooperation and Development, and it has been increasing over the years. According to Cabinet Office data, the poverty rate among single-female-parent households is especially high.

<sup>7</sup> The majority of the measures taken by companies in response to these issues consist of programs directed at their employees, including implementation of training and internal systems.

that measure, companies still have a long way to go when it comes to addressing social issues, even domestically.

It was after we finished conducting our questionnaire that Thomas Piketty became the talk of the town, with the publication of the Japanese translation of his *Capital in the Twenty-First Century*<sup>8</sup> causing a spike in concern about growing inequalities. As yet, though, we hear no talk of this leading to deliberation or implementation of CSR activities addressing this issue. For companies, social change represents at once a risk to existing business operations and a potential new opportunity. If companies seek to show interest in social issues and are intent on helping address them, they should start by eliminating the walls between internal and external issues. Dialogue with stakeholders is extremely important in this connection, a point I will discuss in detail below.

### ***(3) High interest among companies with global sales***

Figure 6 highlights the level of interest in social issues among companies with overseas sales.

It may be only natural for companies with overseas sales to display higher-than-average interest. The difference is particularly pronounced in the three environment-related issues and human rights—issues that often come up in the course of business operations. The higher level of interest thus also suggests that companies are not just selling to overseas markets but also have operations there.

What we should note in particular is that companies with overseas sales have a stronger interest than the aggregate in domestic social issues as well (Figure 6b). We can take this as an indication—from a different angle—of the aforesaid fact that there is still much more that companies, particularly those focused on the domestic market, can do to fulfill their social responsibilities.

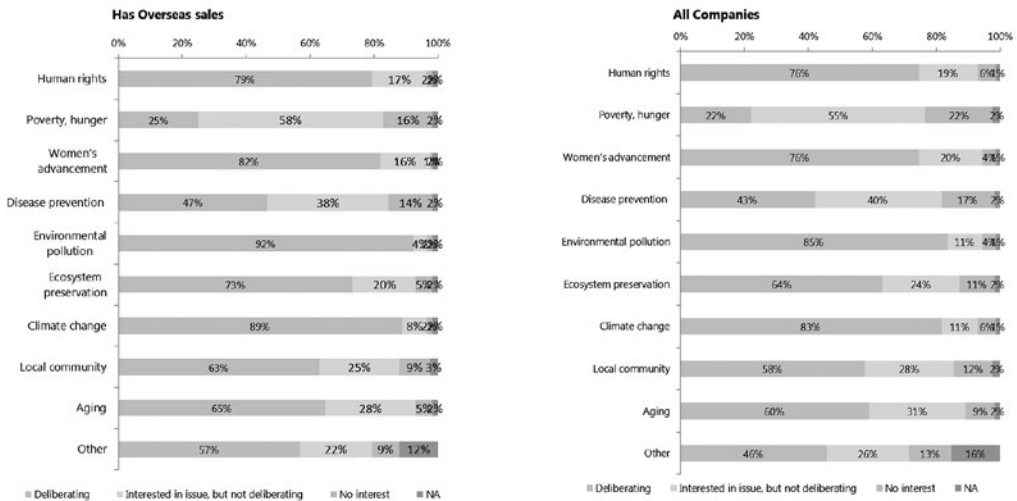
### ***(4) Emerging social issues***

Social issues requiring attention are constantly changing, reflecting changes in society. Some of the newly emerging issues can be identified by looking at the responses in the “other” category, falling outside the nine issues offered as choices.

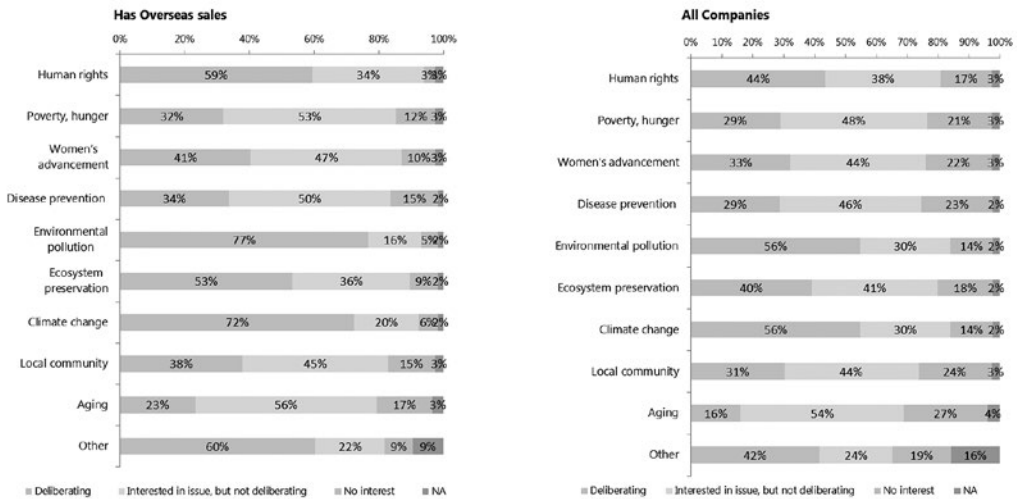
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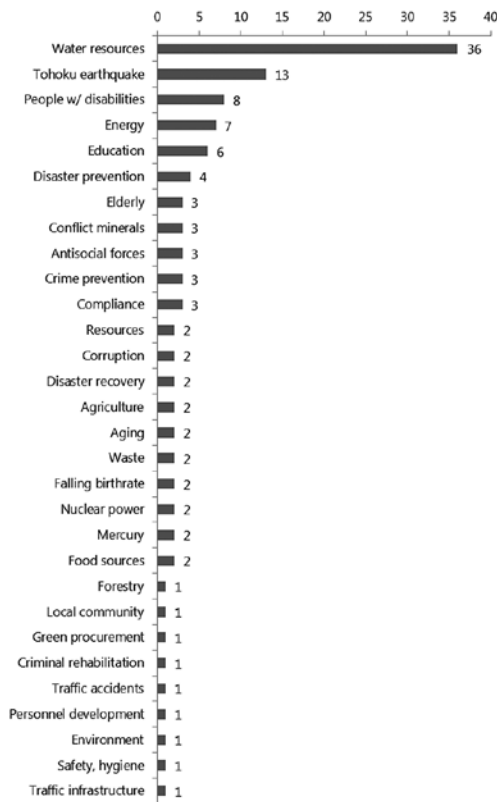
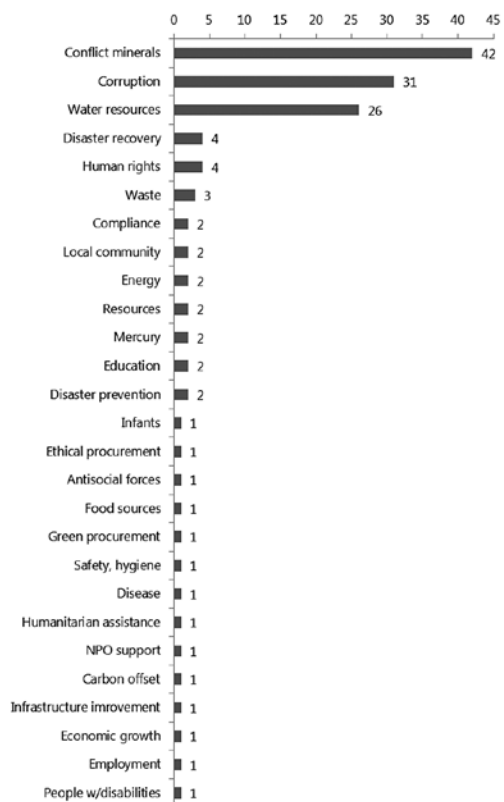
<sup>8</sup> Piketty’s work was published in French in the summer of 2013, in English in April 2014, and in Japanese in December 2014.

**Figure 6. Deliberation of Social Issues by Companies with Overseas Sales**  
*a. Overseas*



*b. Domestic*



**Figure 7. Breakdown of “Other” Social Issues by Number of Responses<sup>9</sup>****a. Domestic****b. Overseas**

On the domestic side (Figure 7a), the most commonly cited other issue was “water resources.” This received almost no mention in our previous survey, so it would seem that it is rapidly coming to be perceived as an important issue. Citations of this issue also increased sharply on the overseas side (Figure 7b). In fact, many CSR reports now contain special sections detailing initiatives to protect water resources.

Issues relating to the Great East Japan Earthquake of 2011 were cited by many respondents in our previous survey. Companies appear to be implementing such programs on an ongoing basis, but the number citing this as an issue in the “other” category has declined.

<sup>9</sup> Some of the “other” entries duplicated items included in the list of social issues set forth in the questionnaire. We have left these responses as submitted on the assumption that the responding companies were deliberately positioning these items separately.

On the overseas side, we see a marked increase in citations of “conflict minerals.” Looking at individual companies’ initiatives, we find that a number of them have started demanding that their suppliers also avoid such resources. Another serious concern is the bribery of government officials and other forms of corruption. Companies have been adopting guidelines and spreading awareness of them throughout their organizations as part of their specific efforts to address this issue.

### *B. What Companies Gained from CSR*

Next let us look at the state of integration of CSR activities with business operations, which was the theme of the 2014 CSR White Paper. Figure 8 presents results achieved from CSR activities broken down by issue. The bottom row of the table presents the figures for initiatives that achieved successful results according to the companies’ own assessment. The issues are listed vertically, and the results achieved are presented horizontally.

The items on the left side of the horizontal axis—“provided new business opportunities,” “increased corporate earnings,” and “enhanced the company’s technological strength”—may be considered results that contributed mainly to increasing corporate value. The next group of four items—“proved useful for human resources development,” “proved useful for recruitment,” “led to identification/analysis and avoidance/mitigation of risks,” and “improved the company’s image”—relate to improving business operations and maintaining corporate value. In other words, the items on the left refer to results contributing to the creation of corporate value, and as we move toward the right, the items refer increasingly to its preservation.<sup>10</sup> One might say, then, that the range moves from items that are expansionary and dynamic toward those that are defensive and protective in nature.

If we look at the bottom row, “initiatives producing positive results,” we find that activities in every category were effective. The contribution to the creation of corporate value was especially large. The figure on the right, presenting the average number of positive replies per company (with a maximum of 7, indicating successful results in all categories), is also high. And we see relatively high shares of positive replies in both the “expansionary” items like new business opportunities and increased profits and “defensive” items like human resources recruitment/development and risk avoidance. This reflects companies’ ideal of achieving success in both of these areas.

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<sup>10</sup> If one takes a long-term view, of course, all the items can be seen as contributing to the creation of corporate value.

Figure 8. Results Achieved from CSR Activities

	Provided new business opportunities	Increased corporate earnings	Enhanced company's technologies	Proved useful for human resources development	Useful for recruitment	Identification, mitigation of risk	Improved company's image	No clear effect perceptible at this point	Other	Average response per company
<b>Domestic</b>										
Human rights	5%	6%	4%	57%	27%	50%	34%	8%	4%	1.9
Poverty, hunger	14%	16%	7%	36%	9%	27%	55%	5%	9%	1.8
Women's advancement	7%	12%	7%	72%	62%	16%	47%	7%	4%	2.3
Disease prevention	20%	18%	18%	31%	19%	57%	38%	4%	5%	2.1
Environmental pollution	33%	37%	35%	31%	16%	50%	58%	4%	3%	2.7
Ecosystem preservation	24%	20%	24%	33%	14%	32%	71%	8%	5%	2.3
Climate change	39%	41%	40%	32%	19%	43%	61%	3%	4%	2.8
Local community	18%	10%	10%	22%	10%	10%	76%	5%	5%	1.7
Aging	43%	28%	29%	40%	21%	24%	39%	7%	4%	2.4
Other	33%	30%	31%	32%	14%	45%	47%	4%	5%	2.4
<b>Overseas</b>										
Human rights	7%	7%	4%	56%	26%	52%	34%	7%	5%	2.0
Poverty, hunger	15%	10%	6%	32%	10%	16%	67%	10%	8%	1.7
Women's advancement	6%	9%	6%	63%	53%	16%	51%	9%	4%	2.2
Disease prevention	23%	18%	20%	26%	12%	39%	52%	6%	3%	2.0
Environmental pollution	39%	43%	43%	32%	18%	56%	59%	3%	3%	3.0
Ecosystem preservation	30%	25%	27%	35%	15%	42%	70%	4%	4%	2.5
Climate change	47%	47%	48%	35%	21%	52%	58%	2%	4%	3.1
Local community	26%	11%	15%	28%	11%	19%	69%	4%	6%	1.9
Aging	56%	29%	41%	29%	24%	35%	35%	3%	9%	2.6
Other	29%	20%	23%	20%	9%	62%	34%	7%	6%	2.1
Initiatives producing positive results	62%	51%	58%	67%	38%	31%	86%	4%	8%	4.1

*Note: Of companies with specific initiatives to address social issues, the results gained from those initiatives for each issue (multiple response).*

Contrariwise, in the breakdown by issue, the figures are all lower than those for “initiatives producing successful results.” The issues that most closely approximate the “successful initiative” responses are “environmental pollution” and “response to climate change” (both domestic and overseas) and “response to aging” (overseas). “Response to aging” on the domestic side also shows a relatively high level of contribution to the creation of corporate value. Companies may henceforth seek to turn initiatives for these issues into new business ventures.

Needless to say, efforts to create new corporate value are not intrinsically better than those to maintain existing ones.<sup>11</sup> Most Japanese companies are business-to-business enterprises.<sup>12</sup> Value is easier to create downstream in the value chain, so many companies need to recognize the difficulties presented by their position. The fact that enhancement of the company’s image is nonetheless the biggest result of CSR shows that these companies are far from achieving “integra-

<sup>11</sup> This point is extremely important, as talk of “creating shared value” is often marred by a lack of understanding regarding the true aims of CSR.

<sup>12</sup> This is discussed in detail in the case studies for this report. Of particular relevance is the case of Denso, which identifies values that only a B2B enterprise could create for its stakeholders.

tion.” Companies need to give greater thought to learning from their successful initiatives in order for them to improve their CSR programs.

### *C. The PDCA Process in CSR*

In this section we will take a detailed look at the PDCA—plan, do, check, act—process in CSR activities.

#### ***(1) Contact points with society and the deliberation process***

##### *a. Companies with departments for social issues tend to be more interested in those issues*

First let us consider the deliberation process, including points of contact between companies and society. Figure 9 presents replies to a question concerning the process of deliberation regarding each issue and the actors involved in this process. We can see that basically the deliberation is conducted through discussions between departments within the company. With the exception of “poverty, hunger, and income inequality,” the deliberations are mainly conducted not within the CSR department but in other departments with relevance to each issue. Conversely, given the low level of interest in poverty, hunger, and income inequality, one might say that the existence or absence of a department responsible for particular issues affects the level of a company’s interest in those issues.

##### *b. Paucity of dialogue*

When it comes to dialogue with stakeholders outside the company, even the highest figures for implementation are less than half the total: 45% for “ecosystem preservation” on the domestic side and 46% for “poverty, hunger, and income inequality” on the overseas side. It seems that the levels of implementation of dialogue are relatively higher with respect to issues that companies are unskilled at addressing, lack interest in, or know little about. Does that mean that they are well aware of the state of other social issues?

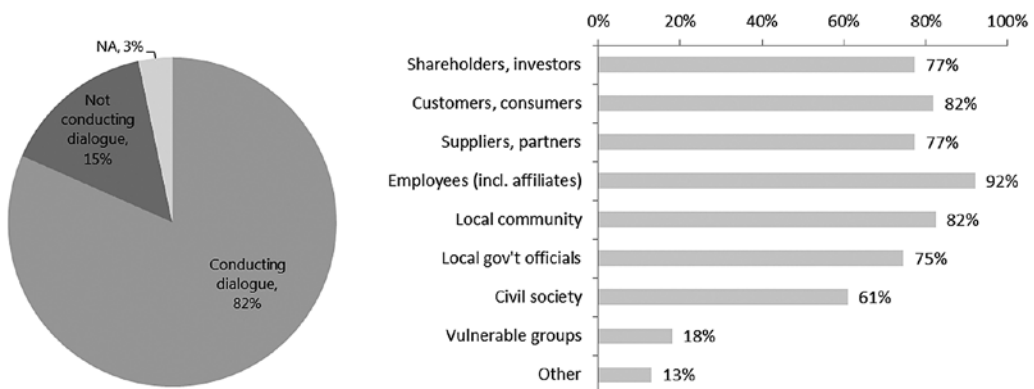
Figure 10 shows a breakdown of the replies concerning implementation of dialogue with stakeholders (not distinguishing between domestic and overseas). We see that 82% of the responding companies are implementing dialogue with stakeholders, including employees. Of these, some 60%–80% are implementing dialogue with parties outside the company. How should we assess the difference be-



Figure 9. Deliberation Process for Social Issues (multiple response)

	Deliberated by CSR dept.	Deliberated w/ in-house depts.	Dialogue w/ external stakeholders	Employee questionnaire	Stakeholder questionnaire	Other
<b>Domestic</b>						
Human rights	51%	88%	30%	27%	4%	7%
Poverty, hunger	70%	60%	32%	4%	4%	13%
Women's advancement	42%	86%	31%	28%	4%	7%
Disease prevention	54%	80%	27%	9%	3%	7%
Environmental pollution	51%	88%	39%	11%	8%	3%
Ecosystem preservation	63%	79%	45%	7%	7%	3%
Climate change	53%	87%	38%	11%	7%	3%
Local community	60%	79%	36%	3%	3%	6%
Aging	42%	87%	25%	6%	5%	5%
Other	58%	88%	43%	8%	5%	3%
<b>Overseas</b>						
Human rights	65%	85%	39%	18%	8%	8%
Poverty, hunger	75%	64%	46%	5%	5%	8%
Women's advancement	66%	81%	26%	12%	3%	7%
Disease prevention	56%	82%	38%	3%	5%	11%
Environmental pollution	59%	91%	39%	9%	6%	3%
Ecosystem preservation	64%	77%	46%	10%	8%	5%
Climate change	58%	85%	41%	11%	8%	3%
Local community	64%	84%	45%	5%	3%	3%
Aging	71%	94%	29%	9%	6%	9%
Other	60%	90%	39%	7%	10%	2%

Figure 10. Dialogue with Stakeholders: Implementation and Partners



tween the findings in Figure 9 and those in Figure 10? One possible explanation is that companies' dialogue with outside stakeholders is not grounded in social issues. According to employees of corporate CSR departments, there is a tendency for dialogue to become an end in itself. The purpose of dialogue with stakeholders is to keep abreast of society's ever-changing expectations, which surely arise out of social concerns. How can companies address various social issues without learning what is expected of them?

### *c. Choice of dialogue partners affects interest in social issues*

Figure 11 examines whether the levels of interest in social issues are different for companies that choose to conduct dialogue with civil society and with socially vulnerable groups. The results on the left are for the 111 responding companies that have dialogue with experts in the civil sector and socially vulnerable groups, and those on the right are for the total sample of 212 responding companies. We see a significant difference of over 10 percentage points for all issue categories except “poverty, hunger, and income inequality,” for which the absolute figures are low.

In order for society and businesses to be sustainable, interest in social issues must be enhanced. One means of doing this is through the choice of dialogue partners. I would suggest that companies not engaged in dialogue with civil society or socially vulnerable groups reconsider their choice of dialogue partners. And companies that have maintained such dialogue can improve their CSR programs by reexamining the significance of the dialogue and giving thought to which topics to address with whom.

The leading CSR companies described in this white paper<sup>13</sup> have grappled with such questions as “What is dialogue?” “What can companies and society gain from it?” and “How can successful dialogue be achieved?” People often associate dialogue with discussions between top executives and invited experts, meetings for investors, and employee gatherings. The case studies here demonstrate that true dialogue occurs in all of the company’s operations and that it is highly meaningful not just for society but for the company as well.

## **(2) Issues in the implementation process**

### *a. High share of companies’ own programs*

Looking at initiatives with respect to each social issue, we find that the share of programs (including business activities) undertaken independently by responding companies is generally high (Figure 12). It tends to be low, though, for the issues of “poverty, hunger, and income inequality” and “local community,” for which

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<sup>13</sup> Specific examples include (1) Shiseido, which provides cosmetic care for cancer survivors and has conducted roundtable dialogue with stakeholders as part of the process of abolishing animal testing, (2) Fanc!, which reconstructed its CSR program around its long-term interaction with a welfare facility, and (3) Marks & Spencer, which actively seeks out dialogue with a variety of stakeholders.

Figure 11. Interest in Social Issues (Impact of Dialogue on Quality)

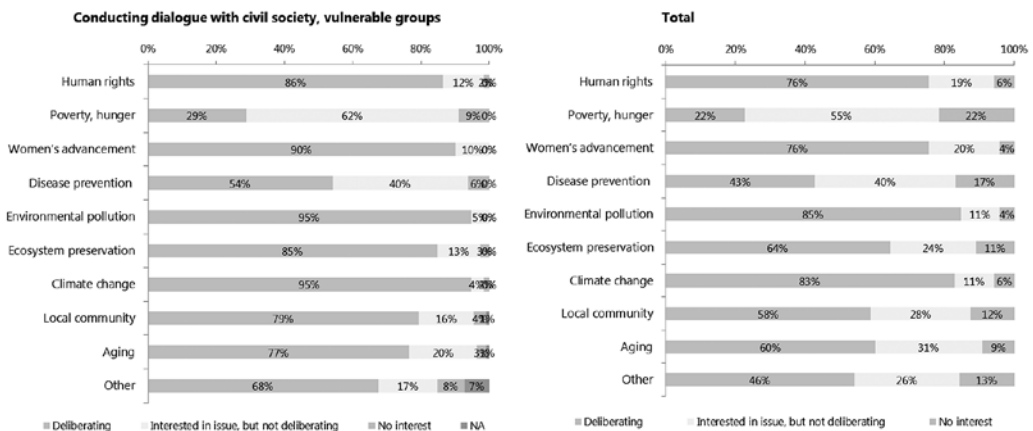


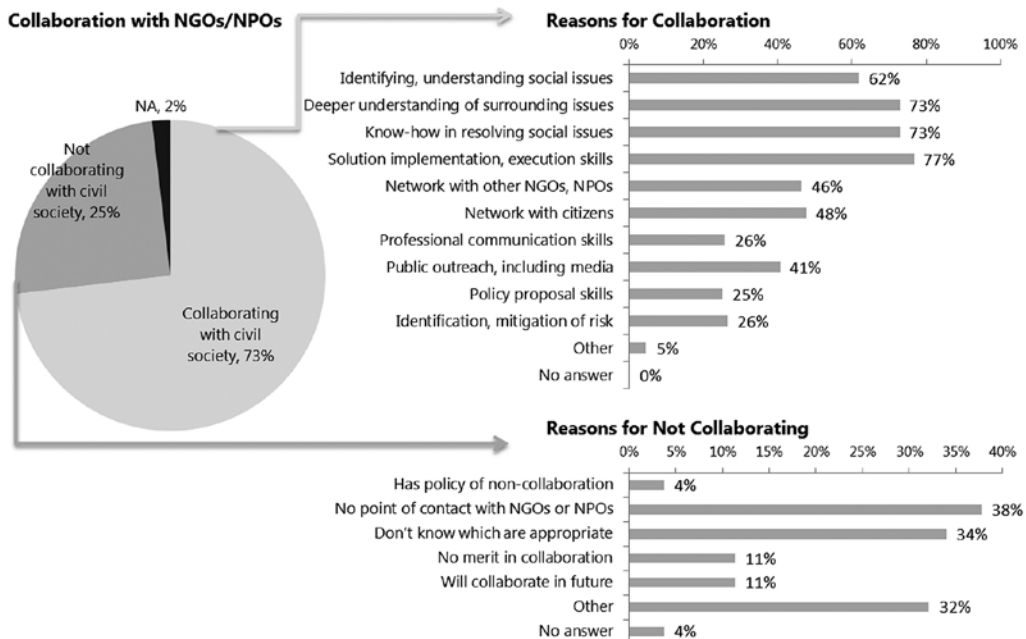
Figure 12. Contents of Activities Implemented

	Money donations to NGOs, NPOs	Donations of company's products to NGOs, NPOs	Participation in social programs	Implementation of social programs
<b>Domestic</b>				
Human rights	18%	6%	18%	89%
Poverty, hunger	45%	27%	20%	70%
Women's advancement	7%	2%	17%	93%
Disease prevention	27%	8%	20%	87%
Environmental pollution	18%	4%	20%	90%
Ecosystem preservation	46%	9%	36%	86%
Climate change	20%	5%	21%	92%
Local community	49%	10%	30%	66%
Aging	14%	7%	19%	93%
Other	26%	7%	22%	90%
<b>Overseas</b>				
Human rights	21%	8%	13%	86%
Poverty, hunger	63%	30%	24%	61%
Women's advancement	13%	4%	10%	87%
Disease prevention	39%	20%	15%	68%
Environmental pollution	16%	3%	19%	89%
Ecosystem preservation	42%	4%	23%	89%
Climate change	19%	3%	17%	92%
Local community	44%	14%	24%	74%
Aging	12%	3%	15%	85%
Other	18%	4%	13%	90%

monetary donations account for a large share of initiatives; specifically, companies have been donating money and products to support NPOs specializing in the area of “poverty, hunger, and income inequality,” and they have been making donations to local events and other activities in the domain of “local community.”

#### *b. Further collaboration with civil society*

Our survey also looked at the state of collaboration with NGOs and NPOs. We

**Figure 13. Collaboration with Civil Sector Organizations**

found that 73% of the responding companies are conducting this sort of collaboration. Of these, 77% report that they expect to draw on these organizations' "implementation and execution skills in resolving social issues." The shares seeking their "know-how in resolving social issues" and "deeper understanding of the surrounding issues" were both 73%. And 62% said they are mindful of the relevance of collaboration for "identifying, understanding, and coming up with proposals for social issues" during the deliberation process. Both the corporate and civil sectors will need to think of ways to broaden recognition of the value of collaboration.

We must also not overlook the fact that close to 30% of the respondents to our questionnaire—consisting mainly of top-tier corporations—reported that they were not conducting any dialogue with civil sector organizations. The main reasons they cited for this were, "We have no point of contact with NGOs or NPOs" and "We don't know which NGOs and NPOs are appropriate as dialogue partners." This would seem to be an issue for the "intermediate organizations" that have been established with the aim of supporting NPOs.<sup>14</sup>

<sup>14</sup> In its 2001 report on intermediate organizations supporting NPOs, the Cabinet Office identified them as "organizations that grasp the changes in local communities and NPOs, act as intermediaries between NPOs and providers of human resources, funds, information,

**Figure 14. Companies' Perceptions of the Scope of Their Own CSR Activities**

		Company	Subsidiary	Affiliate	Other companies
	<b>Domestic</b>				
<b>Value chain</b>	R&D, planning	93%	90%	76%	44%
	Raw materials production	89%	86%	73%	58%
	Manufacturing, processing	93%	91%	77%	65%
	Transport, storage	93%	90%	79%	64%
	Sales, service	96%	90%	80%	59%
	Customer, consumer	92%	86%	79%	60%
<b>Operation support</b>	Marketing, sales	98%	90%	76%	45%
	General affairs, PR	99%	92%	75%	45%
	Personnel	97%	92%	75%	48%
	<b>Overseas</b>				
<b>Value chain</b>	R&D, planning	87%	79%	70%	36%
	Raw materials production	84%	78%	67%	67%
	Manufacturing, processing	86%	83%	72%	62%
	Transport, storage	87%	80%	70%	58%
	Sales, service	88%	82%	73%	52%
	Customer, consumer	84%	79%	75%	52%
<b>Operation support</b>	Marketing, sales	90%	84%	71%	40%
	General affairs, PR	91%	85%	70%	39%
	Personnel	89%	85%	69%	43%

*c. Extending the scope of CSR throughout the value chain*

What CSR initiatives are being taken vis-à-vis suppliers and other organizations in the value chain? Companies were asked to describe the scope of CSR initiatives being undertaken by the company itself, its subsidiaries, affiliates, and others.

We find that the scope of CSR initiatives extends through the entire value chain consisting of the companies themselves and their domestic subsidiaries. The figures for overseas subsidiaries are somewhat lower, suggesting that the scope CSR is not as extensive at overseas subsidiaries as in Japan.<sup>15</sup>

The case studies prepared in conjunction with this report present details of the initiatives directed at affiliates and others in the areas of raw materials and of production and processing.<sup>16</sup> In the years to come, we can expect companies to be

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and other resources, and in the broad sense, coordinate supply and demand for services, aiming for symbiosis and collaboration in a pluralistic society.”

<sup>15</sup> As noted in the 2014 CSR White Paper, with regard to overseas subsidiaries many CSR reports present only an account of activities by volunteers and the like undertaken by various plants and offices, rather than the issues addressed.

<sup>16</sup> One example is seen in the case study of Fuji Xerox, which has set quantitative targets and collaborated with suppliers.

called upon to take social sustainability into greater account in its procurement activities, regardless of whether the actors involved are in Japan or overseas and whether or not the company has an equity stake in them. And it will be necessary to focus not just on expanding the scope of the suppliers subject to CSR requirements but also on enhancing the quality of the initiatives taken.

#### *d. Focusing on the familiar*

The 2014 CSR White Paper noted that companies tended to place greater emphasis on action than on deliberation, resulting in an unsystematic approach to CSR, and our latest survey confirmed this tendency. Figure 15 compares the numbers of initiatives for which deliberations were conducted and for which actions were taken.

Normally, action should be preceded by deliberation. And since deliberation does not always result in action, it follows that the number of cases deliberated should be greater than actions taken. Deliberation is particularly important in the case of CSR, inasmuch as social issues requiring attention are constantly changing. But once again, our survey found that figures were often greater for action than deliberation, as shown in Figure 15 (highlighted items where the value for “action/deliberation” is higher than 100%).

In addition to the state of dialogue noted above, the findings regarding deliberation and action point to a fundamental issue for Japanese companies and Japan’s society as a whole.

Japanese companies and society, in other words, appear to have an unconscious preference for “unison,” perhaps as a result of the relative lack of mobility in the labor market. Many Japanese companies, especially the traditional doyens of the business community, are full of employees who were hired straight out of school. The situation has become somewhat more fluid in recent years due to mergers and acquisitions, but a commonly heard refrain at companies that have been through mergers is that corporate culture is hard to change. An organization whose employees share a common corporate culture is very strong when the objective is clear and the answers are in view, but when they are not, the organization may be quite frail. This culture of unison may be distinctively Japanese, with the West being marked more by an unbroken tradition of dialogue going back to Socrates and Plato.<sup>17</sup> Some, though, take the view that dialogue has always been an integral part of everyday life in Japan, as expounded by ethnologist Tsuneichi Miyamoto. Most Jap-

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<sup>17</sup> This is seen in the many dialogues and in the *Essays* of Michel de Montaigne.

**Figure 15. Deliberation vs. Action**

	Conducts deliberation (a)	Takes action (b)	Action/deliberation (b/a)
	<b>Domestic</b>		
Human rights	158	157	99%
Poverty, hunger	47	44	94%
Women's advancement	158	161	102%
Disease prevention	89	91	102%
Environmental pollution	177	181	102%
Ecosystem preservation	134	146	109%
Climate change	173	176	102%
Local community	122	144	118%
Aging	125	117	94%
Other	97	97	100%
	<b>Overseas</b>		
Human rights	92	91	99%
Poverty, hunger	61	79	130%
Women's advancement	68	68	100%
Disease prevention	61	66	108%
Environmental pollution	116	117	101%
Ecosystem preservation	83	91	110%
Climate change	116	113	97%
Local community	64	72	113%
Aging	34	34	100%
Other	88	90	102%

(a): The number of responding companies reporting that concrete deliberations on issues are being conducted through multiple meetings in response to the query, "How much interest does your company have for each of the social issues listed below?"

(b): The number of responding companies reporting that they have in-house programs, make donations, elicit the participation of employees/managers to address social issues, etc., in response to the query, "Which among the social issues listed below are you addressing with concrete measures?"

anese companies that have grown into major corporations, though, seem to embrace the culture of unison over that of dialogue.

CSR entails identifying what the company can do to promote social sustainability and implementing those actions. Unison can be an invincible asset when society and the wellspring of the company's competitive strength are fixed. But, as I have noted, when society is in flux, companies need to respond flexibly, which may entail sacrificing a degree of unison. There is likely to be strong resistance to such change, inasmuch as unison is usually seen as a source of strength, but com-

panies must realize that change is inevitable if they are to secure their own and society's sustainability.

For this, both deliberation and dialogue are indispensable. Antennas must be extended to pick up what people are saying and doing and to think continually about how the company's competitive advantages can be put to work in society. The traditional emphasis on action may have been an asset when objectives and answers were easy to see. But from now on, as diverse values vie with each other and answers become less visible, this approach will need to be replaced. Also needed to ensure social and corporate sustainability will be new ways of promoting labor mobility and developing human resources.<sup>18</sup>

*e. Is the long-term approach to CSR a strength or a weakness?*

One finding of the latest survey is that companies tend to maintain individual CSR initiatives for extended periods. Figure 16 shows the breakdown by issue of the reported length of implementation.

For most issues, implementation periods of 4 years or over accounted for 80%–90% of total initiatives, and there were also many issues where initiatives that had been carried out for periods of 11 years or more accounted for over half of the total.

These figures indicate the strength of Japanese companies' long-term commitments. Extended implementation periods are also seen in most of the case studies of this report. We may say that one characteristic of Japanese companies is that once they start collaborating with a social business or supporting socially vulnerable persons, they stick with that commitment for a long time.<sup>19</sup>

Society is constantly changing, though, and with the passage of a few years, the same terminology may come to represent a different set of social issues.<sup>20</sup> Continuation of the same initiative may satisfy the stakeholders involved. But the long-

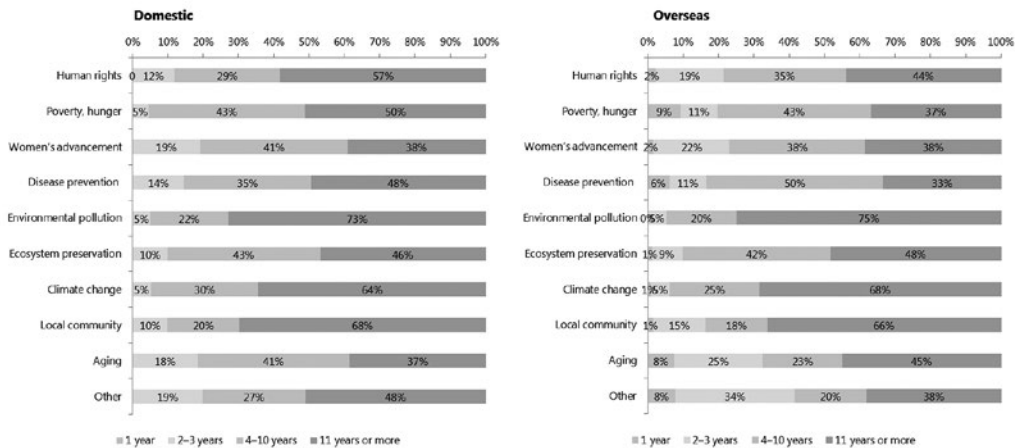
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<sup>18</sup> The idea of building up CSR programs with a focus on human resources development appears repeatedly in the case studies for this report.

<sup>19</sup> This is something I often personally feel through my involvement in NPO management. It seems that many companies are extremely cautious about starting collaboration, but once they begin addressing a particular social issue, they go on deepening their involvement.

<sup>20</sup> For example, the interpretation of "human rights" is becoming much broader. This term covers an extremely wide scope, referring to the entirety of rights that every human possesses from birth. These include not just the right to life but also to rights relating to standard of living, health, education, employment, working conditions, and participation in society, along with freedom of speech, thought, and religion. How are companies to address all these rights in their activities? Needless to say, they must respond with a view to a full range of human rights while also respecting local thinking.



**Figure 16. Duration of Activities Implemented**

*Note: Of companies reporting that they have specific CSR initiatives to address the issues indicated, the number of years they have been implementing those initiatives.*

term approach may actually cause companies to overlook changes in society's expectations. This would not only be a loss for society but may deprive companies of opportunities to create and maintain corporate value and could even threaten their own sustainability.

Analysis of the tendency toward long-term undertakings may be an issue for Japan's CSR. The companies covered in the case studies for this report<sup>21</sup> are taking advantage of the strength of their long-term commitments. By resetting the objectives both for society and for the company itself, they are giving greater substance to their own *raison d'être*. This can serve as one vantage point for Japanese companies as they review their CSR programs.

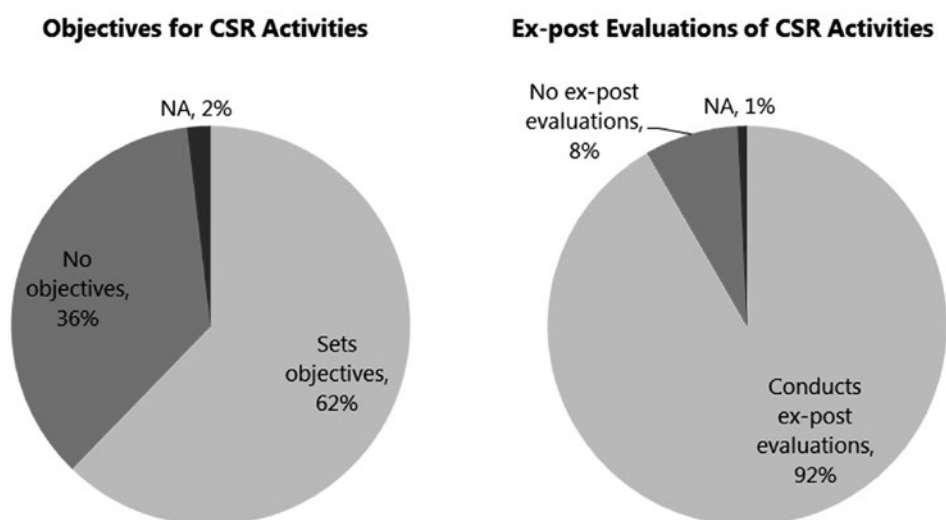
### **(3) Issues in the evaluation and improvement process**

#### ***a. Setting Objectives and Conducting Evaluations***

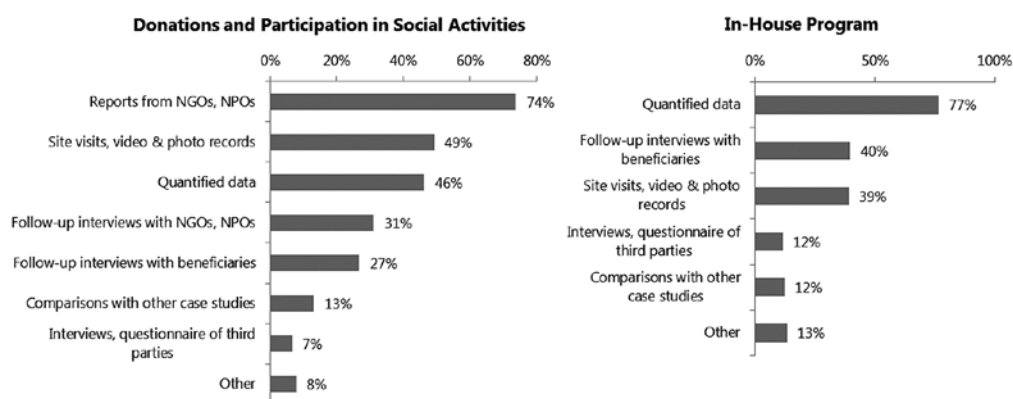
Setting objectives and conducting ex-post evaluations are just as important in CSR as in other business activities. Figures 17 and 18 show the status of these processes and the substance of the evaluations.

<sup>21</sup> Examples include Fancl, which has reconstructed its CSR program, Denso, which conducts CSR as a "window to society," and Marks & Spencer, which has adopted a long-term vision.

**Figure 17. Setting Objectives and Conducting Ex-Post Evaluations**



**Figure 18. Methods of Checking Results**



Over 60% of the respondents set objectives, and most of them also conduct ex-post evaluations. In the case of donations and participation in external programs, the commonly cited methods for evaluating the results were the receipt of activity reports from the NGOs and NPOs to which the donations were directed and visits to the sites where activities were held. In the case of in-house programs, which account for a major share of CSR activities, site visits were the most commonly mentioned method. Some companies also assessed their activities objectively through interviews with beneficiaries and third parties, although the number of such firms was in the minority.

It is natural for companies to check the results of their donations and participation in external activities by receiving reports. NGOs and NPOs prepare such reports in order to reveal the significance of their activities for beneficiaries. If their reports fail to convey the significance for beneficiaries, they cannot hope to win further support.

In the case of companies' own activities, by contrast, the process of checking results cannot be said to be adequate. This would seem to be related to the emphasis on action over deliberation. What is to be learned from visits to the sites of activities? If the beneficiaries are present, it may be possible to observe their reactions. But such reactions represent only the immediate outcome of each activity's implementation. They reveal "outputs" rather than "outcomes." The fact that only 40% of the companies conduct follow-up interviews with beneficiaries shows the low level of interest in outcomes.

Behind this problem there probably lies a lack of focus on such questions as what companies are seeking to achieve from their CSR activities, what social issues they are addressing, what state of affairs would represent a resolution of the issues, and whether companies can say that they have accomplished something. In other words, the setting of clear objectives, which ought to be part of the deliberation process, is not being conducted properly.

A growing number of companies are setting targets for their CSR activities. But this is still a developing trend. For example, few companies have quantified their CSR objectives—something that Japanese corporations excel at when it comes to their main business activities. Some business people admit that they do not know how to go about quantifying CSR targets, which is admittedly a complex subject. Our report, though, introduces a number of case studies of companies that have succeeded in setting concrete targets and implementing assessments with reference to the significance of their activities for sustainability.<sup>22</sup> The quantification of objectives clarifies what the organization is aiming for and allows the objectives to be shared. It is an important element of incorporating CSR into mainstream business management.

### *b. Progress in publicizing CSR activities*

Communicating CSR activities takes various forms. The most common approach is to introduce one's initiatives on corporate websites, followed by the publication

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<sup>22</sup> This is seen in Denso's incorporation of CSR objectives into its business operations and in Fuji Xerox's quantification of its objectives.

of CSR and integrated reports. This is quite appropriate, given the kind of companies surveyed. And to judge from the results of our interviews and observation of publicity materials, companies appear to be assigning differentiated roles to their websites and reports in line with the characteristics of each media.

Reflecting the fact that the companies surveyed are leaders in the field of CSR, about 70% of the respondents are also conducting overseas publicity of their CSR programs. The most commonly cited geographical targets are the United States, Europe, and Asia. All of these companies are conducting CSR publicity in English, and about 30% are also doing so in Chinese. Many companies are using both their websites and printed reports for CSR publicity in languages other than Japanese as well. According to our interview findings, the foreign-language content is often simply a translation of the Japanese content, but there are some companies that are undertaking regionally oriented publicity as part of their CSR programs, such as by putting together special sections in response to local expectations.

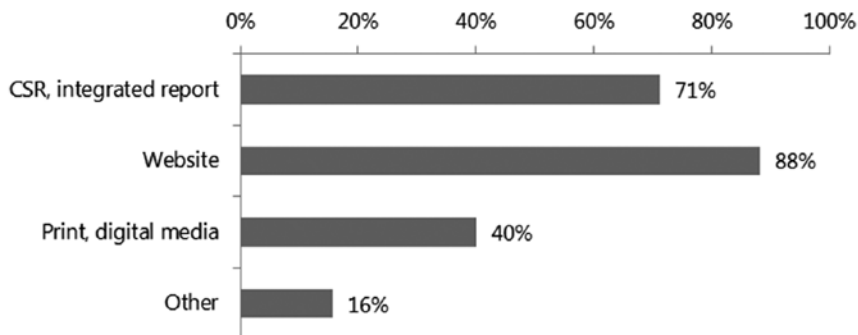
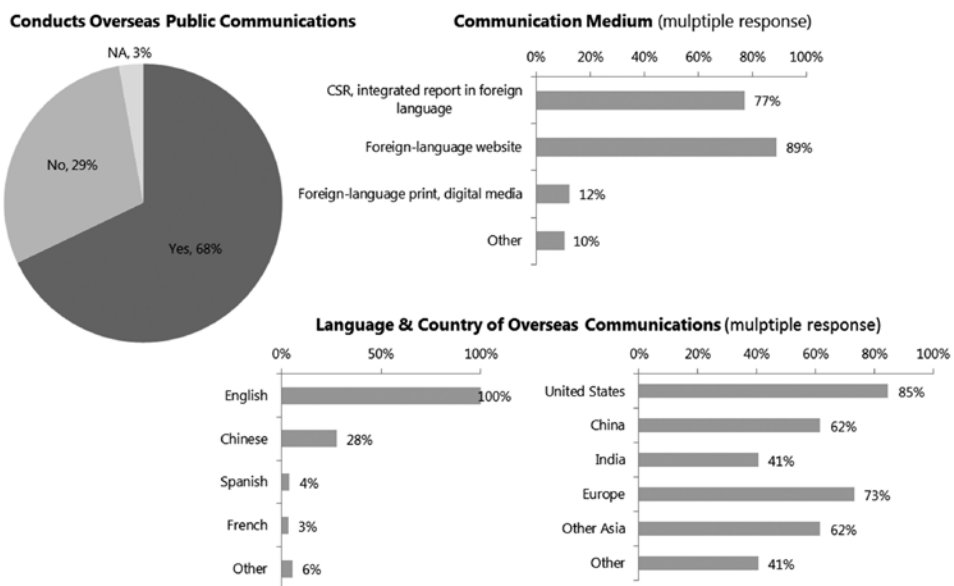
#### ***(4) More time required for governance reforms to take hold***

In the annals of Japan's CSR, 2014 will be remembered as the year when the Stewardship Code was fully adopted. This code was published in February 2014 by an expert panel of the Financial Services Agency as "Principles for Responsible Investors: Japan's Stewardship Code—To promote sustainable growth of companies through investment and dialogue."<sup>23</sup> The code "defines principles considered to be helpful for institutional investors who behave as responsible institutional investors in fulfilling their stewardship responsibilities with due regard both to their clients and beneficiaries and to investee companies," and it calls on them to "to enhance the medium- to long-term investment return for their clients and beneficiaries (including ultimate beneficiaries) by improving and fostering the investee companies' corporate value and sustainable growth through constructive engagement, or purposeful dialogue, based on in-depth knowledge of the companies and their business environment."

It was also in 2014 that the Companies Act was revised to strengthen corporate governance with provisions calling for the appointment of outside directors. In response to strong suggestions that more active use be made of outside directors in order to enhance the oversight functions of the board of directors over executives, the revision (1) created a new "company with audit and supervisory committee" system, (2) tightened the conditions for outside directors, and (3) introduced a re-

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<sup>23</sup> <http://www.fsa.go.jp/en/refer/councils/stewardship/20140407/01.pdf>

**Figure 19. Publicity Media for CSR (multiple response)****Figure 20. Overseas Publicity of CSR Activities**

quirement for companies that do not appoint outside directors to explain why it is inappropriate for them to do so.

Will these changes in the provisions for corporate governance have the same sort of impact that the amendment of Britain's Pensions Act that came into force in 2000 had in contributing to the spread of CSR?<sup>24</sup>

<sup>24</sup> Under this law, pension fund trustees must disclose "the extent to which (if at all) social, environmental or ethical considerations are taken into account" in their investment princi-

In our latest survey, in addition to asking about the composition of responding companies' boards of directors, we analyzed whether differences of composition resulted in different levels of interest in social issues. Specifically, we compared the 73 responding companies that have women or non-Japanese on their boards with the total sample of 212 responding companies.

Though we found a difference of over 10 percentage points in interest in the social issue of "poverty, hunger, and income inequality" on the overseas side, there was no significant difference with respect to other social issues.

This result may be considered only natural in view of the current handling of CSR by boards of directors. Even though boards may receive reports on CSR-related matters, they seldom take up these matters as a subject for deliberation. CSR ought to be a core management issue relating to the company's response to the expectations of society, but in practice it is not treated as such. And even when outsiders are included in boards of directors, if these members are from other private-sector companies, they are unlikely to have divergent social perspectives. Given this state of affairs, it will probably take time for concrete differences to appear.

This is an important issue for CSR, and we plan to continue monitoring progress in this area as we improve our survey in the future.

#### ***(5) Shared recognition of issues in promoting CSR***

To conclude our analysis of the latest survey, let us look at what the responding companies see as the issues that they face in seeking to advance their CSR programs. We asked respondents to identify the issues that they face (1) at the executive level, (2) in their business operations, and (3) in their CSR departments.

The most commonly cited issues at the executive level and in business operations were the same. The top three were "fitting CSR into business activities (pursuing both simultaneously)," "insufficient understanding of CSR," and "promoting in-house awareness." Actual cases cited were also more numerous than for other issues. There is considerable overlap between these and the issues covered in this paper, and we see that even companies that are enthusiastic about CSR have common concerns relating to their CSR programs.

The issues in the CSR departments, on the other hand, seem to be slightly different. "Promoting in-house awareness," which is part of these departments' mis-

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ples. As a result, an increased number of pension funds in Britain have come to pursue socially responsible investment.

Figure 21. Composition of the Board of Directors

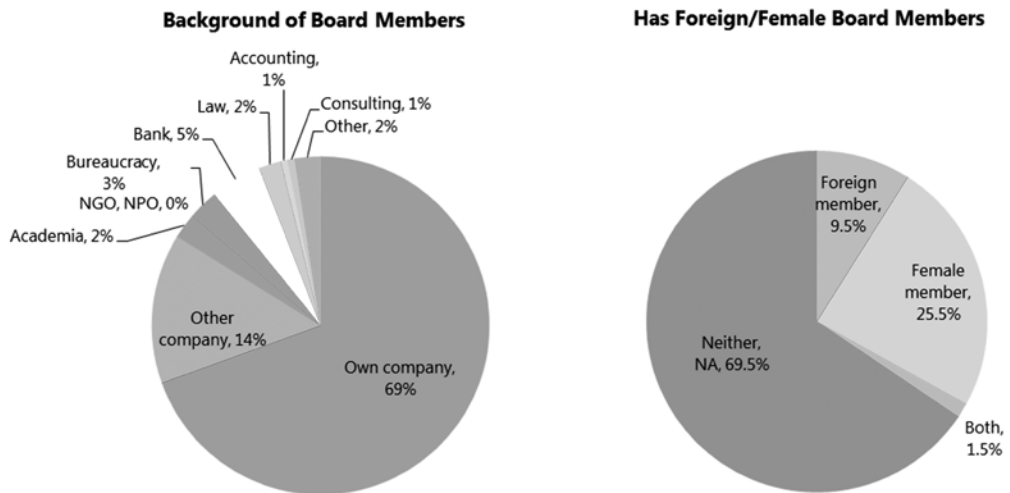
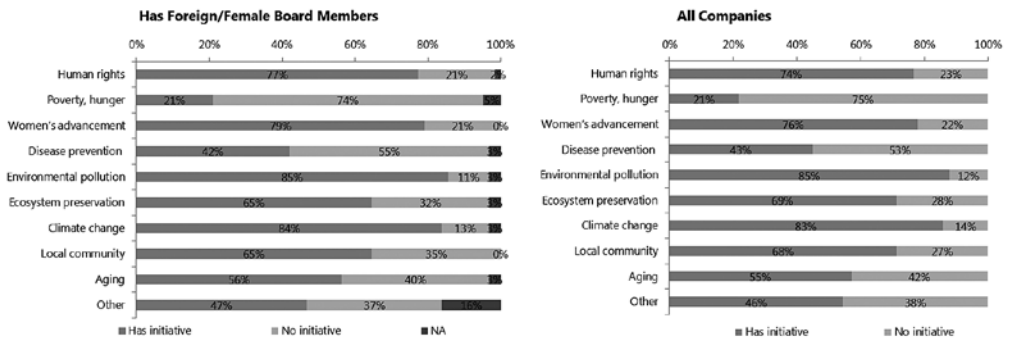
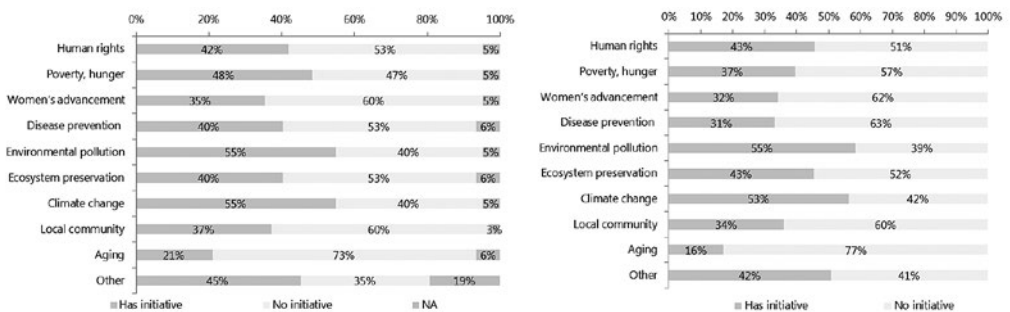


Figure 22. Implementation of Initiatives Addressing Social Issues: Comparison Based on Composition of Board of Directors

*a. Domestic*



*b. Overseas*



**Figure 23. Issues in Promoting CSR (multiple response)**





sion, ranks highest, and the second-place issue is “insufficient resources” (personnel, materials, and funds). If we look at this in conjunction with the issues cited in this paper, such as the tendency for CSR activities to extend over long terms and the process of setting objectives and conducting evaluations, we can say that it comes down to a question of how CSR programs are reviewed—a process that involves setting priorities, adopting a basic policy to serve as a yardstick, picking the social issues to address, and conducting dialogue with carefully selected partners—even though such a route may seem like a detour. The third-place issue, “Improving collaboration among departments” also overlaps the “promoting awareness” issue, and it also needs to be seen as one of the problems faced by CSR departments, which, as noted in our 2014 CSR White Paper, are liable to be isolated within their company. This is not an issue just for the CSR department but also one that needs to be addressed by corporate management. And it may be one manifestation of the fact that companies have not yet been able to build a shared awareness of what CSR is.

October 17, 2016

# Japan's Role in Sustainable Development

Jeffrey D. Sachs

*Having made substantial progress in meeting the Millennium Development Goal of reducing extreme poverty, the world is now turning its attention to achieving economically, socially, and environmentally sustainable development, a more challenging goal, notes Jeffrey Sachs of Columbia University, that requires efforts by many more players—both developed and developing countries and not just governments but also businesses, academia, and NGOs.*

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For the last 15 years, the United Nations member states have focused on the fight against extreme poverty with the Millennium Development Goals. This has been quite a challenge, as the causes of extreme poverty are complex. They are social, political, economic, and geographical; the world, moreover, tends not to pay much attention to very poor people. The market economy focuses its effort on the rich people who can buy goods, and these are the people who get the most attention in the media, in advertising, and in public policy.

So the United Nations did something very valuable 15 years ago when it focused the world's attention on the poorest people, saying that this is our greatest challenge both from a moral and practical point of view. When there is poverty, there is instability, there is conflict, and there is disease transmission. So solving the problems of extreme poverty is in everybody's interest.

## Age of Sustainable Development

The MDGs were to be achieved by 2015, and now that we are at the end of the 15-year period, governments have taken comfort from the progress that has been

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*Jeffrey D. Sachs    Professor of Economics and Director of the Earth Institute, Columbia University*

made and have decided to adopt another set of goals for the next 15-year period: the Sustainable Development Goals, which will cover the period from 2015 to 2030. They will be even harder to achieve because sustainable development involves much more than fighting poverty; it not only targets poor countries but calls on all countries—including Japan, the United States, China, and the European Union—to make increased efforts to achieve sustainable growth.

And in fact, the challenge of sustainable development is so big that it cannot be left to the governments alone. It requires the very active participation of all segments of society, including the business sector, the academic sector, and nongovernmental organizations.

What, exactly, is sustainable development? It is based on the three concepts of economic development, social inclusion, and environmental sustainability.

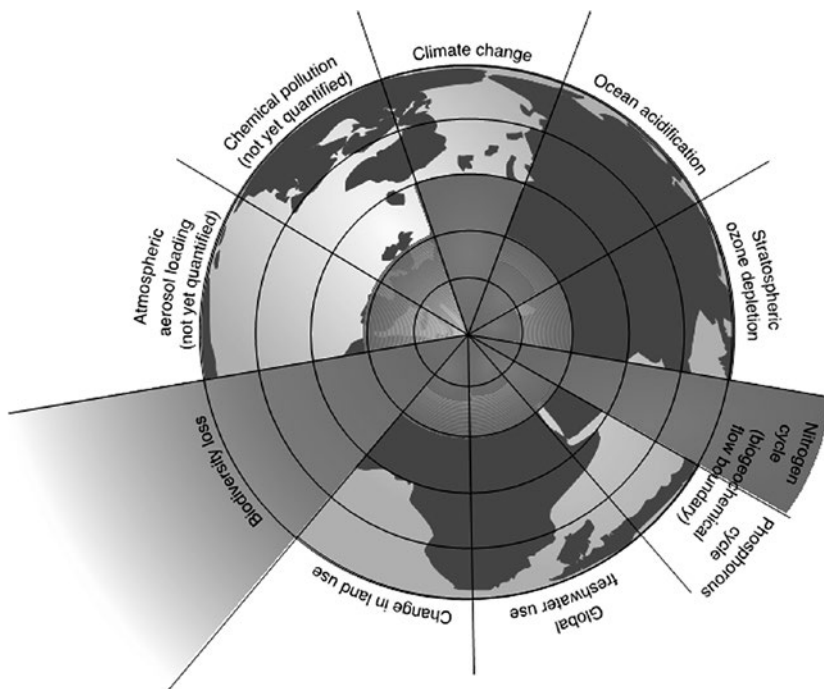
The economic objective is to continue to achieve economic progress so that the poorest countries can overcome their poverty. The social objective of inclusion is to ensure that all parts of society benefit—girls as well as boys, women as well as men, minority groups as well as majority groups, and the poor as well as the rich. And the goal of environmental sustainability is to stop the destructive forces of the world economy that are causing increasing environmental damage. Sustainable development means embracing all three objectives—economic, social, and environmental.

The good news is that the proportion of the world living in extreme poverty is falling. One of the Millennium Development Goals was to cut the global poverty rate by more than half from 1990 levels. The poverty rate in 1990 was 43% of the population in developing countries. That came down to 21% in 2010, and the current poverty rate is around 15%.

## **Growing Inequality**

So the MDGs were successful in helping to speed the reduction of extreme poverty and also in fighting diseases, especially AIDS, tuberculosis, and malaria. That is why the member governments of the United Nations agreed to adopt new goals for the next 15 years. The problem, though, despite the progress we have made, is that we are also failing to achieve sustainable development in other important ways.

First, there is growing inequality in many societies. In the United States, for example, the gap between the rich and the poor has widened considerably during the last generation. The same can also be said of China. People have been demonstrating on the streets in many parts of the world to protest rising inequality and widespread unemployment.

**Figure 1. Planetary Boundaries**

Second, there continues to be about 1 billion people living in extreme poverty, centered on Africa. This is still a lot of people—around 15% of the global population of 7 billion.

And third, the world is experiencing a growing environmental crisis that is very serious—even more serious than most people can understand. In 2009, for example, a concept called planetary boundaries was introduced defining the safe operating room for the world economy and the areas that we are now violating. According to this concept, we can cause a certain amount of disruption to the environment and still be safe, but going beyond that limit presents very great dangers.

The most dangerous environmental threat is climate change caused by greenhouse gas concentrations in the atmosphere, especially carbon dioxide from burning the coal, oil, and gas to power the world economy. Other kinds of risks include the depletion of freshwater resources, the poisoning of the rivers by nitrogen and phosphorus fertilizers, the destruction of habitat, the loss of biodiversity, the over-fishing of the oceans, and the acidification of the oceans.

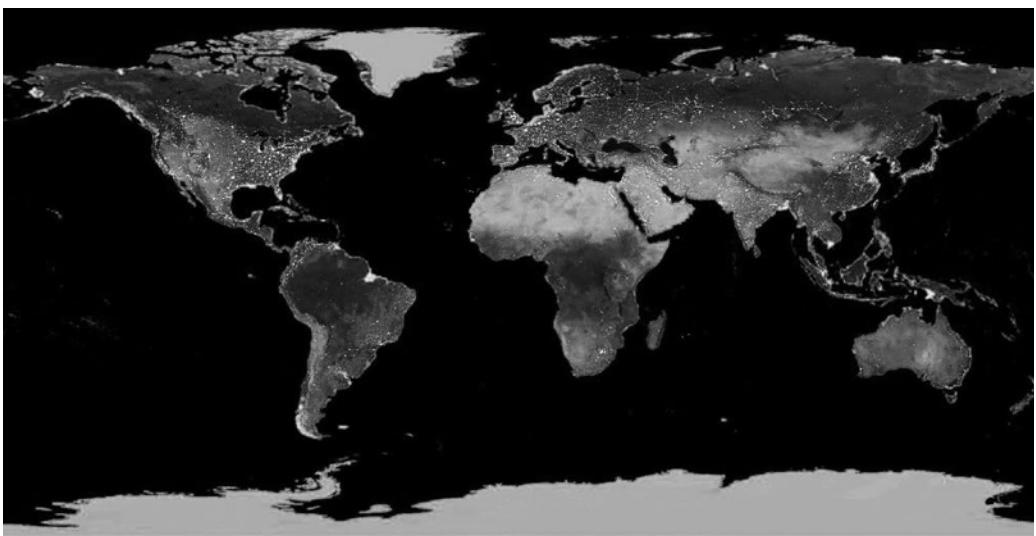
Seawater is becoming more acidic because the carbon dioxide in the atmosphere dissolves and creates acidity in the oceans; this is a threat to the whole

marine ecosystem. These threats are growing because the world economy is growing. There are 7.3 billion people, and total global production is now more than \$100 trillion a year, which means \$13,000 per person. Sustaining this level of activity requires technologies that threaten to violate the planetary boundaries.

### **On the Eve of Worldwide Disaster?**

According to recent data, June 2015 was the hottest month of June in the recorded history of all months of June. This followed May 2015, which was the hottest May in 130 years, and this followed April, which was the hottest April on record. We are dangerously changing the planet, and one of the implications is a water crisis. Water reservoirs are dry, and many parts of the world are facing extreme drought conditions.

The ice sheet of Antarctica is being eroded by warm ocean water flowing underneath the sheet and melting the ice from below, thereby causing the glaciers on Antarctica to slide faster into the ocean. This could cause the sea level to rise by several meters within a century and trigger a worldwide disaster. Recent scientific information based on the earth's history and on direct observations of what is happening in Antarctica indicates that this is quite possible. James Hansen, who has been the leading scientist of the US government on climate change for the past 30 years, says that we are on a reckless and extremely dangerous course and could experience a fundamental disruption to society if we do not immediately take action.



© NASA

*Land lost to a 6-meter sea level rise.*

The map above shows in red all the areas that would be lost with a 6-meter increase in the sea level. Many of the world's largest cities would become uninhabitable, and a country like Bangladesh with 100 million people would no longer exist. We face real threats, but we are not good psychologically at addressing them because we believe that tomorrow will be like today and that we should just go about our normal business. We do not have time for normal business anymore. That is why we need the Sustainable Development Goals, of which there are 17.

One of the big areas for action is energy, the basic challenge being to reduce the economy's dependence on coal, oil, and gas. All of these fossil fuels produce carbon dioxide, which is the main reason for climate change. Within the next 50 years, we have to move to wind, solar, geothermal, hydro, and possibly nuclear energy. It is not going to be possible for Japan or the United States or China to continue to depend on coal. So each country has to make hard choices on its energy strategy regarding nuclear power and renewables.

These debates are very important, and I doubt that the answer people come up with will be "We'll continue to do what we do now." That would not be acceptable. We need to study the process of decarbonizing the energy system. One project that I helped to lead for UN Secretary General Ban Ki-moon is deep decarbonization, which was aimed at getting our economy out of fossil fuels and increasing our reliance on low-carbon energy.

## **Green Innovations**

What are Japan's responsibilities and opportunities in this new era? There are three major places in the world where patents are being achieved, and these are the big innovation centers for the world economy. One is Northeast Asia—Japan, South Korea, and China. The second is Western Europe, and the third is the United States. Japan is one of the most important scientific and technical centers of the world, so Japanese businesses need to lead the technologies for sustainable development.

For example, Toyota pioneered hybrid vehicles, and now it is pioneering fuel-cell vehicles and zero-emission electric vehicles. This can be part of a strategy for deep decarbonization, but it is also part of a strategy for prosperity, because if Toyota gets there first with the best cars, that will mean more prosperity for Japan. Being innovative for sustainable development will thus be the most important competitive strategy in the coming generation. The countries that achieve the green technologies, the green transport, the low-carbon energy, the low-energy buildings, the energy-efficient appliances, the green materials, and the waste-recycling systems will be the winners of the new world economy, and any country that continues as

they are doing right now will be the losers in the end. We are all going to have to change directions.

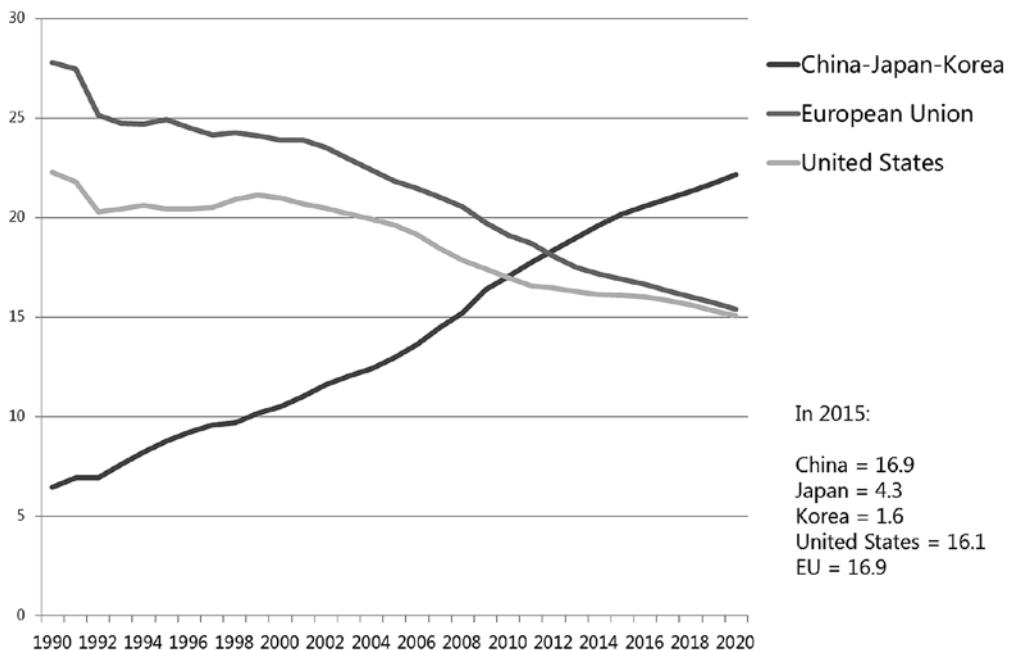
We need to think seriously about the next 20 years, because that is when the future is going to be either made or lost. As Figure 2 shows, East Asia will be the key to success. The red line is the European Union's share of the world economy, and the green line is the US share. The blue line that is going up is the share of Japan, China, and Korea combined.

East Asia is now the world's largest economic grouping, and it will be the most successful if there is good cooperation in this region. It is one thing to add the GDPs of the three countries together and another for the three to cooperate closely to achieve sustainable development. I believe that if Japan, China, and Korea cooperated closely for sustainable development, the whole world can achieve success, so the region will have an extremely important role.

## Good Business Practices

How can business best contribute to the Sustainable Development Goals? What it can do very quickly, first, is pursue good and ethical business practices, namely, pay

**Figure 2. Shifting Geo-Economics: Shares of World GDP (%)**



fair taxes and royalties, protect the environment and clean up any spills, ensure good labor standards, and manage the entire supply chain. This means that if a business is buying from farmers 5,000 miles away, you need to make sure that they are operating properly without child labor, with fair practices, and with good environmental practices. If you are selling clothing, you have to make sure that whoever is making it in Laos, Cambodia, or other country is operating according to proper standards.

This will lead to the creation of “true value,” rather than “measured value.” Adding true value means, first, not cheating someone else. Second, it involves innovating for social purposes, one good example being the Olyset insecticidal net manufactured by Sumitomo Chemical—one of the most important innovations over the past generation in stopping the transmission of malaria in Africa. Thanks to this and other innovations as part of the MDG effort, malaria is now down by more than 60%. And third, companies should participate in public-private partnerships to solve problems for health, education, infrastructure, finance, transport, and renewable energy. The Millennium Village project, for instance, has been co-operating with Sony, Toyota, Sumitomo Chemical, and other companies in Japan because this is a worthy way for companies to use their know-how and technology to reduce poverty, control disease, improve education, and achieve sustainable development.

I have been asked by UN Secretary-General Ban Ki-moon to create a knowledge network of universities, think-tanks, and businesses around the world to help solve practical problems of sustainable development. We are calling this the Sustainable Development Solutions Network and have members from all over the world. The Japan chapter of the country’s leading universities, businesses, NGOs, and foundations was just launched in Yokohama, and it should address problems like deep decarbonization, energy efficiency, robotics, information technology for sustainable development, good urban design, green chemistry, and the challenges of aging and well-being.

There are many big challenges, but Japan is one of the world’s leaders in problem-solving, and I look to Japan to help the entire world to achieve sustainable development.

*This article is based on a keynote speech given by the author at the Tokyo Foundation Forum, held on July 30, 2015, in cooperation with the Japan Center for Economic Research and Millennium Promise Japan.*



September 01, 2016

## Japan's Civil-Society Revolution

### *Nonprofit Activity and Social Enterprise since the Kobe Earthquake*

Masataka Fukao

**T**he Great Hanshin Earthquake of 1995 was highly destructive owing to its direct impact on Kobe, a major urban center. It was also an important wake-up call for Japanese society, highlighting both serious problems and untapped potential in a number of areas. Prominent among these was the role of government and civil society in the public domain.

#### **The Broadening Role of Citizen Engagement**

The post-quake surge in volunteerism and action by nonprofit groups highlighted deficiencies in Japan's status quo, notably the fragility of a social system dependent on government at every stage and the resulting tendency for citizens to become passive consumers of public services, as well as the physical and functional limitations of the government in responding to society's needs.

At the same time, the image of ordinary citizens coming together in the face of great hardship to create their own public sphere demonstrated that civil society existed in Japan as a reality, not simply an abstract concept. The impact on Japanese society can be compared to the changes that took place in Eastern Europe after the collapse of the Berlin Wall.

The year 1995 marked the dawn of a new age of volunteerism in Japan, and during the next decade—punctuated by the 1998 enactment of the Law to Promote Specified Nonprofit Activities (NPO Law) and the 2003 reform of public interest corporations—Japanese society came to recognize the pivotal role of citizen engagement in supporting the public interest.

Meanwhile, in the two decades of economic contraction and stagnation that followed the collapse of the asset bubble, the Japanese were forced to rethink their

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Chief Director, Kyoto Foundation for Positive Social Change.

collective values. Japanese society began to confront the problems inherent in mature capitalism and to search for a more sustainable model. Businesses were called on to redefine their responsibilities to society, and a large number responded by actively undertaking philanthropic programs in the name of corporate social responsibility.

Of course, most major Japanese corporations were built with a social mission in mind. A well-known example is Matsushita Electric (today's Panasonic), founded by Konosuke Matsushita, who adopted the following corporate philosophy in 1929: "We will strive for the development of the nation's industry and the betterment of society with a firm commitment to harmony between business profits and social justice."

But this essential component of business management receded into the background during the era of rapid growth and the decade of the asset bubble, as society embraced the concept of the corporation as an entity designed solely to pursue profits on behalf of the shareholders to whom it belongs. Viewed in this historical context, the recent emphasis on CSR and creating social value can be thought of as a bid to fuel new growth by revisiting the nature and potential of business as a positive force in society.

Another aspect of this trend was the appearance of a new business model: the social enterprise, or social business, an operation whose success is gauged not only by its bottom line but also by its contribution to the public interest and the resolution of society's problems. In recent years this model has drawn considerable attention, and a new breed of social entrepreneurs eager to launch such businesses has sprung up in Japan and elsewhere. The interest this trend has generated among talented men and women of all ages, but especially among the young, is cause for genuine hope for the future.

Recent years have also witnessed the rise of a variety of initiatives to encourage and support these trends. In addition to policy measures at the state and local levels, private corporations and nonprofit organizations have undertaken a number of important projects. The business daily *Nihon Keizai Shimbun* has instituted the Nikkei Social Initiative Award to honor the achievements of Japanese social enterprises and NPOs, while NEC, Kao, and other companies are collaborating with the nonprofit ETIC (Entrepreneurial Training for Innovative Communities) on a program to train social entrepreneurs and assist them in the development of new business models.

## **Challenges of Nonprofit Management**

After the Great Hanshin Earthquake, the term NPO (nonprofit organization) came

into currency to describe the various public-interest-oriented community groups that had played such a prominent role in the recovery effort. After the government enacted legislation to facilitate the incorporation of these groups in 1998, nonprofit activity expanded rapidly, thanks in large part to volunteer activity. Certainly the image of ordinary citizens working selflessly for the greater good, without thought for financial profit, resonated with the public and helped drum up support for such groups. But the public's strong association of nonprofit activity with volunteerism is one of the reasons that NPOs have found it so difficult to embrace principles of sound business management.

I founded the Kyoto NPO Center in 1998, at a time when terms like "social business" and "social enterprise" were rarely heard. Even so, the center's founding members shared an orientation toward organizations built on business principles. Our hope at the time was eventually to make Japan's nonprofit sector a place where people could find employment and make a living. This has proven quite difficult, in part because the Japanese public has come (mistakenly) to associate nonprofit work with uncompensated work. Nonetheless, we did find that there was a niche for our work in the community, and we undertook a number of civic initiatives.

One was the launch of a local community radio station. Although "community FM" had existed since 1992, most of the stations covered by the pertinent law were run by quasi-public entities funded by government. Feeling the need for a radio station by and for local citizens to help build an independent "people's media," we supported efforts to operate a station as a nonprofit corporation.

However, we soon ran up against a major difficulty: A broadcasting license proved much harder to obtain for an NPO than for a profit-making business. There were many reasons for this, but the main factor was the lack of generally accepted criteria for assessing the performance of a nonprofit. A commercial business could be assessed by capitalization, sales, and other financial measures, but since no such yardsticks existed for NPOs, there was no way to evaluate them.

In addition, the group seeking to operate the station had issues of its own. Its members instinctively rejected the concept of making money, and organizational difficulties emerged owing to the group's origins in a citizens' movement. It took some time to overcome these obstacles. This experience gives some indication of the factors—particularly the deep-rooted prejudice against money-making activity by a nonprofit group—that have necessitated the adoption of new models, such as the "community business" and the "social business," that stress a business orientation along with a social purpose.

## Quasi-Governmental NPOs

Another factor that has influenced the development of Japanese NPOs is the fact that the 1998 Nonprofit Organization Law and associated provisions were drawn up with an eye to supporting a far-reaching reform of Japan's welfare system, specifically, the introduction of Long-term Care Insurance in 2000.

The government had high hopes for NPOs as providers of nursing care in Japan's rapidly aging society, and in fact, many of the NPO corporations that function as businesses today fall into this category. According to figures released in April 2015, loans to social businesses from the Japan Finance Corporation, a policy-based financial institution, have surpassed ¥50 billion annually, and more than 90% fall into the category of nursing care or welfare.

What this signifies is that among those NPOs that operate more or less as businesses—as opposed to community volunteer organizations—the majority are essentially government contractors, providing social services at the behest of government agencies. Theirs is a business model dependent on and originating in government.

To be fair, there are also many NPOs that seek to use such financing to address society's problems in a commercially sustainable manner. But many issues remain to be resolved, including the lack of established lending criteria for nonprofit organizations and difficulties in assessing the social value of these groups' ventures.

Many NPOs are unable to collect compensation from the citizens they serve, which limits their sustainability. In order to continue providing such unprofitable services, these groups need to tap into other resources: either other activities that are more profitable or access to volunteer labor and charitable giving. Unfortunately, per capita charitable donations are quite low in Japan compared with many Western countries. Religious and cultural factors are often cited for this difference, but noncultural factors seem to be operating as well.

A recent survey found that NPOs registered in Kyoto Prefecture collect a total of ¥700 million annually. This averages out to about ¥650,000 per organization, but a full 70% of those donations go to the top 10%. In fact, the median income from charitable donations is ¥0, meaning that more than half of all registered NPOs receive no contributions whatsoever because they have no mechanism in place for collecting donations. The organizations that do actively solicit donations, on the other hand, seem to get results.

In Japan today, tax revenues are funneled to the prefectural governments, which are responsible for providing social services to their residents and have broad discretion in the allocation and disbursement of funds, including funding for

NPOs and similar organizations. Under this system, NPOs are all the more apt to assume the character of government contractors and become extensions of the local government.

Many people active in the nonprofit community are acutely aware of this danger. Increasing funding through charitable donations is one way organizations can avoid this trap and operate independently while fulfilling their social purpose. Many societies have tax systems designed to encourage and facilitate charitable giving. As Japan continues the process of decentralizing political and fiscal authority, it needs to incorporate such systems as a means of creating multiple funding channels to support a vibrant civil society.

### **The Role of Community Foundations**

Local governments are at a crossroads. The needs of residents are mounting and diversifying, while the government's human and fiscal resources are increasingly strained. At the same time, demographic shifts are creating unprecedented challenges. The government cannot address all these problems single-handedly. The demands on NPOs are bound to grow in the years ahead, and social businesses are likely to extend their sphere of activity as well.

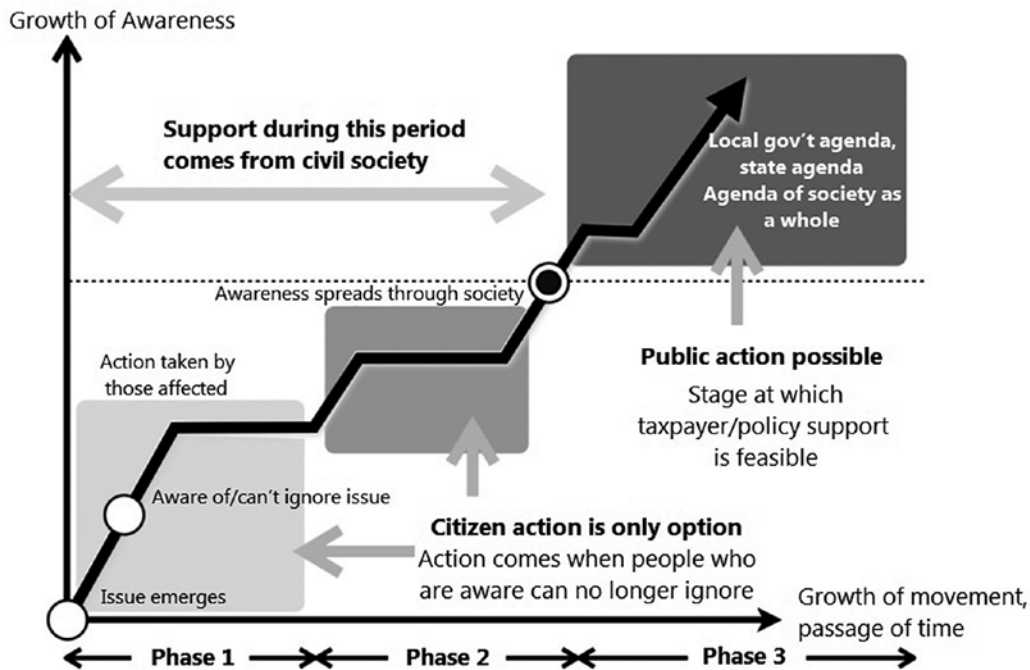
The ability to develop a citizen-based business model in lieu of the government-based model that currently dominates the social service sector will determine the success or failure of such enterprises and have a huge impact on the future of our society.

The values of Japanese society are shifting, and new social issues emerge as the times change. The figure below illustrates the relationship between changes in society's awareness of social issues and the development of social movements over time. In phase 1, people directly affected or those close to them become aware of an issue and begin to take action when they feel they can no longer leave things as they are. But at this point, society does not yet appreciate the public good to be gained from such efforts and is apt to treat the activists as troublemakers or extremists. The cause is not regarded as a legitimate issue impacting society as a whole.

In phase 2, those seeking change begin to organize and broaden their base of support, and citizens in different communities coordinate their activities in an effort to address the issue. At this stage, research and activities designed to raise the public's consciousness promote a deeper structural understanding of the issue.

By phase 3, society as a whole clearly recognizes the problem as a social issue, opening the way for public policy and legislative action at the national and/or local

## Awareness of Social Issues and Social Movements



level. At this phase, efforts to address the issue are embraced as a social value, and fiscal resources can be mobilized to support them.

Phase 3 is also the stage at which government-based business models are apt to take hold. The key here is whether social businesses dedicated to the cause in question were able during the previous phases to secure nongovernmental management resources so as pursue their social activities independently and sustainably.

This is where community foundations can play an important role. Community foundations have drawn attention as an effective means of generating diverse funding channels for community projects. These foundations rely completely on charitable giving from donors in the nongovernmental sector for their basic financial assets as well as their grant funding. One of the first such organizations in Japan was the Kyoto Foundation for Positive Social Change, which I established in 2009. The movement spread rapidly after that, and in 2014, I created Community Foundations Japan as an umbrella organization.

Community foundations regard charitable giving as the right of all citizens and an important tool for community involvement. They act on this principle by functioning as intermediaries connecting donors with various organizations and helping to channel the resources of the business community into social action. Some

have also begun working with local financial institutions. Community foundations serve a vital role by pooling contributions from citizens and organizing participation in grassroots movements at phase 1 and phase 2—when such movements still lack the social recognition and momentum to secure government action—thus providing crucial management resources and promoting a broad-based sense of ownership at this critical stage.

### **The Potential of Social Investment**

In the coming years a growing number of established companies, particularly small- and medium-sized enterprises, are likely to seek a new lease on life by expanding into the field of social action or reinventing themselves as social businesses. We can also expect to see an increasing number of partnerships between corporations with business know-how and NPOs that excel in identifying social issues. As communities around Japan struggle with the structural changes triggered by demographic aging, depopulation, and globalization, a growing number of corporations and entrepreneurs will doubtless seek to tap the business opportunities presented by these changing needs.

Increasingly, people are looking beyond CSR and asking how SMEs can be encouraged to venture into the social realm and seize the opportunities for growth while leveraging their business know-how and core competencies to help meet society's challenges.

I believe that social investment has a critical role to play in supporting the dynamic growth of such enterprises. Social investment differs from traditional business investment in that the results are assessed in terms of social benefits as well as monetary returns. In 2013, during Britain's presidency of the Group of Eight, Prime Minister David Cameron announced the launch of the G8 Social Impact Investment Taskforce. Subsequently, each member state established its own national advisory board. The Japanese government, having incorporated the basic principles into its 2014 Basic Policies for Economic and Fiscal Management, has begun deliberating measures for encouraging such investment.

In terms of community financing, the money is there, but unfortunately, it is flowing out of local communities instead of circulating within them. The loan-deposit ratio of Japan's *shinkin* banks—regional cooperative-type institutions that have long played a key role in financing local enterprise—has fallen by more than 20% in the past 15 years, as more bank capital is used to purchase Japanese government bonds. Incentives for social investment could help stem this drain, foster investment in social businesses and other enterprises oriented to community im-

provement, and support the independence and sustainability of Japan's regional economies.

Of course, a new paradigm of social investment presents challenges of its own. Any organization that uses social resources must produce results. Formulating criteria and methods for assessing these results is one of the biggest challenges ahead. We also need to recognize the wide range of purposes and management styles encompassed by not-for-profit organizations, even within the category of NPOs. This diversity is fundamental to a vital civil society, but this does not mean that all NPOs are equally worthy of receiving society's limited resources. NPOs must realize that good deeds and honorable intentions are not enough; they must analyze the causes of social issues and contribute to their resolution. Our urgent task is to develop mechanisms for channeling management resources into those organizations and businesses that have a results-oriented commitment to social change.



April 27, 2016

## Deliberative Polling as a Means of Improving Public Knowledge

Otgontuya Dorjkhuu

*Otgontuya Dorjkhuu, who received a Sylff fellowship in 2009 at the National Academy of Governance, served as a moderator in Mongolia's first deliberative poll. Drawing on this experience and on the results of deliberative polls conducted in six countries including Mongolia, Otgontuya discusses why the concept of Deliberative Polling is crucial and how citizen participation plays a key role in public policy.*

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**D**eliberative Polling® is a novel concept for most people, even though experiments have been conducted in many countries around the world, including the United States, Britain, other countries in the European Union, Australia, Japan, South Korea, and Ghana. A broad range of issues are discussed in a DP event, such as the economy, education, health, the environment, elections, and political reform. This method of polling is especially suitable for issues about which the public may have little knowledge or information or where the public may have failed to confront the trade-offs applying to public policy. It is a social science experiment and a form of public education in the broadest sense (Center for Deliberative Democracy, December 2003).

### Mongolia's First Deliberative Poll

On December 12–13, 2015, a scientific random sample of residents of Ulaanbaatar<sup>1</sup> gathered for two days of deliberation about major infrastructure projects proposed

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<sup>1</sup> Ulaanbaatar city had 1,363,000 residents as of 2014 (National Statistical Office of Mongolia, 2015).

in the capital city's master plan. The program consisted of small group discussions and plenary sessions exploring arguments for and against 14 large projects that would require borrowing, during which questions were posed to experts. All of the deliberative events were broadcast live on three television channels in Mongolia.

The 317 individuals who completed the two days of deliberation can be compared in both their attitudes and their demographics with the remaining 1,185 who



*Mongolia's first deliberative poll was held on December 12–13, 2015, under the title of "Citizens' Participation: Tomorrow's City."*

took the initial survey. No significant differences were seen between the two groups in gender, education, age, employment status, marital status, or income (CDD, January 2016).

The three project proposals that received the highest ratings after deliberation share an environmental focus on clean energy, energy efficiency, and waste disposal. The top proposal, "improved heating for schools and kindergartens," had a mean rating of 0.94 out of 1. It consisted of upgrad-

ing the insulation and technology used in public school heating systems. The runner-up proposal, "protection of Tuul and Selbe rivers," featured preliminary efforts to improve water flow and rehabilitate the rivers. Although support for the project went down somewhat after deliberation, its rating was still the second highest at 0.93. The rating for the third most popular proposal, "an eco park with two waste recycling facilities," was largely unchanged after deliberation at 0.92.

These results are consistent with the public's strong environmental priorities expressed in other questions in the survey (CDD, January 2016). Both before and after deliberation, participants were highly focused on policy goals aimed at reducing air, water, and land pollution. Air pollution is the biggest issue for all citizens of Ulaanbaatar city, especially in winter.

## **Evaluating the Process**

Evaluation is one of the most important aspects of the Deliberative Polling process. For comparison, I selected six countries in different regions (Asia, Africa, and North America) where deliberative polls had been conducted.

Participants in all of these countries rated the process highly. On average, 91.6% approved of "the overall process" in the six selected countries. Evaluations

## VOICES FROM THE SYLFF COMMUNITY

of the small group discussions and plenary sessions were similarly high, with anywhere from 86.7% to 93.0% of participants giving positive responses to all of the questions. An average of 91.3% felt that their group moderator “provided the opportunity for everyone to participate in the discussion,” while 90.3% thought that their group moderator “sometimes tried to influence the group with his or her own views.”

Participants in Mongolia, Britain, California (United States), and Ghana felt that they had learned a lot about people who were very different from them. Mongolian, British, and Ghanaian participants rated the process more highly than those of the other three countries.

**Table 1. Evaluations of the Deliberative Polling Process by Country**

Evaluations	Mongolia	Japan	South Korea	Britain	California	Ghana
The overall process	94.3%	85.6%	92.2%	99%	89%	90%
Participating in the small group discussions	95.0%	87.4%	94.8%	95%		
Meeting and talking to delegates outside of the group discussions	93.4%		79.0%	94%		
The large group plenary sessions	95.0%	78.6%	84.2%	89%		
My group moderator provided the opportunity for everyone to participate in the discussion.	98.1%	82.4%		90%	91%	95%
The members of my group participated relatively equally in the discussions.	97.5%	61.0%		73%		
My group moderator sometimes tried to influence the group with his or her own views.	90.9%	82.8%		95%	93%	90%
I learned a lot about people very different from me—about what they and their lives are like.	95.6%			91%	88%	99%

*Notes: Figures in the table are collected from the reports on Deliberative Polling conducted in each country. With regard to the first four items in the list, respondents were asked to rate on a scale of 0 to 10 (where 0 is “a waste of time,” 10 is “extremely valuable,” and 5 is exactly in the middle) how valuable each component was in helping them clarify their positions on the issues. For the latter four items, they were asked how strongly they agreed or disagreed with each statement.*

## Knowledge Gains

The knowledge index can be used as an indicator to explain changes in opinion on policy goals. In most of the cases that I reviewed, the percentage of those who correctly answered questions rose significantly after deliberation. For instance, in the case of Mongolia, correct responses regarding the percentage of households in Ulaanbaatar city that live in apartments increased by 12 points from 47% before deliberation to 59% after (CDD, January 2016).

In Japan, the overall knowledge gains were substantial and statistically significant; an average knowledge gain of 7.4% was seen in the six questions that were asked. Participants who correctly answered what percentage of Japan's electricity generation comes from nuclear power (about 30%) increased 13.7 points from 47.4% to 61.1% (CDD, September 2012).

In Ghana, only 21.6% of participants knew prior to deliberation that the percentage of the Tamale population with daily access to potable water was about 40%. After deliberation, the percentage rose significantly to 37.6%, an increase of 16 points (CDD and West Africa Resilience Innovation Lab, December 2015).

Among the California participants, correct responses to the eight questions asked increased substantially by 18 points overall (CDD, October 2011). The knowledge index clearly showed relevant and substantial knowledge gains among the participants.

## The Moderator's Role

Deliberative Polling is an attempt to use public opinion research in a new, constructive, and nonpolitical manner, and moderators play a key role in the process. They ensure fruitful and civil exchange between participants and let all points of view emerge. With their help and support the participants can find their voices, discover their views, and develop their own opinions (CDD, December 2003). In the Ulaanbaatar event, the 317 deliberators were randomly assigned to 20 small groups led by trained moderators<sup>2</sup>. The moderators helped deliberators go through discussions of all projects according to the agenda presented in the briefing materials. The two-day process alternated between small group discussions and plenary sessions

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<sup>2</sup> Before the event, Professor James Fishkin of Stanford University delivered a day of training to all moderators. Moderators were trained not to give any hint of their own opinions. Their role was simply to facilitate an equal, mutually respectful discussion of the pros and cons of the various proposals.

until all 14 projects were discussed.

The project proposals were rated<sup>3</sup> on the same scale before and after deliberation. Citizen opinions both before and after indicated that all of the proposals were thought to be desirable.

## In Conclusion

Deliberative Polling is a useful approach to increase citizens' participation and voice in the policy making process. Following the deliberation in Ulaanbaatar, the participants changed their views in many statistically significant ways, had greater knowledge, and together identified specific policy solutions that could help address the country's priority issues.

As a moderator for Mongolia's first deliberative poll, I found that participants were very enthusiastic and exchanged their views without reservation. My observations from the event leads me to believe that, given an opportunity like this to participate in discussions on critical issues, people would be willing to express their opinions anytime on any topic. According to reports on Deliberative Polling events that have been conducted in other countries, the overall knowledge gains after deliberation were substantial and statistically significant.

Finally, it can be concluded that Deliberative Polling not only is a form of public consultation but can also serve as a means of improving public knowledge.

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*The members of Group 10, which was moderated by Otgontuya Dorjkhoo (back row far right) with the mayor of Ulaanbaatar city and Professor James Fishkin of Stanford University seated at front row center.*

<sup>3</sup> The final results provide a ranking of priorities from 0 (extremely undesirable) to 10 (extremely desirable), with 5 being exactly in the middle.

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March 16, 2016

## Helping to Develop Young Leaders in Community Resource Management

Pradhana Chantaruphan, Olarn Ongla, Saiwimon Worapan, Alongkorn Jitnuku

*Four Sylff fellows from Chiang Mai University, Thailand—Pradhana Chantaruphan, Olarn Ongla, Saiwimon Worapan, and Alongkorn Jitnuku—jointly organized a field study to raise students’ awareness of environmental sustainability through community resource management. This coauthored article describes highlights of the field study and explains how collaboration among Sylff fellows helped to facilitate students’ learning.*

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**O**n April 4–5, 2015, four Sylff fellows from Thailand organized an interactive activity in Pa Ngue village, Tanuer sub-district, Mae On district, Chiang Mai Province, Thailand. “Potential development for young leadership through participation in community resource management” was a joint project organized by Chiang Mai University and Silpakorn University. The idea of the project was to encourage students to become more aware of their potential as effective agents of change in society. Learning through real experiences helps students to understand their real potentiality.

Chiang Mai University collaborates with Silpakorn University in Bangkok to provide opportunities for students from both universities to work with villagers as a part of their efforts in community engagement. For students, community engagement serves as a real-world learning opportunity. Besides participating in activities related to their own areas of study, students must serve the needs of the community

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*Olarn Ongla* Sylff fellow, 2013, Chiang Mai University.

*Sasiwimon Worapan* Sylff fellow, 2013, Chiang Mai University.

*Alongkorn Jitnuku* Sylff fellow 2013–15, Chiang Mai University.

to help develop wider society and themselves as well. Becoming involved with the community in this way provides useful practice, training, and learning for students and encourages them to develop into active, responsible citizens.

After the university's Sylff fellows group meeting in 2014, the four authors of this article felt strongly that there was a need for greater community engagement. It was this shared belief that made us decide to undertake a project together. Through our discussion of the strengths of our group, we thought of tapping into the community networks we have established through our various research and projects. We divided our work into several categories. Pradhana Chantaruphan took responsibility for coordination between the two universities as a faculty member of Silpakorn University, while the fieldwork sites were selected by Olarn Ongla based on his experience of research in this village.

### **Site Selection: An Important Step**

The story of Pa Ngue village illustrates how the process of forest management takes place in the community in response to external pressures that can include state policies and economic conditions. One thing that is peculiar to this village is the coexistence of different ethnic groups in the same area. These ethnic groups are the Karen and the so-called native or indigenous people. These consist of two groups: one group is a mixture of indigenous locals and Tai-lu from Mae-Sa-Puad village; the other is made up of indigenous people from the On-Klang sub-district. Together these ethnic groups search for ways to protect their local resources and develop strategies to deal with the state and bargain for autonomy. This is one of the things that make the village so attractive as a learning area for students. The students can see examples of conflict management among stakeholders and witness the development of ideas consistent with the historical and social circumstances. The Sylff fellows selected this area for the project based on these merits.



### **Project Design**

Three activities over two days provided students with opportunities to work with



## VOICES FROM THE SYLFF COMMUNITY

villagers. On the first day, students and villagers cooperated with pupils from the local school to construct a check dam. On the second day, students surveyed the area where the community lives and shared with villagers in a discussion on resource management, leading to an exchange of ideas between villagers and students. This project was devoted to improving the environmental sustainability of the community and to promoting leadership among students at the same time.

### **Day 1: Check Dam Construction by Students, Villagers, and Local Pupils**

The schedule started with an introduction of participants and the community. Villagers told participants about their history and spoke about community development and the management of community resources. Later in the afternoon, students got to put their skills into practice in a real-world setting, working alongside villagers and local students on a resource management project by constructing the dam.



Check dams are made of a variety of materials. Because they are typically used as temporary structures, they are often made of cheap and readily accessible materials, such as rocks, gravel, logs, hay bales, and sandbags. Villagers usually cannot receive financial assistance from the government to construct check dams. They have to depend on their own resources, including manpower. Check dams are also limited in duration. These factors make students' help relevant to the need of the villagers.

Check dams are a highly effective way of reducing flow velocities in channels and waterways. Compared to larger dams, check dams are faster to build and more cost-effective, being smaller in scope. This means that building a check dam will not typically displace people or communities. Nor will it destroy natural resources if proper care is taken in designing the dam. Moreover, the dams themselves are simple to construct and do not rely on advanced technologies. This means they can be easily used in more rural and less “developed” communities.

After dinner students shared their thoughts on the work of the community, their feelings on working alongside the villagers, and their ideas about young leadership.

## Day 2 : Surveying the Community Area



The first activities got underway early in the morning, with the students separated into two groups. The first group carried out a survey on villagers' working lives. Most of the villagers are farmers, producing corn on contract for the Thai Royal Project. Farming on contract with the Thai Royal Project brings many benefits, including useful information, access to raw materials, and experts who can give farmers advice. The contracts also guarantee farmers an income, giving them security and stability. This binds the village economy tightly with local resources, and brought home to us how important it is for the villagers to be able to manage the areas they use and share resources among the community in a sustainable way.



The second group conducted a survey on water management. The geography of the village is mountainous, and ensuring a steady supply of water is no easy task. Villagers have constructed a water supply system by themselves.

The group walked into the forest to survey the headwater. The villagers told legends about ancestor worship and the animist beliefs that the mem-

bers of community act out in rituals that pay respect to the local spirits. Nature is therefore something that protects the villagers and their way of life. These traditional beliefs also help to encourage the community to use the water and other resources of the forest with respect. Animist beliefs make it less likely that people will take advantage of one another and help to instill a spirit of coexistence in the community.

## **Group Discussions**

After the students had explored the community, they compiled the data and knowledge they had gained from the course. They shared with friends in the group and passed on these findings to other friends in the separate group who carried out their surveys in a different area. At the same time they exchanged ideas with the villagers about activities in the area and doubts arising from their experiences in the field. In this way, the students were able to learn from one another, and this helped to evoke an atmosphere of enthusiasm. Through the course, participating students came to understand that community resources need to be appropriately managed and that activities of all kinds can act as a bridge to new knowledge, whether the activity involves learning from storytelling, taking part in the everyday activities of villagers, learning about resource management strategies, or taking part in discussions after the activities are over.

## **Significance and Impact of the Project**

### *(1) Effects on the Community*

The community will be strengthened in the management of resources already available. Participation in this activity helped to generate confidence and a sense of pride that will empower the community to put their tacit knowledge into use. The project also served as a reminder that the knowledge of the community has been handed down from generation to generation. Owing to the university's support, helping communities in this way earns them greater bargaining power with the state. By strengthening academic networks, it also helps to give confidence to youth leadership in the village.

### *(2) Effects on Sylff Fellows*

This project had a positive impact for the fellows from its very outset, involving as it did collaboration between fellows from three disciplines (anthropology, economics, and political science). The project served as a useful reminder of the importance of working with local communities in order to understand the social and cultural phenomena that led us to pursue these careers in the first place. In addition, a joint project of this nature reflects the interdisciplinary work and exchange of ideas between fellows with knowledge in three different fields, each with something to contribute to the project. Political science is relevant to the idea of resource man-

agement and the community's bargaining power vis-à-vis the state, while anthropology covers concepts of culture and beliefs in collective consciousness and community benefit, and economics helps to understand the wealth accruing to the community through resource management. All of this has helped to expand the fellows' understanding and is an example of interdisciplinary work.

### *(3) Effects on Participating Students*

Involving students from different universities and different fields, the project successfully enabled the exchange of knowledge between disciplines and interdisciplinary work among fellows. The project also raised students' awareness of several important issues, including the struggle between state control and community autonomy and the efforts being made to protect shared resources despite ethnic differences. Witnessing the way that events unfold within the community was in itself a lesson in diversity. Exchanging this newly acquired knowledge with fellow students laid down a basis for applying these insights to other social phenomena. It is to be hoped that this taste of hands-on learning outside the classroom will help to foster an open and constructive mindset among the young generation.

March 23, 2016

## Anti-Immigrant Policies in Arizona and Their Impact on Mexican Families

Eduardo Torre-Cantalapiedra

*As media coverage of the 2016 US presidential election has shown, recent terrorist attacks and the ongoing influx of immigrants into Europe have caused an increase in xenophobia and related phenomena.*

*Eduardo Torre-Cantalapiedra, a Sylff fellow at El Colegio de México, used an SRA grant to research the impact on Mexican immigrants of the highly controversial anti-immigrant laws passed in Arizona in 2010. Can enforcing immigration laws decrease the number of undocumented immigrants? Should the living conditions of undocumented immigrants be ignored because their stay is illegal? This article reveals the true difficulties they face, as experienced by the immigrants themselves.*

\* \* \*

### Introduction

In recent years, Arizona has passed some of the harshest anti-immigrant policies in the United States. The Republican Party has adhered strictly to its doctrine of “attrition through enforcement,” and Democrats have done little to stop them. This policy has caused serious damage to Mexican families and to the population in general in that state. (My own estimates based on the American Community Survey suggest that there were approximately 248,000 Mexican households in Arizona in 2010.) The doctrine is based on the idea of making everyday life for undocumented migrants so difficult that they will be motivated to go back to their countries of origin. In response to Arizona’s anti-immigrant policies and the hostile environment they have generated, Mexican families have developed a set of strategies to

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make the difficulties more bearable. Some families have also decided to migrate from Arizona to other parts of the United States.

## Fieldwork Evidence

The fieldwork I carried out in Phoenix, Arizona, has allowed me to make a diagnosis of the situation. I now have a clearer idea of the problems that these anti-immigration policies have caused for Mexican families and for the social environment in Arizona. The main results of my fieldwork will be incorporated into the central chapters of my dissertation. My basic finding is that these state policies have



*Sheriff Joe Arpaio in front of the federal courts in Phoenix.*

not achieved the goal of making immigrants “without papers” leave the state. However, they *have* meant the systematic violation of civil rights of the migrant families. The police have been one of the largest sources of abuses and violations. US District Judge G. Murray Snow issued a sweeping decision finding that Sheriff Joe Arpaio and his agency (Maricopa County Sheriff’s Office) had relied on racial profiling and illegal detentions to target Latinos during immigration sweeps and traffic stops (ACLU, 2015). Most of the people I interviewed told me they had been stopped while driving simply because of their skin color and physical appearance. Most had been subjected to heavy fines or had had their vehicles confiscated

for a month. Several were subjected to deportation proceedings, even though they had never been convicted of any crime.

Undocumented migrant workers have also been pushed into the informal economy and have been forced to take increasingly precarious jobs. Manuel<sup>1</sup> preferred to work as a day laborer rather than work without papers because he was afraid of being accused of identity theft if he used another person’s social security number. José was fired from the restaurant where he worked when the chef started to use the E-Verify system. (Arizona has required that most employers use the E-Verify system to verify the migration status of employees since 2007.) Because of this same system he could not find a new job in another restaurant. He now spends his time cleaning yards and does not earn enough money to support his family. Ramón

<sup>1</sup> Names have been changed to preserve the anonymity of the people interviewed.

## VOICES FROM THE SYLFF COMMUNITY

spent two years unemployed, occasionally working small jobs for friends and acquaintances to get by.

In addition, family members are often afraid to contact the police to report crimes—even when they witness felonies, of which in many cases they are also victims. Marta's car was stolen in front of her house, but she never ventured to report the crime to the police. Manuel, an undocumented immigrant, was too afraid to go to the police to report an attempted rape of his daughter (still a minor) for fear that the police would ask about his immigration status. He was finally able to report the incident to the police with the support of a family member who is a US citizen.

The entire state has been affected by the implementation of the anti-immigrant policies. Underutilization of labor, strengthening of racist and xenophobic groups, the breakdown of the social fabric and severe economic losses are just some of the major problems that these policies against undocumented immigrants have caused.

Young people have also been affected by anti-immigrant policies. One law decided that undocumented immigrants must pay out-of-state tuition for their education. Some of the students I interviewed told me they were finding it very difficult to continue their studies because the tuition had increased by 300%. Others had already given up their studies. Only when President Barack Obama approved a new policy that deferred action for certain undocumented young people who came to the United States as children did some of them decide to continue their studies.

My study also documented the adaptation and mobility strategies that families



*Mural showing a Latina student, Phoenix.*



*Protest against anti-immigrant policies, Phoenix, April 23, 2015.*

have developed to deal with the anti-immigrant policies in Arizona. These strategies have included staying away from public spaces to avoid the risk of deportation, using members with some kind of legal status to attain certain benefits, seeking measures that allow them to circumvent the prohibitions on driving and working in the state, and others. María was so afraid of being deported and separated from her family that for many

months she refused to leave her house except when it was absolutely necessary. Some families decided to emigrate from Arizona to other part of the United States. Some of those who had emigrated told me that enforcement of immigration laws by police in other states is different: they do not stop your car in the street simply because you look Latino. Interstate migration of foreign-born migrants is therefore not motivated only by social networks and economic issues. The varying immigration policies of different states provide another powerful incentive for some families to move.

### New Policies

To reverse these adverse effects, changes on two levels are necessary. The first step must be to get rid of all laws based on the doctrine of “attrition through enforcement.” The economic boycott, international and domestic pressure, protests against the unconstitutionality of these laws, and other measures, have been partially effective in fighting these laws in the medium and long term. While many local migration initiatives have been repealed, many remain in force today and continue to damage Mexican migrant families in the state. Second, the continuing daily struggle of families against the anti-immigrant policies is essential. Although this struggle stands a good chance of reversing the current policy framework in the long run, it is also needed as a means of empowering migrant families through information about their rights and participation in social movements and organizations that fight for the civil rights of migrants, regardless of their legal status in the United States. We must not forget that “undocumented” status does not mean that migrants have no rights according to United States laws. Among other constitutional rights, for example, an immigrant has the right to due process when he or she is arrested. An immigrant can be indemnified if he or she is a victim of a crime. Undocumented migrant children (K-12 and below) have the right to attend school according to the Supreme Court.

During my stay in Phoenix I had the opportunity to participate in activities organized by the Barrio Defense Committees (Comités de defensa del Barrio, or CDB for short). I was able to observe the important work being done by this and similar organizations in mitigating the adverse effects of the policies against mi-



*The logo of the Comités de defensa del Barrio.*



grants “without papers” and their families. CDBs are a genuinely grassroots movement that emerged in response to the attack against resident Mexican families represented by the 2010 Support Our Law Enforcement and Safe Neighborhoods Act, or Arizona SB 1070. The ongoing hard work of the CDBs has allowed many Mexican families to move out of a position of isolated defense to take actions in defense of their rights along with other family units. As its members argue: Unity is strength (“la unión hace la fuerza”).

In short, I am hopeful that the fieldwork I conducted with the support of Sylff Research Abroad will produce valuable information for policymaking in both Mexico and Arizona that will serve to defend the civil rights of Mexican families in Arizona and improve their living conditions, and to repair the broken social fabric by allowing closer links between Mexican and American families who live in the state.

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March 31, 2016

## Theories of Modernism in Cinema

Miłosz Stelmach

*Miłosz Stelmach, a 2014 Sylff fellow at Jagiellonian University in Poland, conducted research at Columbia University in New York on cinematic modernism. In this article, he provides insight into two contradictory definitions of “modernism” in cinema.*

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As a medium conceived at the very end of the nineteenth century, cinema is contemporary with such technological inventions as X-rays, radio, and the diesel engine and with scientific breakthroughs like the discoveries of electrons and radioactivity. It is the child of an era when modern science and modern society were being formed. Cinema is not only a modern technological invention; it is also a modern social practice. As a radically democratic medium, it served as one of the foundations of the emerging mass society and popular culture. Moviegoing was to become one of the most popular leisure activities for millions of people in the decades to come as the movie industry became one of the vital economic and social forces that shaped the modern world.

But if all that makes cinema an inherently modern phenomenon and one of the staples of modernity, what is its relation to the “art of the modern”—that is, to modernism itself? This question bothered film historians and theorists for years. The answer is necessarily related to what we understand by “modernism” in general. Only when we understand how the word is defined in terms of art history or literature can we start thinking of appropriating it to cinema.



*Modernism in painting – Picasso's Guernica.*

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*Miłosz Stelmach      Sylff fellow, 2014, Jagiellonian University, Poland.*

## VOICES FROM THE SYLFF COMMUNITY

To explore this matter more thoroughly I used an SRA grant to visit Columbia University in New York. There I was able not only to access all the basic written and visual materials in the field but also to meet distinguished scholars whose academic work has investigated various problems related to modernism. My encounters



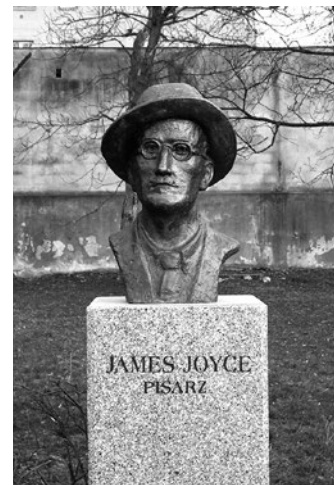
*Columbia University*

with their expertise in different fields of the humanities (comparative literature, art history, culture studies, and film studies) and their various nuanced points of view enabled me to trace how our understanding of modernism has developed.

The traditional and still dominant account of modernism, and the one with which I was primarily familiar before my visit to New York, devel-

oped in English-language scholarship in the 1950s and 1960s. It was during this period that a comprehensive theory of the subject was developed by scholars and critics like Clement Greenberg, Harold Rosenberg, and Raymond Williams, who defined modernism as an artistic movement that had developed in different fields of cultural production in the late nineteenth century and through the first half of the twentieth. Modernism marks a break with the conventions of nineteenth-century realism in favor of extensive experimentation with medium—subjectivity, fragmentation, and nonlinearity. As manifested in the surrealist paintings of Salvador Dalí, the 12-tone musical compositions of Arnold Schoenberg, and the stream-of-consciousness literature of James Joyce, modernism, as understood by Greenberg and others, employs a high level of self-consciousness and reflexivity, resulting in extensive efforts to explore the limits of a given medium and employ forms specific to it.

This definition of modernism—underlining formal innovation, self-referentiality, and medium specificity—was easily (and readily) transferred to the field of film studies. This was not difficult, especially given the self-evident link between developments in cinema and the other visual arts in the 1920s. Avant-garde artists like Man Ray, Marcel Duchamp, Hans Richter, and Salvador Dalí made movies themselves, and a number



*James Joyce, one of the most important figures of literary modernism.*

of cinematic movements were clearly inspired by the visual arts of the time, as reflected in names like German Expressionism and French Impressionism. Surrealism and constructivism also had a clear influence on the development of the aesthetics of cinema. This understanding of modernism as a high-art tradition involving avant-garde experimentation with film language carried over to postwar international art cinema.

Scholars like András Bálint Kovács (author of *Screening Modernism: European Art Cinema 1950–1980*) and John Orr (who wrote *Cinema and Modernity*) demonstrate how this type of cinema, best represented by the so-called New Waves



*Ingmar Bergman, a chief modernist of cinema, working on the set.*

and New Cinemas spreading all over the world in the 1960s and 1970s, ultimately stems from modernist traditions. We can call this definition “exclusive” because it refers to the rhetoric of innovation and auteurism (as epitomized by figures like Ingmar Bergman, Michelangelo Antonioni, and Jean-Luc Godard, to name a few well-known examples) and sees these trends as marking a break with classical cinema realized in the elitist field

of highly sophisticated artistry. Summarizing this point of view, Kovács identifies subjectivity, reflexivity, and abstraction as the basic characteristics of all modernist art and finds these qualities in the postwar films associated with the French New Wave, New German Cinema, and Soviet post-thaw films, among others.

### The “Modernity Thesis”

When I started my research on the concept of cinematic modernism, the standpoint described above seemed to me to be widely accepted and uncontroversial. But once I started digging deeper I realized that strong opposition to this view has emerged over the last two decades and that this understanding of the relationship between cinema and modernism has increasingly been challenged and reconfigured. From the 1990s on, many critics contradicted the traditional, Greenbergian theory of modernism as a drive toward formalist, artistic sophistication and medium specificity with their own, “inclusive” definition. These critics saw modernism simply as a cinematic reflection of modernity and its various aspects, one that did not focus on “high art” in particular but rather embraced mass culture in its entirety.

Probably the most emblematic and influential case made on behalf of this definition was an essay written by Miriam Bratu Hansen in 1999 entitled “The Mass Production of the Senses: Classical Cinema as Vernacular Modernism.” In the course of her argument, Hansen called classic Hollywood cinema “vernacular modernism.” In her words, “modernism encompasses a whole range of cultural and artistic practices that register, respond to, and reflect upon processes of modernization and the experience of modernity, including a paradigmatic transformation of the conditions under which art is produced, transmitted, and consumed.” In this sense, newspaper comic strips of the 1930s and Soviet socialist realism of the same period are just as modernist (if not more so) as the novels of Marcel Proust or the paintings of Jackson Pollock because they exploit the new possibilities of production, perception, and cultural engagement brought about by the modern world and transformed by the spirit of modernity. This theoretical standpoint was later dubbed the “modernity thesis.” One of its basic conceptions is that cinema as a whole is a modern art—an inherent product and consequence of modernity defined necessarily by its technological and industrial character.

## The Gap

After studying the most important bibliographical materials and consulting with specialists in the field of modernism studies, I am coming to believe that the two theories of the same object (cinematic modernism) I have outlined above might not in fact be as distinct (and contradictory) as they appear. In my opinion, the difference between them is not that they approach the same phenomenon with different tools and conceptions, but that they are actually examining two different fields, and merely claiming the same name for them. The gap between the “exclusive” and “inclusive” traditions is seen not only in the choice of material their proponents wish to analyze (“high” and “popular” culture) but also, more importantly, in the way they want to approach them.

The supporters of the “modernity thesis” and the idea of vernacular modernism are interested mostly in the context (as opposed to the text itself), focusing on the social, industrial, and cultural forces shaping the work. This is why Hansen and others look closely at the specific conditions that made the cinema an important part of modernity as experienced in the early years of the twentieth century. As she declares, her aim is to identify a certain historical point of “paradigmatic transformation of the conditions under which art is produced, transmitted, and consumed.” By contrast, the idea of modernism developed by Clement Greenberg and represented in the field of film studies by András Bálint Kovács concentrates more on

the relationships within cinema history itself. It emphasizes such questions as aesthetic autonomy, along with the internal evolution of specific narrative and artistic forms and their characteristics. Political, social, and cultural contexts naturally still play a vital role in these lines of investigation, but they are usually seen as possible explanations for certain formal and stylistic features and are not the main point of interest.

This is why I would like to argue that the conflict between the two theoretical orientations is in fact only illusory. They are intertwined and in some cases complementary to each other—but most of the time they constitute different areas of film and culture studies, revealing to us different contours of what we call modernity.

April 15, 2016

## Toward an Understanding of the Medieval Mediterranean World

Gregory Williams

*Gregory Williams received a two-year Sylff fellowship at the American University in Cairo for the academic years 2011–2012. He has been conducting a series of archaeological excavations in Aswan, Egypt, using an SRA grant. In this article, he argues that archaeological findings from the medieval Mediterranean world are often ignored and suggests that the region's history has much to teach today's world about living in harmony and appreciating diverse cultures and religions.*

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Since 1996, when Samuel Huntington first popularized the term “clash of civilizations,” much of our contemporary understanding of Islam and the Muslim world has centered on a dichotomous relationship between East and West. The international media—and to some degree the academic community as well—has wholeheartedly accepted this ideology despite its inherently flawed nature. The acceptance of the idea that current political conflicts run along the religious and ideological lines of Islam and Western society greatly underrepresents the importance of historical and cultural factors when trying to understand and resolve those conflicts.

As a Sylff fellow I studied in Cairo, Egypt, and as a PhD student I was fortunate enough to receive a Sylff Research Abroad (SRA) award to continue my



*Map of Medieval Egypt and Nubia.*

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field research in Aswan, Egypt. During this time spent in the Middle East I was struck by what seems to be a major lack of understanding of premodern history among today's policymakers, journalists, and pundits. The medieval history of the Mediterranean, which often helps to explain the diversity of cultures and languages in this part of the world, is often completely ignored. It is hard to read a newspaper, watch the news, or discuss political events without thinking in terms of Islam versus Christianity or East versus West. However, many historians have argued convincingly that Islam and Christianity developed as sibling traditions, with much more in common than we often appreciate or acknowledge. The Mediterranean region should be understood as a single, intercultural sphere.



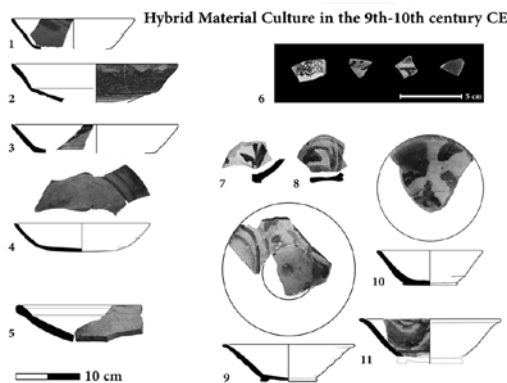
*View of the Nile at Aswan.*

Archaeology is a field that can make important contributions to our knowledge of daily life and the history of Muslim, Christian, and Jewish communities in the Mediterranean region. Unfortunately, for most of this discipline's history, projects have focused on the ancient past, and artifacts from the more recent past have often been ignored—or even removed and destroyed!

How can we build a more comprehensive historical and cultural understanding of our recent and medieval past? This effort must begin by making focused, concerted efforts at important multiethnic and multireligious archaeological sites where a more nuanced understanding of the relationship between different ethnic

groups and religious communities can be conceived. The SRA award has allowed me to make a start on this kind of study in Aswan, Egypt, a site with a unique setting on the historical border between Christian and Muslim lands in Africa.

Fortunately, recent archaeological excavations in Aswan, run jointly by the Swiss Institute for Architectural and Archaeological Research on Ancient Egypt and the Egyptian Ministry



*Hybrid material culture in the ninth to tenth century CE.*



of State for Antiquities, have presented a unique opportunity to explore this pre-modern past. Most previous excavation work in Egypt has disregarded the country's medieval remains in search of its pharaonic past. In Aswan, the medieval city is treated as an important part of understanding Egypt's history. While many cities and towns in Europe and the United States employ archaeologists to check that a new construction project will not destroy important cultural remains, this practice has only recently been introduced in Egypt. European and Egyptian archaeologists are working together on joint excavations to protect the city's cultural heritage in spite of the illegal building and looting practices that sometimes plague Egyptian cities, and the results have made important contributions to our understanding of all periods of Egypt's history.

During the ninth and tenth centuries CE, Aswan was home to various Arab tribal families, Coptic Christians, and Beja nomadic groups from the Eastern desert. Legal documents discovered elsewhere in Egypt in synagogue storerooms known as *geniza* suggest that a Jewish population also existed there for some time as well. Today, Aswan continues to be an important center for both Christians and



*Mausoleums in the Aswan Cemetery.*

Shi'a Muslims, although the vast majority of Egypt's population is Sunni. The first cataract of the Nile became a major trading location for goods between Muslim Egypt and Christian Nubia. During this time, pilgrims passed through Aswan on their way to and from Mecca and Medina for the annual hajj, and merchants profited from the products of the Wadi al-'Allaqi gold mines just to the southeast. Artifacts from excavations in

Aswan have begun to highlight these kinds of interactions and the movement of peoples and products that were occurring inside and outside the Islamic world.

In other words, Aswan was a highly diverse and "international" center in the medieval period. But this history is disregarded, as it so often is with medieval history in Egypt, as not ancient enough for the archaeologist and too long ago for the modern-day political scientist or economist. The reality is that these displays of multiculturalism and tolerance are important examples of how people can live together and have done so in the past. We can continue to treat people of other ethnicities and religions as coming from another civilization, or we can look to the not so distant past for a reminder of how "civilization" in the Mediterranean often

meant complex, hybrid societies where people of different faiths lived together. Of course this coexistence was not always peaceful and without conflict. But unless we begin to incorporate cultural studies of the past into our modern conceptualizations of social conflict, we will be missing a very important piece of our shared human history.

It is easy to simply follow the national, institutional, and ideological lines that direct academic research in so many areas today. I believe that it is more important, though, to ask questions that transcend these dividing lines and investigate largely unexplored areas, such as the interaction between Muslim and Christian communities in North Africa and the Middle East. Perhaps by contributing to a more complete view of our history and the way in which people of different faiths and ethnicities interacted and lived together in the medieval world, research of this kind will give our current debates on the so-called “clash of civilizations” a much needed pause for reconsideration.



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